# Consolidated Financial Results for the Year Ended March 31, 2018 (IFRS)

**April** 26, 2018

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)
Stock exchange: Tokyo (first section)    Code number: 6305
URL https://www.hitachicm.com/global/
Representative: Kotaro Hirano, President and Executive Officer
Scheduled date of ordinary General Meeting of Shareholders: June 25, 2018
Scheduled date of commencement of payment of dividends: May 31, 2018
Scheduled date for submission of Securities Report: June 26, 2018
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 2018 (April 1, 2017 to March 31, 2018)

(1) Consolidated results

(Rounded off to the nearest million)

| | Revenue | | Adjusted 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, 2018 | 959,153 | 27.2 | 93,582 | 231.1 | 95,612 | 300.7 | 69,222 | 387.8 | 60,004 | 648.0 | 67,717 | 480.2 |
| March 31, 2017 | 753,947 | (0.6) | 28,265 | 21.0 | 23,859 | (2.7) | 14,190 | 37.8 | 8,022 | (8.9) | 11,671 | － |

"Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Adjusted operating income" is Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring. "Operating income" for the year ended March 2018 is as below.

March 31, 2018: ¥95,737million  YoY  305.3 %    March 31, 2017: ¥ 23,622 million  YoY  (30.6)%

| | 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, 2018 | 282.16 | 282.16 | 14.1 | 9.1 | 10.0 |
| March 31, 2017 | 37.72 | 37.72 | 2.0 | 2.5 | 3.1 |

References: Share of profits (losses) of investments accounted for using the equity method

March 31, 2018: ¥4,355million    March 31, 2017: ¥ (311)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, 2018 | 1,089,796 | 505,030 | 448,502 | 41.2 | 2,109.04 |
| March 31, 2017 | 1,012,208 | 450,430 | 399,619 | 39.5 | 1,879.14 |

(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, 2018 | 84,528 | (37,562) | (30,483) | 81,929 |
| March 31, 2017 | 87,961 | (74,610) | (25,817) | 65,455 |

2. Dividends status

| | Cash dividends per share | | | | | Dividends paid (Total) | Dividend Payout Ratio (Consolidated) | Dividend attributable to owners of the parent (Consolidated) |
|---|---|---|---|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Year end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| March 31, 2017 | － | 4.0 | － | 8.0 | 12.0 | 2,552 | 31.8 | 0.6 |
| March 31, 2018 | － | 36.0 | － | 49.0 | 85.0 | 18,076 | 30.1 | 4.3 |
| March 31, 2019 (Projection) | － | － | － | － | － | | － | |

Interim and year-end dividends for the fiscal year ending March 2019 are to be determined.

(English translation of "KESSAN TANSHIN" originally issued in the Japanese language.)

3. Consolidated earnings forecast for the full year ending March 2019 (April 1, 2018 to March 31, 2019)

| | Revenue | | Adjusted 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 |
| March 31, 2019 | 950,000 | (1.0) | 84,000 | (10.2) | 80,000 | (16.3) | 49,000 | (18.3) | 230.42 |

Notes: 1) The percentages indicated show changes from the same period of the previous fiscal year.

"Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Adjusted operating income" is Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring. Cumulated "Operating income" for projected consolidated result ending March 2019 is as below.
March 31, 2019: ¥82,000million YoY (14.3) %

*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 (including treasury shares)
March 2018 215,115,038
March 2017 215,115,038
[2] Number of treasury shares
March 2018 2,457,970
March 2017 2,454,022
[3] Average number of common shares outstanding during the fiscal year (shares)
March 2018 212,659,005
March 2017 212,662,072

(Reference) Non-consolidated Financial Results

1. Non-consolidated results for the year ended March 2018(April 1, 2017 to March 31, 2018)

(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, 2018 | 477,221 | 33.6 | 23,607 | - | 51,569 | 271.5 | 46,287 | 169.0 |
| March 31, 2017 | 357,072 | 0.7 | (25,454) | - | 13,883 | - | 17,209 | - |

| | Net income per share | Net income per share (Diluted) |
|---|---|---|
| | Yen | Yen |
| March 31, 2018 | 217.66 | 217.66 |
| March 31, 2017 | 80.92 | 80.92 |

(2)Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| March 31, 2018 | 559,427 | 252,936 | 45.2 | 1,189.41 |
| March 31, 2017 | 495,190 | 216,277 | 43.6 | 1,014.66 |

Reference: Total equity at fiscal year-end March 2018: ¥252,936 million March 2017: ¥215,779 million

Indication of audit procedure implementation status

This earnings report is exempt from audit procedure.

