# Hitachi Construction Machinery Co., Ltd.

**Financial Results for the Year Ended**

**March 31, 2016**

# Consolidated Financial Results for the Year Ended March 31, 2016

**(IFRS)** April 27, 2016

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)
Stock exchange: Tokyo (first section) Code number: 6305
URL https://www.hitachicm.com/global/
Representative: Yuichi Tsujimoto, President and Chief Executive Officer
Scheduled date of ordinary General Meeting of Shareholders: June 27, 2016
Scheduled date of commencement of payment of dividends: May 31, 2016
Scheduled date for submission of Securities Report: June 28, 2016
Supplementary materials to the financial statements have been prepared: Yes
Presentation will be held to explain the financial statements: Yes (for institutional investors, analysts and journalists)

1. Consolidated results for the year ended March 2016 (April 1, 2015 to March 31, 2016)

(1) Consolidated results (Rounded off to the nearest million)

| | Revenue | | Operating income | | Income before income taxes | | Net income | | Net income attributable to owners of the parent | | Comprehensive income | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| March 31, 2016 | 758,331 | (7.0) | 34,052 | (46.1) | 24,517 | (58.4) | 10,300 | (66.0) | 8,804 | (66.2) | (26,148) | ― |
| March 31, 2015 | 815,792 | 1.6 | 63,131 | (15.7) | 58,953 | (2.2) | 30,256 | (27.9) | 26,023 | (27.2) | 56,996 | (10.4) |

| | Net income attributable to owners of the Parent per share (basic) | Net income attributable to owners of the Parent per share (diluted) | Profit on equity attributable to owners of the parent | Ratio of income before income taxes | Operating income to Revenue |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| March 31, 2016 | 41.41 | 41.41 | 2.1 | 2.5 | 4.5 |
| March 31, 2015 | 122.44 | 122.42 | 6.3 | 5.4 | 7.7 |

References: Share of profits (losses) of investments accounted for using the equity method
March 31, 2016: ¥ 234 million March 31, 2015: ¥ 1,454 million
"Net income attributable to owners of the Parent per share (basic)" and "Net income attributable to owners of the Parent per share (diluted)" are calculated based on "Net income attributable to owners of the parent".

(2) Consolidated financial position

| | Total assets | Total equity | Total equity attributable to owners of the parent | Equity attributable to owners of the parent ratio | Equity per share attributable to owners of the parent |
|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | % | Yen |
| March 31, 2016 | 926,628 | 456,816 | 395,963 | 42.7 | 1,861.93 |
| March 31, 2015 | 1,064,673 | 497,902 | 431,227 | 40.5 | 2,028.57 |

(3) Consolidated cash flows

| | Net cash from operating activities | Net cash from investing activities | Net cash from financing activities | Cash and cash equivalents at end of year |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| March 31, 2016 | 114,874 | 18,255 | (98,163) | 79,110 |
| March 31, 2015 | 106,229 | (17,976) | (96,294) | 51,433 |

2. Dividends status

| | Cash dividends per share | | | | | Dividends paid (Total) | Dividend Payout Ratio (Consolidated) | Dividends on Equity (Consolidated) |
|---|---|---|---|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Year end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| March 31, 2015 | ― | 30.0 | ― | 30.0 | 60.0 | 12,754 | 49.0 | 3.1 |
| March 31, 2016 | ― | 30.0 | ― | 10.0 | 40.0 | 8,505 | 96.6 | 2.1 |
| March 31, 2017 (Projection) | ― | ― | ― | ― | ― | | ― | |

Dividends for the fiscal year ending March 2017 are to be determined.

3. Projected consolidated results for the fiscal year ending March 2017(April 1, 2016 to March 31, 2017)

(%:Year-on-year change)

| | Revenue | | Operating income | | Income before income taxes | | Net income attributable to owners of the parent | | Net income attributable to owners of the parent per share |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| September 30, 2016 (Interim) | 345,000 | (5.5) | 6,200 | (62.3) | 3,000 | (72.5) | 2,000 | (70.8) | 9.40 |
| March 31, 2017 | 720,000 | (5.1) | 36,000 | 54.1 | 23,000 | (6.2) | 8,000 | (9.1) | 37.62 |

The company presented "Adjusted operating income", Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring, in the column of "Operating income" for the projected consolidated results ending March 2017. Above year-on-year comparison is also for the "Adjusted operating income".

"Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income.

Cumulated "Operating income" for projected consolidated result ending March 2017 is as below.

| | | |
|---|---|---|
| Second quarter | ¥6.5 billion | YoY-59.5% |
| Year end | ¥30 billion | YoY-11.9% |

*Notes

(1)Important changes in the scope of the consolidation during period (changes involving specific subsidiaries accompanying changes in the scope of consolidation): None

(2)Changes in accounting policies; changes in accounting estimates

[1] Changes in accounting policies required by IFRS: None

[2] Changes in accounting policies other than those in [1]: None

[3] Changes in accounting estimates: None

(3)Number of outstanding shares (common shares)

[1] Number of outstanding shares at fiscal year-end (including treasury shares)

March 2016: 215,115,038 March 2015: 215,115,038

[2] Number of treasury shares at fiscal year-end

March 2016:2,451,828 March 2015:2,537,814

[3] Average number of common shares outstanding during the fiscal year (shares)

March 2016: 212,616,017 March 2015: 212,544,707

(Reference) Non-consolidated Financial Results

Non-consolidated results for the year ended March 2016(April 1, 2015 to March 31, 2016)

(1) Non-consolidated results

(Rounded off to the nearest million)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| March 31, 2016 | 354,746 | (9.7) | (44,961) | - | (21,835) | - | (433) | - |
| March 31, 2015 | 393,035 | 0.5 | (20,142) | - | 8,749 | (47.1) | 3,860 | - |

| | Net income per share | Net income per share (Diluted) |
|---|---|---|
| | Yen | Yen |
| March 31, 2016 | - | - |
| March 31, 2015 | 18.16 | 18.16 |

(2)Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| March 31, 2016 | 458,715 | 202,394 | 44.0 | 948.11 |
| March 31, 2015 | 516,273 | 217,006 | 41.9 | 1,017.23 |

Reference: Total equity at fiscal year-end March 2016: ¥201,628million March 2015: ¥216,240 million

* Indication of audit procedure implementation status this earnings report is exempt from audit procedure based upon the Financial Instruments and Exchange Act. It is under the audit procedure process at the time of disclosure of this report.

* Explanation on the appropriate use of results forecasts any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially. Please refer to "1. Management Performance and Financial Conditions" of the attachment for conditions serving as assumptions for results forecasts.

# Index of the Attachment

## 1. Management Performance and Financial Conditions

### (1) Management Results

### [1] Overview of Business Results

The HCM Group is working on the establishment of a global management support scheme, expansion of its market share, cost reduction for securing profit, and business/structural reform to enhance business efficiency and solid business infrastructure. In addition, we are making efforts in structuring the global research/develop framework and strengthening the development marketing function to provide appropriate products by region and solutions for customers' life-cycle cost reduction.

With respect to construction machinery, while demand is sluggish, we have been enhancing our parts and service business by the service menu called "ConSite," and by expansion of the parts supply network. Additionally, HCM integrated KCM as a consolidated company in October 2015 for reinforcement of the wheel loader business with expansion of the product line-up and the global sales network.

For mining machinery, we are focusing on expanding sales of the well-accepted AC-3 series rigid dump trucks especially the one with specification for trolley use or high altitude equipped with an advanced vehicle body stability assist function. Moreover, we are bringing the Hitachi Group's strengths to establishing a substantially advanced customer support system for optimization of mine operation and operation management system of mining machinery.