Explanation on the appropriate use of results forecasts and other important items

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, (1) Management Results’’ of the attachment for conditions serving as assumptions for results forecasts.

Adjustment of the provisional accounting treatment for business combination

During the fiscal year ended March 31, 2018, the company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the March 2017 results. Please refer to ‘‘3. Consolidated Financial Statements, (6) Notes on Consolidated Financial Statements (Business Combination) ’’ for details.

# Index of the Attachment



(English translation of “KESSAN TANSHIN” originally issued in the Japanese language.)

## 1. Management Performance and Financial Conditions

### (1) Management Results

The HCM Group launched a new mid-term management plan, "CONNECT TOGETHER 2019," in April 2017. We are promoting the development of "Solution Linkage" utilizing ICT and IoT to offer solutions to customer's challenges on "safety," "productivity," and "life-cycle costs." And, to expand the source of revenue besides new machine sales, we are expanding the value chain by enhancing the parts and service business for mining machines and facilities provided by H-E Parts and Bradken, HCM's consolidated subsidiary we acquired in the previous fiscal year. Additionally, we are working to secure profit by establishing a global management support scheme, the expansion of its market share, cost reduction, and enhancement of operational efficiency.

Consolidated revenue for this term (April 1, 2017 to March 31, 2018) increased by 27.2% year on year to ¥959,153 million due to increased sales mainly in China and the consolidation of H-E Parts and Bradken, while we saw a negative impact of the stock transfer of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., which became an equity-method affiliate of HCM on March 31, 2017. Adjusted operating income increased by 231.1% year on year to ¥93,582 million, operating income increased by 305.3% to ¥95,737 million, and net income attributable to the owners of the parent increased by 648.0% to ¥60,004 million due to a decrease in the cost of sales and SGA, in addition to the contribution of the solution business and parts & service business.

Business results by segment are described below.

1. Construction machinery business

Demand for hydraulic excavators increased globally year on year except in the Middle East. We promoted enhancement of the parts and service business through a globally launched service solution called "ConSite," as well as expansion of the parts supply network to enlarge sales and revenue. The newly launched "ConSite OIL" in October in Europe and Australia, is the first service in the industry to predict problems of engines and hydraulic equipment by remotely inspecting the condition of its oil by oil sensors installed in each machine. In Japan, for i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, the HCM Group has been working to promote smart construction by providing its workshop to customers at an ICT demonstration site that we established in Hitachi-Naka City of Ibaraki Prefecture and by offering solutions for an efficient construction process.

As for mining machinery, demand significantly grew year on year by the increased CAPEX of mining companies. We are focusing on expanding sales of the well-accepted AC-3 series rigid dump trucks equipped with an advanced vehicle body stability-assist function, in addition to offering a fleet management system and developing an autonomous haulage system to optimize mining operations, by taking advantage of Hitachi Group's strengths. Furthermore, we have been working to establish a highly controlled customer support system to enlarge revenue from parts and services.

Consolidated revenue of the construction machinery business for this term (April 1, 2017 to March 31, 2018) increased by 16.0% year on year to ¥866,866 million, and adjusted operating income increased by 227.8% to ¥91,157 million.

2. Solution business

This segment consists of H-E Parts and Bradken. H-E Parts mainly provides services and solutions required for machinery and equipment for mining. Bradken supplies wear parts for fixed mining plants and mobile mining equipment, and also provides maintenance and servicing for them.

Consolidated revenue of the solution business for this term (April 1, 2017 to March 31, 2018) was ¥92,638 million, and adjusted operating income was ¥2,425 million because of the steady contribution to its revenue from solutions for mining machines in Australia and Latin America. The above adjusted operating income includes a depreciation loss and amortization cost of ¥5,402 million based on purchase price allocation for H-E Parts and Bradken.

The above revenues of segments 1 and 2 are figures before inter-segment adjustment.

The following table summarizes the consolidated results for this term ended March 2018.

(Millions of yen ; %)

| | FY 2017 (April 1,2017- March 31, 2018) (A) | FY 2016 (April 1,2016- March 31, 2017) (B) | Year-on-year change | |
|---|---|---|---|---|
| | | | (A)-(B) | (A)/(B)-1 (%) |
| Revenue | 959,153 | 753,947 | 205,206 | 27.2 |
| Adjusted operating income* | 93,582 | 28,265 | 65,317 | 231.1 |
| Operating income | 95,737 | 23,622 | 72,115 | 305.3 |
| Income before income taxes | 95,612 | 23,859 | 71,753 | 300.7 |
| Net income attributable to owners of the parent | 60,004 | 8,022 | 51,982 | 648.0 |

(Rounded off to the nearest million)

* "Adjusted operating income" is the Hitachi Group's common profit index, calculated by excluding "Other income" and "Other expenses" from "Operating income."

The following table summarizes consolidated net revenue by geographic area:

| | FY2017 (April 1,2017- March 31, 2018) | | FY2016 (April 1,2016- March 31, 2017) | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | Revenue (Millions of yen) (A) | Proportion (%) | Revenue (Millions of yen) (B) | Proportion (%) | Change (Millions of yen) (A)-(B) | % Change (%) (A)/(B)-1 |
| North America | 136,319 | 14.2 | 78,488 | 10.4 | 57,831 | 73.7 |
| Central and South America | 16,081 | 1.7 | 6,996 | 0.9 | 9,085 | 129.9 |
| The Americas | 152,400 | 15.9 | 85,484 | 11.3 | 66,916 | 78.3 |
| Europe | 104,184 | 10.9 | 87,565 | 11.6 | 16,619 | 19.0 |
| Russia-CIS | 27,363 | 2.9 | 19,476 | 2.6 | 7,887 | 40.5 |
| Africa | 44,831 | 4.7 | 34,051 | 4.5 | 10,780 | 31.7 |
| Middle East | 23,143 | 2.4 | 22,741 | 3.0 | 402 | 1.8 |
| Russia-CIS, Africa, and the Middle East | 95,337 | 9.9 | 76,268 | 10.1 | 19,069 | 25.0 |
| Asia | 75,418 | 7.9 | 62,239 | 8.3 | 13,179 | 21.2 |
| India | 65,077 | 6.8 | 48,551 | 6.4 | 16,526 | 34.0 |
| Oceania | 151,903 | 15.8 | 96,391 | 12.8 | 55,512 | 57.6 |
| Asia and Oceania | 292,398 | 30.5 | 207,181 | 27.5 | 85,217 | 41.1 |
| China | 121,614 | 12.7 | 71,463 | 9.5 | 50,151 | 70.2 |
| Sub-total | 765,933 | 79.9 | 527,961 | 70.0 | 237,972 | 45.1 |
| Japan | 193,220 | 20.1 | 225,986 | 30.0 | (32,766) | (14.5) |
| Total | 959,153 | 100.0 | 753,947 | 100.0 | 205,206 | 27.2 |

(Rounded off to the nearest million)

## (2) Analysis of Financial Condition

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

(Note) During the fiscal year ending March 31, 2018, the company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the March 2017 results.

#### (a) Assets

Current assets at the end of the fiscal year amounted to ¥597,829 million, an increase of 12.8%, or ¥67,630 million, from the previous fiscal year-end. This was due mainly to an increase of ¥35,139 million in trade receivables, and ¥20,101 million in inventories. Non-current assets amounted to ¥491,967 million, an increase of 2.1%, or ¥9,958 million, from the previous fiscal year-end. This was due mainly to an increase of ¥10,113 million in trade receivables, and ¥6,423 million in investments accounted for using the equity method, despite a decrease of ¥5,045 million in deferred tax assets.

As a result, total assets increased 7.7%, or ¥77,588 million, from the previous fiscal year-end to ¥1,089,796 million.