Consequently, consolidated revenue for the fiscal year 2015 (April 1, 2015 – March 31, 2016) was ¥758,331 million, down 7.0% from the previous fiscal year due to a decline in construction/mining machinery sales resulting from weaker demand.

Operating income decreased by 46.1% year on year to ¥34,052 million, due to a decline in sales volume by lower demand, exchange loss, and expenses for business/structural reform. Income before income taxes decreased by 58.4% year on year to ¥24,517 million, affected by a decline in Operating income and exchange loss. Net income attributable to owners of parent decreased by 66.2% year on year to ¥8,804 million due to the tax burden ratio.

The following table summarizes the consolidated results for the year ended March 2016.

(Millions of yen; %)

| | March 2016 (A) | March 2015 (B) | Year-on-year change | |
|---|---|---|---|---|
| | | | (A)-(B) | (A)/(B)-1 (%) |
| Revenue | 758,331 | 815,792 | (57,461) | (7.0) |
| Operating income | 34,052 | 63,131 | (29,079) | (46.1) |
| Income before income taxes | 24,517 | 58,953 | (34,436) | (58.4) |
| Net income attributable to owners of the parent | 8,804 | 26,023 | (17,219) | (66.2) |

(Rounded off to the nearest million)

## [2] Overview of Consolidated Revenue by Region

### [Japan]

In Japan, demand for wheel loaders and mini excavators increased year on year, due to last-minute demand before the implementation of new emissions regulations. Demand for hydraulic excavators significantly declined from last year as a reaction to last-minute demand in anticipation of new emissions regulations implemented in the previous two years.

Under such circumstances, Hitachi Construction Machinery Japan Co., Ltd., consisting of RSS (rental, sales, and service integrated division), promoted increase of customers by offering the best solutions through a one-stop service. Additionally, we focused on marketing activity in the compact machinery segment to secure sales. Moreover, HCM integrated KCM as a consolidated company in October 2015.

Consolidated revenue increased by 5.0% year on year to ¥232,800 million.

### [The Americas]

In North America, while the demand for mini and small-sized hydraulic excavators increased because of steady performance of housing starts, total demand for hydraulic excavators decreased due to slow energy-related investment affected by lower crude oil prices.

In Central and South America, construction machinery demand has significantly decreased year on year, mainly due to political instability and falling resource prices.

Mining machinery demand remained sluggish across the Americas as a result of weak resource prices.

Under such circumstances, we strove to expand sales in both Americas by organizing a production and sales framework of machinery that complies with the local regulations of each country, in collaboration with Deere & Company.

Consequently, consolidated revenue decreased by 11.4% year on year to ¥99,694 million.

### [Europe]

In Europe, demand for hydraulic excavator declined slightly year on year. While demand in South Europe increased, it was unable to cover the weaker demand of rental companies in UK and France. Demand for mini excavators increased due to significant market growth in Germany and Italy.

Under these circumstances, the HCM Group enhanced support service to our dealers in each country and promoted sales of fuel-efficient hydraulic excavators and wheel loaders.

Consolidated revenue decreased by 4.7% year on year to ¥89,011 million.

### [Russia-CIS, Africa, and the Middle East]

In Russia, demand for construction machinery significantly decreased. We promoted sales of construction and mining machinery including application products and wheel loaders by

providing dealer support through Hitachi Construction Machinery Eurasia Sales LLC.
In Southern Africa, we reinforced sales and service mainly for mining machinery. In Northwest Africa, we strengthened sales and service of construction machinery for infrastructure-related industry together with dealers.
In the Middle East, we continuously focused on sales for infrastructure-related projects, and introduced India-made hydraulic excavators targeting new customer segments in the Gulf countries.
Consolidated revenue decreased by 10.8% year on year to ¥82,167 million affected by a decrease in demand in Russia-CIS.

### [Asia and Oceania]

In Indonesia and Australia, which are both resource-rich countries, demand for mining machinery remained weak.
Demand for construction machinery decreased in Asia and Oceania. The demand remained weaker mainly in Indonesia and Malaysia while the demand increased in Australia, Thailand, and the Philippines. In India, demand for construction and mining machinery increased year on year resulting from continuous increase in infrastructure-related demand for coal mining and quarry.
Under such conditions, we promoted enhancement of the dealers' marketing capabilities by fully utilizing the sales support system to expand sales in Asia and Oceania. Tata Hitachi Construction Machinery Co., Ltd. focused on cost reduction and enhancement of production quality, as well as sales promotion of new models and large-sized machines in India.
However, consolidated revenue decreased by 10.0% year on year to ¥200,854 million.

### [China]

In China, significant demand decrease for construction machinery continued, while the demand after the 2016 Chinese New Year increased year on year partially influenced by last-minute demand before the implementation of new emissions regulations in April 2016. Despite the government's economic stimulus measures, we have seen interruption of existing construction projects or delays in orders for new projects resulting from fiscal adjustment of local government. In addition, decline in the growth rate of fixed asset investment continued due to deceleration of real estate investments and excess inventory adjustment in various industries.
Under such circumstances, the HCM Group promoted sales activities for both machinery and parts targeting the regions and customers with a high operating rate, by utilizing the sales support system, service and parts sales management system, and the "Global e-Service" system.
However, consolidated revenue decreased by 26.2% year on year to ¥53,805 million.

The following table summarizes consolidated revenue by geographic area:

| | | March 2016 | | March 2015 | | Increase (Decrease) | |
|---|---|---|---|---|---|---|---|
| | | Revenue (Millions of yen) (A) | Proportion (%) | Revenue (Millions of yen) (B) | Proportion (%) | Amount of change (A) - (B) | % Change (A) / (B) -1 (%) |
| | North America | 92,953 | 12.3 | 106,073 | 13.0 | (13,120) | (12.4) |
| | C&S America | 6,741 | 0.9 | 6,466 | 0.8 | 275 | 4.3 |
| The Americas | | 99,694 | 13.1 | 112,539 | 13.8 | (12,845) | (11.4) |
| Europe | | 89,011 | 11.7 | 93,396 | 11.4 | (4,385) | (4.7) |
| | Russia CIS, | 16,889 | 2.2 | 28,901 | 3.5 | (12,012) | (41.6) |
| | Africa | 37,033 | 4.9 | 41,652 | 5.1 | (4,619) | (11.1) |
| | Middle East | 28,245 | 3.7 | 21,533 | 2.6 | 6,712 | 31.2 |
| Russia-CIS, Africa and the Middle East | | 82,167 | 10.8 | 92,086 | 11.3 | (9,919) | (10.8) |
| | Asia | 66,927 | 8.8 | 80,011 | 9.8 | (13,084) | (16.4) |
| | India | 40,409 | 5.3 | 32,951 | 4.0 | 7,458 | 22.6 |
| | Oceania | 93,518 | 12.3 | 110,166 | 13.5 | (16,648) | (15.1) |
| Asia and Oceania | | 200,854 | 26.5 | 223,128 | 27.4 | (22,274) | (10.0) |
| China | | 53,805 | 7.1 | 72,887 | 8.9 | (19,082) | (26.2) |
| Subtotal | | 525,531 | 69.3 | 594,036 | 72.8 | (68,505) | (11.5) |
| Japan | | 232,800 | 30.7 | 221,756 | 27.2 | 11,044 | 5.0 |
| Total | | 758,331 | 100.0 | 815,792 | 100.0 | (57,461) | (7.0) |

(Rounded off to the nearest million)

## [3] Outlook for the Fiscal Year Ending March 31, 2017

HCM is expecting construction machinery demand in fiscal year 2016 to be lower than in the previous year. By region, demand is expected to increase in India, remain steady in Japan and Europe, and decline in North America. In emerging countries, the severe market environment is expected to continue.