#### (b) Liabilities

Current liabilities amounted to ¥366,422 million, a decrease of 8.5%, or ¥34,113 million, from the previous fiscal year-end. This was primarily due to a decrease of ¥83,991 million in bonds and borrowings despite an increase of ¥62,508 million in trade and other payables. Non-current liabilities increased by 35.4%, or ¥57,101 million, from the previous fiscal year-end to ¥218,344 million. This was mainly due to an increase of ¥65,955 million in bonds and borrowings.

As a result, total liabilities increased by 4.1%, or ¥22,988 million, from the previous fiscal year-end to ¥584,766 million.

#### (c) Equity

Total equity increased by 12.1%, or ¥54,600 million, from the previous fiscal year-end to ¥505,030 million.

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

Cash and cash equivalents at the end of the fiscal year totaled ¥81,929 million, an increase of ¥16,474 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)**

Net cash provided by operating activities in the consolidated fiscal year based on ¥69,222 million in net income, and included ¥37,832 million in depreciation, a ¥53,337 million increase of trade payables as cash inflow, a ¥27,497 million increase in trade receivables, a ¥14,257 million increase in lease receivables, and a ¥24,664 million increase in inventories as cash outflow.

As a result, net cash provided by operating activities during the fiscal year totaled ¥84,528 million, a decrease of ¥3,433 million year on year.

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

Net cash used in investing activities during the fiscal year amounted to ¥37,562 million, a decrease of ¥37,048 million year on year. This was mainly due to an outlay of ¥16,887 million for capital expenditure and an outlay of ¥21,416 million for acquisition of investments in securities and other financial assets (including investments in associates).

As a result, free cash flows, the sum of net cash provided by operating activities and net cash used in investing activities, amounted to an inflow of ¥46,966 million.

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

Net cash used in financing activities during the fiscal year amounted ¥30,483 million, an increase of ¥4,666 million year on year. This was due mainly to a decrease of ¥33,864 million in short-term debt and, an outlay of ¥11,464 million in dividends paid (including dividends paid to non-controlling interests) despite an increasing of ¥19,542 in Proceeds from long-term debt and bond.

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

| | March 2018 | March 2017 | March 2016 |
|---|---|---|---|
| Equity attributable to owners of the parent ratio (%) | 41.2 | 39.5 | 42.7 |
| Equity attributable to owners of the parent ratio on a market price basis (%) | 80.1 | 58.3 | 41.0 |
| Interest-bearing debt to operating cash flow ratio (%) | 2.8 | 2.7 | 2.2 |
| Interest coverage ratio (times) | 16.6 | 24.9 | 22.0 |

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 a market price basis: Share market price/total assets
Interest-bearing debt to operating cash flow 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. The 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 al 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) Outlook for the Fiscal Year Ending March 2019

The company believes that there will be a slight increase in global hydraulic excavator demand in FY2018 (from April 1, 2018 to March 31, 2019) compared to that in FY2017, expecting continuous growth mainly in China, India, and North America. As for mining machinery, continuous increased demand in ultra large dump trucks and excavators is expected, led by an expected increase in miners' capital spending. With regards to the solution business, the company expects higher machine utilization resulting from increased mineral production.

Consequently, the company expects a slight decrease in sales, and decrease in profits for FY2018 due to a negative impact from the assumed foreign exchange rate. Under the above-mentioned circumstances, we will improve competitiveness by offering solutions to our customers through enhancement of the mining business and value chain centering on parts and service. Additionally, we are continuously reducing the cost of sales, keep proper inventory levels and increasing operational efficiency.

The assumed foreign exchange rate for this fiscal year is ¥100 for one US dollar, ¥120 for one euro, and ¥15.5 for one Chinese yuan.

Consolidated Earnings Forecast for the Full Year Ending March 31, 2019

| | 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) |
|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Yen |
| Forcast | 950,000 | 84,000 | 82,000 | 80,000 | 49,000 | 230 42 |
| Difference | (9,153) | (9,582) | (13,737) | (15,612) | (11,004) | |
| % Change | (1.0) | (10.2) | (14.3) | (16.3) | (18.3) | |
| Previous year ended Mar.31,2018 | 959,153 | 93,582 | 95,737 | 95,612 | 60,004 | 282 16 |

(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.

**(4) Business Risks**

The 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 Group’s business activities are subject to the effects of a wide range of factors such as market conditions, exchange rates and finance. The Group has identified the following risks as its primary risks based on information available as of March 31, 2018.

(1) Market conditions

Under the 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 economic fluctuation in each region.

(2) Foreign currency exchange rate fluctuations

Since the sales of the Group derived from outside Japan account for 80% in the fiscal year under review, the risk of exchange rate fluctuations has increased. Appreciation of the Japanese yen against major currencies such as the US dollar, European euro, and other currencies of emerging countries would have a significant adverse impact on the Group’s operational results. The Group strives to alleviate the effect of such fluctuations by enlarging the portion of local production, increasing parts import by international procurement, and having forward exchange contracts and conducting other hedging activities. However, there is no guarantee that our operational results are not adversely affected in the case that rates fluctuate beyond our projected range.

(3) Fluctuation in financial markets

The 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 ¥230,665 million in total as of March 31, 2018. Although the 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 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 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 Group’s operational results and financial condition.

(4) Procurement and production

Since the Group’s costs for parts and materials account for a large portion of manufacturing costs, their procurement is exposed to fluctuations in commodity prices in the market for materials. Price increases in commodities including steel may increase the manufacturing costs. Shortage of parts and materials causes difficulty in timely procurement and manufacture, and it may lower the 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 Group plans to reduce other costs via VEC (value engineering for customers) activities, and appropriately pass on the increase in material costs to the product prices. However, if the increases in material prices were to exceed the Group’s expectations or a prolonged shortage of materials and parts were to occur, there is a risk that the Group’s operational results may be adversely affected.

(5) Credit management

The 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. Since many customers utilize sales financing, despite receivables are not concentrated overwhelmingly in certain customers, there is a risk for the occurrence of bad debt due to the deterioration of customers' financial condition may adversely affect the Group's revenue.

(6) Public laws and tax practices

The Group's business operations are required to comply with increasingly stringent political measures, official restrictions, tax practices, 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, and laws and regulations regarding patents, intellectual properties, consumers, the environment and recycling, conditions of employment, taxation, etc. If such existing regulations were to be amended or tightened, the Group may be required to incur increased costs and pay larger amounts of tax. There is a risk that such additional compliance costs may adversely affect the Group's revenue.

(7) Product liability

While the 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 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 Group's existing insurance policies, we may be required to bear the cost thereto, which may decrease its revenue.

(8) Alliances and collaborative relationships

The 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 and extend its product development, production, sales, and service capabilities. The 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 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 Group employs appropriate safety measures, including reasonable technological safety measures and establishment of rules to handle confidential information and information management capabilities. If a leak of confidential information occurred, there is a risk that the reputation of the Group may be damaged and customers may lose confidence in the Group. In addition, there is also a risk that our intellectual property may be infringed upon by a third party, or a third party may claim that the Group is liable for infringing on such third party's intellectual property rights.

(10) Impact of natural and man-made disasters

The Group conducts its business operations on a global scale and maintains business facilities for development, production, supply, and other business activities in many countries. There is a risk of occurrence of natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, or condemnation and interference by third parties in regions in which the Group operates. These natural and anthropogenic disasters may cause damage to its facilities from which recovery cannot be made in short term and disrupt operations, procurement of materials and parts or their production, and sales and services. There is a risk that such delays or disruptions may adversely affect our operational results.

## 2. 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.

# 3. Consolidated Financial Statements
## (1) Consolidated Balance Sheets

(Millions of yen)