With regards to mining machinery, while demand for small-sized machinery is expected to recover, total demand is expected to decline year on year due to weak resource prices.

Under these circumstances, the HCM Group is promoting enhancement of the wheel loader business, mining business, value chain on the axis of parts and service, and customer solution business, as well as continuous cost reduction, fixed cost reduction, business efficiency, and inventory reduction.

The assumed foreign exchange rates are ¥110 to one US dollar, ¥120 to one euro, and ¥17.0 to one Chinese yuan.

Consolidated Earnings Forecast for the Full Year Ending March 31, 2017

| Millions of yen | | | | | | | Yen |
|---|---|---|---|---|---|---|---|
| | Revenue | Adjusted operating income | Operating income | Income before income taxes | Net income attributable to owners of the parent | Net income attributable to owners of the Parent per share (basic) |
| Forecast | 720,000 | 36,000 | 30,000 | 23,000 | 8,000 | 37.62 |
| Difference | (38,331) | 12,636 | (4,052) | (1,517) | (804) | － |
| Change (%) | (5.1) | 54.1 | (11.9) | (6.2) | (9.1) | － |
| Previous Year Ended Mar 31,2016 | 758,331 | 23,364 | 34,052 | 24,517 | 8,804 | 41.41 |

(Rounded off to the nearest million)

Notes:

Any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors may cause actual results to differ materially.

The company presented "Adjusted operating income", Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring, in the column of "Operating income" for the projected consolidated results ending March 2017.

## (2) Analysis of Financial Condition

## [1] Status of Assets, Liabilities and Net Assets

**(a) Assets**

Current assets at the end of the fiscal year amounted to ¥549,217 million, a decrease of 14.0%, or ¥89,749 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥64,924 million in inventories and ¥48,545 million in trade receivable.
Non-current assets amounted to ¥377,411 million, a decrease of 11.3%, or ¥48,296 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥6,964 million in trade receivables, ¥13,187 million in investments accounted for using the equity method, and ¥15,442 million in other financial assets.
As a result, total assets decreased 13.0% or ¥138,045 million from the previous fiscal year-end to ¥926,628 million.

**(b) Liabilities**

Current liabilities amounted to ¥312,411 million, a decrease of 15.3%, or ¥56,649 million, from the previous fiscal year-end. This was primarily due to a decrease of ¥27,697 million in trade and other payables and ¥25,206 million in bonds and borrowings.
Non-current liabilities decreased by 20.4%, or ¥40,310 million, from the previous fiscal year-end to ¥157,401 million. This was mainly due to a decrease of 44,572 million in bonds and borrowings.
As a result, total liabilities decreased by 17.1% or ¥96,959 million from the previous fiscal year-end to ¥469,812 million.

**(c) Equity**

Total equity decreased by 8.3% or ¥41,086 million from the previous fiscal year-end to ¥456,816 million.

## [2] Analysis on Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the fiscal year totaled ¥79,110 million, an increase of ¥27,677 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

**(Net cash provided by operating activities)**

Factors that increased cash in the consolidated fiscal year included ¥10,300 million in net income, ¥31,966 million in depreciation, a ¥40,650 million decrease in accounts and notes receivables, a ¥11,741 million decrease in lease receivables, and a ¥59,818 million decrease in inventories. Factors that reduced cash included a ¥14,654 million decrease in accounts and notes payables.
As a result, Net cash provided by operating activities during the fiscal year totaled ¥114,874 million, an increase of ¥8,645 million from the previous fiscal year.

**(Net cash provided by (used in) investing activities)**

Net cash provided by (used in) investing activities in the consolidated fiscal year amounted to ¥18,255 million, an increase of ¥36,231 million from the previous fiscal year. This is mainly due to an income of ¥32,184 million from the sales of investments in securities and other financial assets (including investments in associates), and the collection of long-term loans receivable of ¥10,506 million, despite an outlay of ¥17,515 million for the acquisition of tangible fixed asset.

As a result, free cash flows, the sum of Net cash provided by investing activities and Net cash provided by (used in) investing activities, amounted to an inflow of ¥133,129 million.

**(Net Cash Used in Financing Activities)**

Net cash used in financing activities in the consolidated fiscal year totaled ¥98,163 million, an increase of ¥1,869 million from the previous fiscal year. This was due mainly to a decrease of ¥46,226 million in short-term debt, a decrease of ¥31,186 million in long-term borrowings and bond, and ¥16,899 million in dividends paid (including dividends paid to non-controlling interests), etc.

(Reference) The following table describes HCM's cash flow indicator indices:

| | March 2016 | March 2015 | March 2014 |
|---|---|---|---|
| Equity attributable to owners of the parent ratio (%) | 42.7 | 40.5 | 36.1 |
| Equity attributable to owners of the parent ratio on market price basis(%) | 41.0 | 42.0 | 38.4 |
| Interest-bearing debt to operating cash flows ratio (%) | 2.2 | 3.1 | 4.8 |
| Interest coverage ratio (times) | 22.1 | 13.2 | 8.7 |

Notes:

Equity attributable to owners of the parent ratio: Equity attributable to owners of the parent/total assets

Equity attributable to owners of the parent ratio on market price basis: Share market price/total assets

Interest-bearing debt to operating cash flows ratio: Interest-bearing debt/cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/interest paid

1. Indices are calculated using consolidated figures.
2. Share market price is calculated by multiplying the closing price at the end of the period by the number of outstanding shares at the end of the period (after excluding treasury stock).
3. Cash flows from operating activities reflect cash flows from operating activities as detailed in the Consolidated Statements of Cash Flows. Interest-bearing debt reflects all debt for which the Company is paying interest as detailed in the Consolidated Balance Sheets. Interest payments reflect interest paid as detailed in the Consolidated Statements of Cash Flows.

### (3) Basic Policy for Appropriation of Earnings and Dividends for the Fiscal Year under Review and Next Fiscal Year

The HCM Group will enhance its financial soundness and work to bolster its internal reserves by considering plans for upfront investments including investments for technology development and facilities based on medium- and long-term business strategies.

Our policy of appropriation of profits is stable dividends linked to its consolidated business results, and its target payout ratio is around 30% or more.

With regard to purchase of treasury stock, HCM will acquire treasury stock depending on necessity, financial conditions, and stock price movement for execution of flexible capital policy.

Concerning year-end cash dividend, a resolution of ¥10 per share is to be proposed at the board meeting scheduled for May 23, 2016. Annual cash dividends for the year ended March 31, 2016, including the interim dividend of ¥30 per share, will amount to ¥40 per share accordingly.

Dividends for the fiscal year ending March 2017 are to be determined.

### (4) Business Risks

The HCM Group carries out its operations in regions throughout the world and executes its business in a variety of fields such as production, sales, finance, etc. Accordingly, the HCM Group's business activities are subject to the effects of a wide range of risks. The HCM Group has identified the following primary risks based on currently available information.

1. Market Conditions

Under the HCM Group's business activities, demand is heavily affected by public investment such as infrastructure development and private investment including the development of natural resources, real estates, etc. Consequently, we have a risk of decline in revenue due to low factory utilization or price decline by severe competition, resulting from significant demand decrease by sudden fluctuation in each region.