| | Current fiscal year-end As of Mar. 31, 2018 (A) | Previous fiscal year-end As of Mar. 31, 2017 (B) | (A)-(B) |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 81,929 | 65,455 | 16,474 |
| Trade receivables | 219,599 | 184,460 | 35,139 |
| Inventories | 255,623 | 235,522 | 20,101 |
| Income taxes receivable | 1,894 | 4,191 | (2,297) |
| Other financial assets | 28,029 | 27,626 | 403 |
| Other current assets | 10,342 | 12,868 | (2,526) |
| Subtotal | 597,416 | 530,122 | 67,294 |
| Assets held for sale | 413 | 77 | 336 |
| Total current assets | 597,829 | 530,199 | 67,630 |
| Non-current assets | | | |
| Property, plant and equipment | 299,987 | 297,843 | 2,144 |
| Intangible assets | 37,748 | 40,088 | (2,340) |
| Goodwill | 35,016 | 36,640 | (1,624) |
| Investments accounted for using the equity method | 29,549 | 23,126 | 6,423 |
| Trade receivables | 41,392 | 31,279 | 10,113 |
| Deferred tax assets | 17,463 | 22,508 | (5,045) |
| Other financial assets | 20,148 | 19,354 | 794 |
| Other non-current assets | 10,664 | 11,171 | (507) |
| Total non-current assets | 491,967 | 482,009 | 9,958 |
| Total assets | 1,089,796 | 1,012,208 | 77,588 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 268,230 | 205,722 | 62,508 |
| Bonds and borrowings | 69,892 | 153,883 | (83,991) |
| Income taxes payable | 11,000 | 4,063 | 6,937 |
| Other financial liabilities | 11,584 | 29,696 | (18,112) |
| Other current liabilities | 5,716 | 7,171 | (1,455) |
| Total current liabilities | 366,422 | 400,535 | (34,113) |
| Non-current liabilities | | | |
| Trade and other payables | 18,839 | 21,604 | (2,765) |
| Bonds and borrowings | 160,773 | 94,818 | 65,955 |
| Retirement and severance benefit | 17,341 | 16,768 | 573 |
| Deferred tax liabilities | 11,314 | 19,025 | (7,711) |
| Other financial liabilities | 2,354 | 577 | 1,777 |
| Other non-current liabilities | 7,723 | 8,451 | (728) |
| Total non-current liabilities | 218,344 | 161,243 | 57,101 |
| Total liabilities | 584,766 | 561,778 | 22,988 |
| Equity | | | |
| Equity attributable to owners of the parent | | | |
| Common stock | 81,577 | 81,577 | - |
| Capital surplus | 81,991 | 82,553 | (562) |
| Retained earnings | 279,201 | 228,026 | 51,175 |
| Accumulated other comprehensive income | 8,802 | 10,518 | (1,716) |
| Treasury stock, at cost | (3,069) | (3,055) | (14) |
| Total Equity attribute to owners of the parent | 448,502 | 399,619 | 48,883 |
| Non-controlling interests | 56,528 | 50,811 | 5,717 |
| Total equity | 505,030 | 450,430 | 54,600 |
| Total liabilities and equity | 1,089,796 | 1,012,208 | 77,588 |

## (2) Consolidated Statements of Income

(Millions of yen)

| | Current fiscal year For the year ended Mar. 31, 2018 (A) | Previous fiscal year For the year ended Mar. 31, 2017 (B) | (A)/(B)×100 (%) |
|---|---|---|---|
| Revenue | 959,153 | 753,947 | 127 |
| Cost of sales | (695,316) | (583,021) | 119 |
| Gross profit | 263,837 | 170,926 | 154 |
| Selling, general and administrative expenses | (170,255) | (142,661) | 119 |
| Adjusted operating income | 93,582 | 28,265 | 331 |
| Other income | 6,658 | 4,768 | 140 |
| Other expenses | (4,503) | (9,411) | 48 |
| Operating income | 95,737 | 23,622 | 405 |
| Financial income | 2,910 | 4,008 | 73 |
| Financial expenses | (7,390) | (3,460) | 214 |
| Share of profits of investments accounted for using the equity method | 4,355 | (311) | - |
| Income before income taxes | 95,612 | 23,859 | 401 |
| Income taxes | (26,390) | (9,669) | 273 |
| Net income | 69,222 | 14,190 | 488 |

| | | | |
|---|---|---|---|
| Net income attributable to | | | |
| Owners of the parent | 60,004 | 8,022 | 748 |
| Non-controlling interests | 9,218 | 6,168 | 149 |
| Total net income | 69,222 | 14,190 | 488 |

| | | | |
|---|---|---|---|
| EPS attributable to owners of the parent | | | |
| Net income per share (Basic) (yen) | 282.16 | 37.72 | 748 |
| Net income per share (Diluted) (yen) | 282.16 | 37.72 | 748 |