2. Foreign Currency Exchange Rate Fluctuations

Since the sales of the HCM Group derived from outside Japan account for 69% in the fiscal year under review, a substantial portion of its overseas sales are affected by currency fluctuations. Appreciation of the Japanese yen against major currencies such as the US dollar, European euro, and other currencies of emerging countries would adversely affect the HCM Group's operational results. The HCM Group strives to alleviate the effect of such fluctuations by enlarging the portion of local production, increasing parts import by international procurement, and hedging activities. However, our operational results may be adversely affected in the case that rates fluctuate beyond our projected range.

3. Fluctuations in Financial Markets
The HCM Group is currently working on improvement of the efficiency of its assets to reduce its interest-bearing debt; however, its aggregate short- and long-term interest-bearing debts were approximately ¥218 billion as of March 31, 2016. Although the HCM Group has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase the interest expenses, thereby adversely affecting the HCM Group's operational results. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of the HCM Group's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may deteriorate the HCM Group's operational results and financial condition.

4. Procurement and Production
Since the HCM Group's costs for parts and materials account for a large portion of manufacturing costs, their procurement is exposed to fluctuations in commodity prices. Price increases in commodities may increase the manufacturing costs. Shortage of parts and materials causes difficulty in timely procurement, and it lowers the HCM Group's production efficiency.
In an effort to reduce any adverse effect on its business as a result of an increase in material costs, the HCM Group plans to reduce other costs via VEC (value engineering for customers) activities, and pass on the increase in material costs to the product prices. However, if the increases in material prices were to exceed the HCM Group's expectations or a prolonged shortage of materials and parts were to occur, the HCM Group's operational results may be adversely affected.

5. Credit Management
The HCM Group's main products, construction machinery, are sold via sales financing, such as installment sales, finance leasing, etc. A specialized department for financing engages in credit management; however, occurrence of bad debt due to the deterioration of customers' financial condition may adversely affect the HCM Group's operational results and financial results.

6. Public Laws and Tax Practices
The HCM Group's business operations are required to comply with increasingly stringent political measures, official restrictions, tax practices, legal laws and regulations, etc. For example, in the numerous countries in which the Group operates, we are required to comply with restrictions or regulations such as authorizations for business operations and investments, as well as limitations and rules regarding imports and exports, patents, intellectual properties, consumers, the environment and recycling, conditions of employment, taxation, etc.
If such existing laws or regulations were to be amended or tightened, the Group may be required to incur increased costs and to make further capital expenditures to comply with such new standards. Such additional environmental compliance costs may adversely affect the Group's operational results.

7. Product Liability
While the HCM Group is making efforts to sustain and improve the quality and reliability of its operations and products based on stringent standards established internally by the HCM Group, it may face product liability claims or become exposed to other liabilities if unexpected defects in its products result in accidents. If the costs of addressing such claims or other liabilities are not covered by the HCM Group's existing insurance policies, we may be required to bear the cost thereto, which may adversely affect its financial condition.

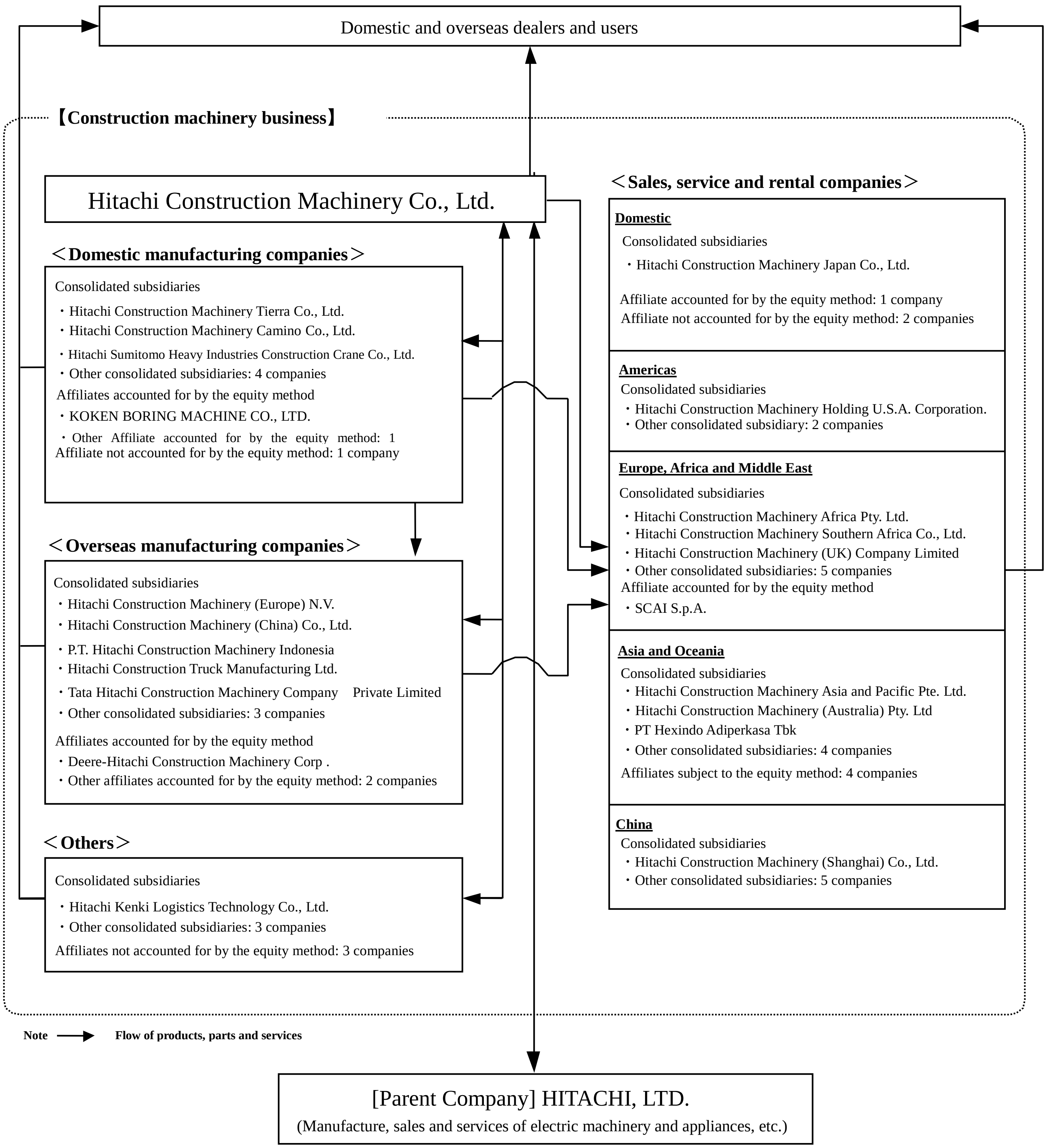
8. Alliances and Collaborative Relationships
The HCM Group has entered into various alliances and collaborative relationships with distributors, suppliers, and other companies in its industry to reinforce its international competitiveness. Through such arrangements, we are working to improve its product development, production, sales, and service capabilities. The HCM Group's failure to attain the expected results or the termination of such alliances or collaborative relationships may adversely affect the operational results.

9. Information Security, Intellectual Property, and Other Matters
The HCM Group may obtain confidential information concerning its customers and individuals in the normal course of its business, and also holds confidential business and technological information. We maintain such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, or loss, the HCM Group employs appropriate safety measures, including technological safety measures and establishment of rules to handle confidential information and information management capabilities.
If a leak of confidential information occurred, the reputation of the HCM Group may be damaged and customers may lose confidence in the HCM Group. In addition, our intellectual property may be infringed upon by a third party, or a third party may claim that the HCM Group is liable for infringing on such third party's intellectual property rights.

10. Natural Disasters
The HCM Group conducts its business operations on a global scale and operates and maintains development, production, supply, and other business facilities in many countries. Natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, or interference by third parties in regions in which the HCM Group operates may cause damage to its facilities and disrupt operations, procurement of materials and parts or their production, and sales and services. Such delays or disruptions may adversely affect our operational results.

## 2. Status of the Corporate Group

As outlined below, the consolidated Group consists of Hitachi Construction Machinery, its parent company, its 44 subsidiaries and its 17 affiliates. Its business mainly involves the manufacture, sale, service and leasing of construction machinery.



## 3. Management Policy

(1) Basic Management Policy

The HCM Group pursues business competitiveness and group management capabilities by advocating “trust and differentiation.” We aim to achieve further improvement in our corporate and shareholder value by enhancing our profitability and capabilities for generating cash flow. To ensure our ability to achieve these objectives, we put strong emphasis on and share the Kenkijin Spirit** as a group-wide value standard and code of conduct. We aim to achieve the 2020 VISION—“Close and Reliable Partner Anywhere on the Earth with Best Solutions through the Kenkijin Spirit”—by implementing various measures along the three axes of hard (products), soft (solutions), and regions, as well as by continuously providing reliable solutions. Accordingly, we contribute to the sustainable development of our customers and each region.

**Kenkijin Spirit:

In pursuing our vision and principles, it is important to achieve the goals of the HCM Group’s medium- to long-term vision and medium-term management plan while responding to the demands of society in areas such as compliance and corporate social responsibility (CSR). The actions of each individual employee are the driving force behind these efforts. If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee’s ideas and initiatives. The Kenkijin Spirit codifies these shared values and guiding principles, to embody the attitude of a Kenkijin.

(2) Mid- to Long-Term Management Strategies and Issues to be Addressed

In order to anticipate and catch up with construction and mining machinery market fluctuations, the HCM Group, in light of the mid-term management plan “GROW TOGETHER 2016,” is focusing on SCM reform and marketing capabilities. Additionally, we are enhancing the mining and wheel loader business, as well the value chain on the axis of parts and service business. Furthermore, we promote solution business to contribute to meeting the customer’s challenges of safety performance, business efficiency, and reduction in life-cycle cost. The solution is offered by ICT and IoT developed by technology of “One Hitachi,” a combination of our own technology and the Hitachi Group’s comprehensive know-how, and by open innovation activity with our customers.

Furthermore, given the fluctuation of our business environment, we promote the following strategies in addition to continuous business/cost structure reform to establish a solid management foundation.

1) Hard (Product) Strategies

We will promote enhancement of our developmental marketing capabilities to respond to diverse regional needs, as well as establishment of a global research and development framework. In addition, we aim to attain environmental responsiveness including emission reduction as well as differentiated products with a high standard of economic efficiency such as fuel efficiency and safety, in light of growing customer needs, by utilizing ICT and technology of the Hitachi Group. Moreover, we will improve the development efficiency by module development and conducting preliminary quality analysis.

2) Soft Strategies

For further enhancement of support service covering the whole life cycle of the product, we aim to maximize the profit in conjunction with providing fine service through global development of "ConSite" making the full use of ICT and "Global e-Service," enhanced rental business, distribution of used machinery, and expansion of the finance program.

3) Regional Strategy

In order to expand our presence in each region through community-based operation with speed and efficiency, HCM will reinforce regional business operations by development of products suitable for each region, optimization of production capacity, and further support to our dealers. Additionally, we aim to further strengthen our profitability and efficient regional business operation by promoting reform of the cost structure in each region.

4) Global Management Operation

We will pursue human resource development and promote workplace diversity. We will also focus on effective delegation of authority, strengthening corporate governance, respecting quality with *monozukuri* (craftsmanship), cost competitiveness, our SCM reforms, and our strategic CSR activities—all in accordance with the globalization of the HCM Group. In addition, we continuously focus on reviewing the business and cost structure to establish a solid management foundation.

## 4. Our Fundamental Position Concerning Selection of Accounting Standards Policy

The HCM Group has been actively promoting global business development and aims to further increase its corporate value by building a management foundation that can accelerate management visualization and management enhancement as well as governance reinforcement. As part of these efforts and for the purpose of improving the international comparability of financial statements in the capital markets by introducing IFRS, which is a global standard, and unifying the accounting methods within the Group, HCM voluntarily adopts the International Financial Reporting Standards (IFRS) from the presentation of the consolidated financial statements in its annual securities report for the fiscal year ended March 31, 2015.

# 5. Consolidated Financial Statements

## (1) Consolidated Balance Sheets

(Millions of yen)

| | Current fiscal year-end As of Mar. 31, 2016 (A) | Previous fiscal year-end As of Mar. 31, 2015 (B) | (A)-(B) |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 79,110 | 51,433 | 27,677 |
| Trade receivables | 182,928 | 231,473 | (48,545) |
| Inventories | 248,564 | 313,488 | (64,924) |
| Other financial assets | 29,727 | 32,053 | (2,326) |
| Other current assets | 8,888 | 10,519 | (1,631) |
| Total current assets | 549,217 | 638,966 | (89,749) |
| Non-current assets | | | |
| Property, plant and equipment | 276,293 | 281,326 | (5,033) |
| Intangible assets | 9,611 | 9,972 | (361) |
| Goodwill | 8,694 | 9,590 | (896) |
| Investments accounted for using the equity method | 18,726 | 31,913 | (13,187) |
| Trade receivables | 23,125 | 30,089 | (6,964) |
| Deferred tax assets | 15,241 | 18,331 | (3,090) |
| Other financial assets | 15,668 | 31,110 | (15,442) |
| Other non-current assets | 10,053 | 13,376 | (3,323) |
| Total non-current assets | 377,411 | 425,707 | (48,296) |
| Total assets | 926,628 | 1,064,673 | (138,045) |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 182,648 | 210,345 | (27,697) |
| Bonds and borrowings | 111,888 | 137,094 | (25,206) |
| Income tax payables | 4,728 | 7,626 | (2,898) |
| Other financial liabilities | 8,936 | 8,722 | 214 |
| Other current liabilities | 4,211 | 5,273 | (1,062) |
| Total current liabilities | 312,411 | 369,060 | (56,649) |
| Non-current liabilities | | | |
| Trade and other payables | 23,224 | 20,091 | 3,133 |
| Bonds and borrowings | 106,007 | 150,579 | (44,572) |
| Retirement and severance benefit | 16,855 | 13,446 | 3,409 |
| Deferred tax liability | 6,057 | 9,483 | (3,426) |
| Other financial liabilities | 32 | 194 | (162) |
| Other non-current liabilities | 5,226 | 3,918 | 1,308 |
| Total non-current liabilities | 157,401 | 197,711 | (40,310) |
| Total liabilities | 469,812 | 566,771 | (96,959) |
| Equity | | | |
| Equity attributable to owners of the parent | | | |
| Common stock | 81,577 | 81,577 | - |
| Capital surplus | 84,095 | 84,315 | (220) |
| Retained earnings | 222,721 | 226,332 | (3,611) |
| Accumulated other comprehensive income | 10,621 | 42,159 | (31,538) |
| Treasury stock, at cost | (3,051) | (3,156) | 105 |
| Total Equity attribute to owners of the parent | 395,963 | 431,227 | (35,264) |
| Non-controlling interests | 60,853 | 66,675 | (5,822) |
| Total equity | 456,816 | 497,902 | (41,086) |
| Total liabilities and equity | 926,628 | 1,064,673 | (138,045) |