(Rounded off to the nearest million)

## (3) Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Current fiscal year For the year ended Mar. 31, 2018 (A) | Previous fiscal year For the year ended Mar. 31, 2017 (B) | (A)/(B)×100 (%) |
|---|---|---|---|
| Net income | 69,222 | 14,190 | 488 |
| Other comprehensive income | | | |
| Items that cannot be reclassified into net income | | | |
| Net gains and losses from financial assets measured at fair value through OCI | 1,444 | 2,916 | 50 |
| Remeasurements of defined benefit obligations | (378) | 3,142 | - |
| Other comprehensive income of equity method associates | 7 | 1 | 700 |
| Items that can be reclassified into net income | | | |
| Foreign currency translation adjustments | (2,425) | (8,284) | 29 |
| Cash flow hedges | 160 | (88) | - |
| Other comprehensive income of equity method associates | (313) | (206) | 152 |
| Other comprehensive income, net of taxes | (1,505) | (2,519) | 60 |
| Comprehensive income | 67,717 | 11,671 | 580 |
| Comprehensive income attributable to | | | |
| Owners of the parent | 58,437 | 7,876 | 742 |
| Non-controlling interests | 9,280 | 3,795 | 245 |

(Rounded off to the nearest million)

## (4) Consolidated Statements of Changes in Equity

### Year ended March 31, 2018

(Millions of yen)

| | Equity attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | | | | 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 period | 81,577 | 82,553 | 228,026 | (949) | 7,571 | (14) |
| Net income | | | 60,004 | | | |
| Other comprehensive income | | | | (283) | 1,451 | 163 |
| Comprehensive income | - | - | 60,004 | (283) | 1,451 | 163 |
| Acquisition of treasury stock | | | | | | |
| Sale of treasury stock | | | | | | |
| Dividends to stockholders of the Company | | | (9,357) | | | |
| Changes in ownership interests in subsidiaries without a loss of control | | (64) | | | | |
| Change in the scope of consolidation | | | | | | |
| Transfer to retained earnings | | | 30 | | (30) | |
| Expiration of subscription rights | | (498) | 498 | | | |
| Transaction with owners | - | (562) | (8,829) | - | (30) | - |
| Balance at end of period | 81,577 | 81,991 | 279,201 | (1,232) | 8,992 | 149 |

(Millions of yen)

| | Equity attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | |
| | Foreign currency translation adjustments | Total | Treasury stock, at cost | Total | Non-controlling interests | Total equity |
| Balance at beginning of period | 3,910 | 10,518 | (3,055) | 399,619 | 50,811 | 450,430 |
| Net income | | - | | 60,004 | 9,218 | 69,222 |
| Other comprehensive income | (2,898) | (1,567) | | (1,567) | 62 | (1,505) |
| Comprehensive income | (2,898) | (1,567) | - | 58,437 | 9,280 | 67,717 |
| Acquisition of treasury stock | | - | (14) | (14) | | (14) |
| Sale of treasury stock | | - | | - | | - |
| Dividends to stockholders of the Company | | - | | (9,357) | (1,700) | (11,057) |
| Changes in ownership interests in subsidiaries without a loss of control | (119) | (119) | | (183) | (1,880) | (2,063) |
| Change in the scope of consolidation | | - | | - | 17 | 17 |
| Transfer to retained earnings | | (30) | | - | | - |
| Expiration of subscription rights | | - | | - | | - |
| Transaction with owners | (119) | (149) | (14) | (9,554) | (3,563) | (13,117) |
| Balance at end of period | 893 | 8,802 | (3,069) | 448,502 | 56,528 | 505,030 |