## (2) Consolidated Statements of Income

(Millions of yen)

| | Current fiscal year For the year ended Mar. 31, 2016 (A) | Previous fiscal year For the year ended Mar. 31, 2015 (B) | (A)/(B)×100 (%) |
|---|---|---|---|
| Revenue | 758,331 | 815,792 | 93 |
| Cost of sales | (578,734) | (597,156) | 97 |
| Gross profit | 179,597 | 218,636 | 82 |
| Selling, general and administrative expenses | (156,233) | (156,717) | 100 |
| Other income | 24,695 | 4,496 | 549 |
| Other expenses | (14,007) | (3,284) | 427 |
| Operating income | 34,052 | 63,131 | 54 |
| Financial income | 3,418 | 4,675 | 73 |
| Financial expenses | (13,187) | (10,307) | 128 |
| Share of profits of investments accounted for using the equity method | 234 | 1,454 | 16 |
| Income before income taxes | 24,517 | 58,953 | 42 |
| Income taxes | (14,217) | (28,697) | 50 |
| Net income | 10,300 | 30,256 | 34 |

| | | | |
|---|---|---|---|
| Net income attributable to | | | |
| Owners of the parent | 8,804 | 26,023 | 34 |
| Non-controlling interests | 1,496 | 4,233 | 35 |
| Total net income | 10,300 | 30,256 | 34 |

| | | | |
|---|---|---|---|
| EPS attributable to owners of the parent | | | |
| Net income per share (Basic) (yen) | 41.41 | 122.44 | 34 |
| Net income per share (Diluted) (yen) | 41.41 | 122.42 | 34 |

(Rounded off to the nearest million)

## (3) Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Current fiscal year For the year ended Mar. 31, 2016 (A) | Previous fiscal year For the year ended Mar. 31, 2015 (B) | (A)/(B)×100 (%) |
|---|---|---|---|
| Net income for the year | 10,300 | 30,256 | 34 |
| Other comprehensive income | | | |
| Items that cannot be reclassified into net income | | | |
| Net gains and losses from financial assets measured at fair value through OCI | (2,354) | 603 | - |
| Remeasurements of defined benefit obligations | (4,316) | (369) | 1,170 |
| Other comprehensive income of equity method associates | (24) | (151) | 16 |
| Items that can be reclassified into net income | | | |
| Foreign currency translation adjustments | (26,222) | 24,640 | - |
| Cash flow hedges | 195 | 121 | 161 |
| Other comprehensive income of equity method associates | (3,727) | 1,896 | - |
| Other comprehensive income, net of taxes | (36,448) | 26,740 | - |
| Comprehensive income | (26,148) | 56,996 | - |
| Comprehensive income attributable to | | | |
| Owners of the parent | (22,394) | 45,782 | - |
| Non-controlling interests | (3,754) | 11,214 | - |

(Rounded off to the nearest million)

## (4) Consolidated Statements of Changes in Equity

### Year ended Mar. 31, 2016

(Millions of yen)

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | | | | Accumulated other comprehensive income | | |
| | Common stock | Capital surplus | Retained earnings | Remeasurements of defined benefit obligations | Net gains and losses from financial assets measured at fair value through OCI | Cash flow hedges |
| Balance at beginning of year | 81,577 | 84,315 | 226,332 | 185 | 7,490 | (117) |
| Net income | | | 8,804 | | | |
| Other comprehensive income | | | | (4,337) | (2,338) | 194 |
| Comprehensive income for the year | - | - | 8,804 | (4,337) | (2,338) | 194 |
| Acquisition of treasury stock | | | | | | |
| Sale of treasury stock | | 9 | | | | |
| Increase/decrease by share exchange | | 37 | | | | |
| Dividends to stockholders of the Company | | | (12,755) | | | |
| Gains/losses on change in equity | | (266) | | | | |
| Transfer to retained earnings | | | 340 | 152 | (492) | |
| Other increase/decrease | | | | | | |
| Transaction with owners | - | (220) | (12,415) | 152 | (492) | - |
| Balance at end of year | 81,577 | 84,095 | 222,721 | (4,000) | 4,660 | 77 |

(Millions of yen)

| | Equity attributable to owners of the Company | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | Treasury stock, at cost | Total | | |
| | Foreign currency translation adjustments | Total | | | | |
| Balance at beginning of year | 34,601 | 42,159 | (3,156) | 431,227 | 66,675 | 497,902 |
| Net income | | - | | 8,804 | 1,496 | 10,300 |
| Other comprehensive income | (24,717) | (31,198) | | (31,198) | (5,250) | (36,448) |
| Comprehensive income | (24,717) | (31,198) | - | (22,394) | (3,754) | (26,148) |
| Acquisition of treasury stock | | - | (6) | (6) | | (6) |
| Sale of treasury stock | | - | 40 | 49 | | 49 |
| Increase/decrease by share exchange | | - | 71 | 108 | | 108 |
| Dividends to stockholders of the Company | | - | | (12,755) | (2,224) | (14,979) |
| Gains/losses on change in equity | | - | | (266) | 156 | (110) |
| Transfer to retained earnings | | (340) | | - | | - |
| Other increase/decrease | | - | | - | | - |
| Transaction with owners | - | (340) | 105 | (12,870) | (2,068) | (14,938) |
| Balance at end of year | 9,884 | 10,621 | (3,051) | 395,963 | 60,853 | 456,816 |

## Year ended Mar. 31, 2015

(Millions of yen)

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | | | | Accumulated other comprehensive income | | |
| | Common stock | Capital surplus | Retained earnings | Remeasurements of defined benefit obligations | Net gains and losses from financial assets measured at fair value through OCI | Cash flow hedges |
| Balance at beginning of year | 81,577 | 84,296 | 211,978 | 700 | 6,887 | (309) |
| Net income | | | 26,023 | | | |
| Other comprehensive income | | | | (515) | 623 | 162 |
| Comprehensive income | - | - | 26,023 | (515) | 623 | 162 |
| Acquisition of treasury stock | | | | | | |
| Sale of treasury stock | | 19 | | | | |
| Increase/decrease by share exchange | | | | | | |
| Dividends to stockholders of the Company | | | (11,689) | | | |
| Gains/losses on change in equity | | | | | | 30 |
| Transfer to retained earnings | | | 20 | | (20) | |
| Other increase/decrease | | | | | | |
| Transaction with owners | - | 19 | (11,669) | - | (20) | 30 |
| Balance at end of year | 81,577 | 84,315 | 226,332 | 185 | 7,490 | (117) |

(Millions of yen)

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | |
| | Foreign currency translation adjustments | Total | Treasury stock, at cost | Total | Non-controlling interests | Total equity |
| Balance at beginning of year | 15,112 | 22,390 | (3,237) | 397,004 | 58,949 | 455,953 |
| Net income | | - | | 26,023 | 4,233 | 30,256 |
| Other comprehensive income | 19,489 | 19,759 | | 19,759 | 6,981 | 26,740 |
| Comprehensive income | 19,489 | 19,759 | - | 45,782 | 11,214 | 56,996 |
| Acquisition of treasury stock | | - | (4) | (4) | | (4) |
| Sale of treasury stock | | - | 85 | 104 | | 104 |
| Increase/decrease by share exchange | | - | | - | | - |
| Dividends to stockholders of the Company | | - | | (11,689) | (3,418) | (15,107) |
| Gains/losses on change in equity | | 30 | | 30 | (70) | (40) |
| Transfer to retained earnings | | (20) | | - | | - |
| Other increase/decrease | | - | | - | | - |
| Transaction with owners | - | 10 | 81 | (11,559) | (3,488) | (15,047) |
| Balance at end of year | 34,601 | 42,159 | (3,156) | 431,227 | 66,675 | 497,902 |

## (5) Consolidated Statements of Cash Flows

(Millions of yen)

| | Current fiscal year For the year ended Mar. 31, 2016 | Previous fincal year For the year ended Mar. 31, 2015 |
|---|---|---|
| Net income | 10,300 | 30,256 |
| Depreciation | 31,966 | 31,531 |
| Amortization of intangible assets | 3,481 | 5,885 |
| Impairment losses | 151 | 487 |
| Gains on business restructuring | (21,611) | - |
| Income tax expense | 14,217 | 28,697 |
| Equity in net earnings of associates | (234) | (1,454) |
| Gain (loss) on sales of property, plant and equipment | (141) | 220 |
| Financial income | (3,418) | (4,675) |
| Financial expenses | 13,187 | 10,307 |
| (Increase) decrease in accounts and notes receivables | 40,650 | 10,502 |
| (Increase) decrease in lease receivables | 11,741 | 21,731 |
| (Increase) decrease in inventories | 59,818 | 16,643 |
| Increase (decrease) in accounts and notes payables | (14,654) | (8,469) |
| Increase (decrease) in provisions and retirement benefit obligations | 825 | 1,033 |
| Other | (13,169) | (13,320) |
| **Subtotal** | 133,109 | 129,374 |
| Interest received | 2,994 | 4,055 |
| Dividends received | 463 | 485 |
| Interest paid | (5,210) | (8,033) |
| Income tax paid | (16,482) | (19,652) |
| **Net cash provided by operating activities** | 114,874 | 106,229 |
| Capital expenditures | (17,515) | (15,931) |
| Proceeds from sale of property, plant and equipment | 576 | 1,930 |
| Acquisition of intangible assets | (2,287) | (2,746) |
| Acquisition of investments in securities and other financial assets (including investments in associates) | (4,013) | (3,046) |
| Sales of investments in securities and other financial assets (including investments in associates) | 32,184 | 2,023 |
| Collection of long-term loan receivables | 10,506 | 104 |
| Payments for transfer of business | (1,810) | (478) |
| Other | 614 | 168 |
| **Net cash provided by (used in) investing activities** | 18,255 | (17,976) |
| Increase (decrease) in short-term borrowings, net | (46,226) | (50,495) |
| Proceeds from long-term borrowings and bond | 19,735 | 60,486 |
| Payments on long-term borrowings | (50,921) | (86,603) |
| Payments on lease payables | (3,893) | (4,817) |
| Dividends paid to owners of the parent | (12,743) | (11,676) |
| Dividends paid to non-controlling interests | (4,156) | (3,289) |
| Other | 41 | 100 |
| **Net cash provided by (used in) financing activities** | (98,163) | (96,294) |
| Effect of exchange rate changes on cash and cash equivalents | (7,289) | 5,802 |
| **Net increase (decrease) in cash and cash equivalents** | 27,677 | (2,239) |
| **Cash and cash equivalents at beginning of period** | 51,433 | 53,672 |
| **Cash and cash equivalents at end of period** | 79,110 | 51,433 |

## (6) Notes on Consolidated Financial Statements

## (Notes on the preconditions for a going concern)

There is no relevant item.

**(Important matters for compiling consolidated financial statements)**

### 1. Scope of consolidation

Number of consolidated subsidiaries: 44

(1) Main consolidated subsidiaries

1) Hitachi Construction Machinery Japan Co., Ltd.
2) Hitachi Construction Machinery Tierra Co., Ltd.
3) Hitachi Construction Machinery Camino Co., Ltd.
4) Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.
5) Hitachi Construction Machinery (China) Co., Ltd.
6) Hitachi Construction Machinery (Shanghai) Co., Ltd.
7) Tata Hitachi Construction Machinery Company Private Limited
8) Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
9) P.T. Hitachi Construction Machinery Indonesia
10) Hitachi Construction Machinery (Europe) N.V.
11) Hitachi Construction Machinery Holding U.S.A. Corporation.
12) Hitachi Construction Truck Manufacturing Ltd.

(2) Number of companies included in consolidation during the fiscal year ended March 31, 2016: 2

1) Increase by additional share acquisition
KCM Corporation, KCMA Corporation

(3) Number of companies excluded from consolidation during the fiscal year ended March 31, 2016: 1

1) Decrease by liquidation
COMOPLESA-Lebrero, S.A

### 2. Application of the equity method

Number of affiliates accounted for by the equity method: 11

(1) Main affiliates subject to the equity method

1) Deere-Hitachi Construction Machinery Corp.
2) KOKEN BORING MACHINE CO., LTD.
3) P. T. Hexa Finance Indonesia

4) HTC Leasing Company Limited

(2) Number of affiliates excluded from the scope of the equity method during the fiscal year ended March 31, 2016: 3

1) Decrease by sales of shares
   UniCarriers Holdings Corporation, P.T. SHIBAURA Shearing INDONESIA
2) Decrease by change to consolidated subsidiary
   KCM Corporation

(3) Number of affiliates not accounted for by the equity method: 6

## 3. Date of settlement of accounts for consolidated subsidiaries

Below is a list of the consolidated subsidiaries that settle their accounts on a date different from the rest of the consolidated group.

1) Hitachi Construction Machinery Holding U.S.A. Corporation.
2) Hitachi Construction Machinery (China) Co., Ltd.
3) Hitachi Construction Machinery (Shanghai) Co., Ltd.

Others: 8

To create the consolidated financial statement, the company uses the financial statements of these subsidiaries, which is made by provisional account settlement as of March 31.

## (Segment Information)

## 1. Reportable segment information

The business operating segments of the Company are components of the consolidated group for which separate financial information is available and regularly reviewed by the Board of Directors for the purpose of decision making about allocation of management resources and analysis of their performances.

The business of the consolidation group is production and distribution of construction machinery, and there are no other operating segments to be distinguished. Therefore, the consolidation group has a single reportable segment, construction machinery business.

## 2. Operating segment information

The following table shows revenues from outside customers by product and service for the years ended March 31, 2016 and 2015

(Millions of yen)

| | March 2016 | March 2015 |
|---|---|---|
| Mining machinery | 115,509 | 122,127 |
| Construction machinery | 642,822 | 693,665 |
| Total | 758,331 | 815,792 |

**(Note on consolidated statements of income)**

The main components of other income for the years ended March 31, 2016 and 2015 are as follows:

(Millions of yen)

| | March 2016 | March 2015 |
|---|---|---|
| Gain on sales of property, plant and equipment | 177 | 310 |
| Subsidy income | 434 | 630 |
| Gain on business restructuring (note ) | 21,611 | - |
| Other | 2,473 | 3,556 |
| Total | 24,695 | 4,496 |

(Note on gain on business restructuring)

Gain on business restructuring for the year ended March 31, 2016 is mainly recognized for the sales of the Company's entire shares in UniCarriers Holdings Corporation, a company of the consolidated group accounted for using the equity method.

The main components of other expenses for the years ended March 31, 2016 and 2015 are as follows:

(Millions of yen)

| | March 2016 | March 2015 |
|---|---|---|
| Loss on sales of property, plant and equipment | 36 | 530 |
| Loss on disposal of property, plant and equipment | 408 | 868 |
| Impairment of property, plant and equipment | 151 | 487 |
| Business structure improvement expenses (note ) | 10,070 | 520 |
| Other | 3,342 | 879 |
| Total | 14,007 | 3,284 |

(Note on gain on business structure improvement expenses)

Business structure improvement expenses recognized for the year ended March 31, 2016 include a special severance payment and reemployment funding in the process of the early retirement incentive program.

**(Business Combination)**

The following significant business combination occurred during the year ended March 31, 2016.

(1) Purpose of business combination

On October 1, 2015, the HCM Group acquired additional shares of KCM Corporation ("KCM") from Kawasaki Heavy Industries, Ltd. ("KHI") and made KCM a wholly owned subsidiary. KCM was formerly an equity-method affiliate of HCM. In addition, HCM assumed the business from KCMJ Corporation ("KCMJ"), which was once a subsidiary of KCM.

Since October 2008, KHI and the HCM Group have collaborated in the wheel loader business, including joint research and development of new models of wheel loaders to meet the Tier 4 exhaust emission regulations. KCM was incorporated in January 2009, and in April of the same year, the wheel loader business of KHI was spun off to KCM. With HCM's capital investment in KCM in June 2010, the joint development of new models of wheel loaders, the increase in production efficiency and the like accelerated. Global competition in the construction machinery industry has intensified. In order to enhance its competitiveness, the Company made KCM into a wholly owned subsidiary of HCM on October 1, 2015, to expand and strengthen the wheel loader business and to raise customer satisfaction by combining the technologies of the two companies and increasing production efficiency.

In addition, HCMJ, which is a subsidiary of the Company, accepted the transfer of the sales and servicing business in Japan of wheel loaders and snow removal machines from KCMJ, which is a subsidiary of KCM, on the same day as the day of transfer of KCM's stock.

(2) Name of acquired company and its business

[1] Overview of share acquisition

Name of the acquired company: KCM Corporation

Business contents of the acquired company: Manufacturing, sales, and after-sales service of construction machinery, etc.

Acquired ratio of voting rights: 66.0%

[2] Overview of business transfer

Name of transferor: KCMJ Corporation

Name of transferee: Hitachi Construction Machinery Japan Co., Ltd. (wholly owned subsidiary of Hitachi Construction Machinery Co., Ltd.)

Contents of transferred business: Domestic sales service business of wheel loader and snow machines

(3) Consideration of the integration and fair value of assets acquired and liabilities assumed

Consideration of the share acquisition of KCM Corporation and fair value of assets acquired and liabilities assumed are as follows (Allocation of the acquisition cost has been completed.):

(Millions of yen)

| | Amount |
|---|---|
| Cash and cash equivalents | 118 |
| Trade receivables | 10,465 |
| Other current assets | 12,678 |
| Non-current assets (Except trade receivables and intangible assets) | 4,720 |
| Intangible assets | |
| Goodwill (non-deductible for tax purpose) | 362 |
| Other intangible assets | 788 |
| Total assets | 29,131 |
| Current liabilities | 21,142 |
| Non-current liabilities | 3,207 |
| Total liabilities | 24,349 |
| Cash and cash equivalents | 3,156 |
| Fair value of shares that the company had already had upon acquisition of control | 1,626 |
| Total consideration of acquisition | 4,782 |

The goodwill consisted primarily of excess earnings and synergies with the existing operations.

Consideration of acceptance of transfer of business from KCMJ Corporation and fair value of assets acquired and liabilities assumed are as follows:

(Millions of yen)

| | Amount |
|---|---|
| Cash and cash equivalents | 0 |
| Trade receivables | 534 |
| Other current assets | 956 |
| Non-current assets (Except intangible assets) | 1,782 |
| Intangible assets | 8 |
| Total assets | 3,280 |
| Current liabilities | 590 |
| Non-current liabilities | 880 |
| Total liabilities | 1,470 |
| Cash and cash equivalents | 1,810 |
| Total consideration of acquisition | 1,810 |

(4) Trade receivables acquired

(Millions of yen)

| | Carrying amount | Of which, the amount expected to be unrecoverable |
|---|---|---|
| Account and note receivables | 10,475 | 10 |
| Finance lease receivables | 534 | - |
| Total | 11,009 | 10 |

(5) Expenses related to acquisition

Expenses related to acquisition are 99 million yen and included in “Other expenses” on quarterly consolidated statements of income.

(6) Gain and loss on step acquisition

A remeasurement of KCM Corporation shares held by the Company before the business combination at fair value results in 1,626 million yen, and the Company recognizes 141 million yen of loss on step acquisition, which is recorded in other expenses on the quarterly consolidated statements of income.

(7) Revenue and net income of acquired company and transferred business

Revenue and net income generated by the acquired company and transferred business among those figures on consolidated statements of income are 15,910 million yen and 1,227 million yen respectively.

(8) Revenue and net income of HCM group assuming that the business combination is completed at the beginning of the fiscal year

Revenue and net income of HCM group assuming that the business combination is completed at the beginning of the fiscal year are 777,247 million yen and 10,660 million yen respectively.

## (Earnings per share)

A calculation of the basic and diluted earnings per share (attributable to owners of the parent) for the years ended March 31, 2016 and 2015 is as follows:

(Millions of Yen)

| | March 2016 | March 2015 |
|---|---|---|
| Profit attributable to owners of the parent | 8,804 | 26,023 |
| Profit used to calculate of the basic earnings per share | 8,804 | 26,023 |

(Number of shares)

| | March 2016 | March 2015 |
|---|---|---|
| Weighted average number of common shares outstanding | 212,616,017 | 212,544,707 |
| Dilutive effect of stock options | 4,295 | 30,777 |
| Weighted average number of common shares outstanding - diluted | 212,620,312 | 212,575,484 |

(Yen)

| | March 2016 | March 2015 |
|---|---|---|
| Earnings per share attributable to owners -basic | 41.41 | 122.44 |
| Earnings per share attributable to owners -diluted | 41.41 | 122.42 |

| | |
|---|---|
| Summary of dilutive shares not included the calculation of diluted earnings per share (attribute to owners of the parent) due to no dilutive effect | 3,050 shares of subscription rights to shares as a result of a special resolution at the annual meeting of shareholder dated on June 26, 2006 |
| | 3,320 shares of subscription rights to shares as a result of a special resolution at the annual meeting of shareholder dated on June 25, 2007 |

**(Important subsequent events)**

There is no relevant item.

## . Others

### Changes in the Members of the Board of Directors

Following the resolution of the Nominating Committee on April 27, 2016, Hitachi Construction Machinery Co., Ltd. hereby announces a set of changes in the members of the Board of Directors as described below.

The changes in the members of the Board of Directors will be made subject to approval at the 52nd Ordinary General Meeting of Shareholders scheduled for June 27, 2016.

**[1]Candidates for Director**

| Title | Name | Current Title |
|---|---|---|
| Outside Director * | Kazushige Okuhara | Former Representative Director of the Board and Deputy President, Fuji Heavy Industries Ltd. |
| Outside Director * | Haruyuki Toyama | Outside Director |
| Outside Director * | Junko Hirakawa | Outside Director |
| Director | Osamu Okada | Director |
| Director | Tetsuo Katsurayama | Vice President, Executive Officer and Director |
| Director | Yutaka Saito | Representative Executive Officer, Executive Vice President and Executive Officer, Hitachi, Ltd. |
| Director | Koji Sumioka | Representative Executive Officer, Executive Vice President and Director |
| Director | Yuichi Tsujimoto | Representative Executive Officer, President, Chief Executive Officer and Director |
| Director | Akihiko Hiraoka | Executive Vice President and Director |

*Outside board member under Japanese corporate law.

**[2]Resigning Directors (effective on June 27, 2016)**

| Name | Current Title |
|---|---|
| Takashi Kawamura | Chairman of the Board and Outside Director |
| Shigeru Azuhata | Outside Director |
| Hideto Mitamura | Outside Director |