## Year ended March 31, 2017

(Millions of yen)

| | Equity attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | | | | 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 period | 81,577 | 84,095 | 222,721 | (4,000) | 4,660 | 77 |
| Net income | | | 8,022 | | | |
| Other comprehensive income | | | | 3,051 | 2,913 | (91) |
| Comprehensive income | - | - | 8,022 | 3,051 | 2,913 | (91) |
| Acquisition of treasury stock | | | | | | |
| Sale of treasury stock | | | | | | |
| Dividends to stockholders of the Company | | | (2,978) | | | |
| Changes in ownership interests in subsidiaries without a loss of control | | (1,275) | | | | |
| Change in the scope of consolidation | | | | | (8) | |
| Transfer to retained earnings | | | (6) | | 6 | |
| Expiration of subscription rights | | (267) | 267 | | | |
| Transaction with owners | - | (1,542) | (2,717) | - | (2) | - |
| Balance at end of period | 81,577 | 82,553 | 228,026 | (949) | 7,571 | (14) |

(Millions of yen)

| | Equity attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated other comprehensive income | | | | | |
| | Foreign currency translation adjustments | Total | Treasury stock, at cost | Total | Non-controlling interests | Total equity |
| Balance at beginning of period | 9,884 | 10,621 | (3,051) | 395,963 | 60,853 | 456,816 |
| Net income | | - | | 8,022 | 6,168 | 14,190 |
| Other comprehensive income | (6,019) | (146) | | (146) | (2,373) | (2,519) |
| Comprehensive income | (6,019) | (146) | - | 7,876 | 3,795 | 11,671 |
| Acquisition of treasury stock | | - | (4) | (4) | | (4) |
| Sale of treasury stock | | - | | - | | - |
| Dividends to stockholders of the Company | | - | | (2,978) | (7,290) | (10,268) |
| Changes in ownership interests in subsidiaries without a loss of control | 45 | 45 | | (1,230) | 850 | (380) |
| Changes in the scope of consolidation | | (8) | | (8) | (7,397) | (7,405) |
| Transfer to retained earnings | | 6 | | - | | - |
| Expiration of subscription rights | | - | | - | | - |
| Transaction with owners | 45 | 43 | (4) | (4,220) | (13,837) | (18,057) |
| Balance at end of period | 3,910 | 10,518 | (3,055) | 399,619 | 50,811 | 450,430 |

## (5) Consolidated Statements of Cash Flows

(Millions of yen)

| | Current fiscal year For the year ended Mar. 31, 2018 (A) | Previous fiscal year For the year ended Mar. 31, 2017 (B) |
|---|---|---|
| Net income | 69,222 | 14,190 |
| Depreciation | 32,306 | 30,680 |
| Amortization of intangible asset | 5,526 | 3,284 |
| Impairment losses | 549 | 3,883 |
| Gains on business restructuring | - | (933) |
| Income tax expense | 26,390 | 9,669 |
| Equity in net earnings of associates | (4,355) | 311 |
| (Gain) loss on sales of property, plant and equipment | (574) | (51) |
| Financial income | (2,910) | (4,008) |
| Financial expense | 7,390 | 3,460 |
| (Increase) decrease in trade receivables | (27,497) | (1,482) |
| (Increase) decrease in lease receivables | (14,257) | (4,754) |
| (Increase) decrease in inventories | (24,664) | 28,974 |
| Increase (decrease) in trade payables | 53,337 | 20,580 |
| Increase (decrease) in retirement and severance benefit | (248) | 2,704 |
| Other | (17,667) | (3,152) |
| **Subtotal** | 102,548 | 103,355 |
| Interest received | 2,548 | 2,573 |
| Dividends received | 1,179 | 593 |
| Interest paid | (5,089) | (3,534) |
| Income tax paid | (16,658) | (15,026) |
| **Net cash provided by operating activities** | 84,528 | 87,961 |
| Capital expenditures | (16,887) | (13,999) |
| Proceeds from sale of property, plant and equipment | 4,603 | 1,998 |
| Acquisition of intangible assets | (4,464) | (3,304) |
| Acquisition of investments in securities and other financial assets (including investments in associates) | (21,416) | (56,070) |
| Sales of investments in securities and other financial assets (including investments in associates) | 469 | (3,807) |
| (Increase) decrease in short-term loan receivables, net | 116 | 63 |
| Collection of long-term loan receivables | 88 | 172 |
| Other | (71) | 337 |
| **Net cash provided by (used in) investing activities** | (37,562) | (74,610) |
| Increase (decrease) in short-term debt, net | (33,864) | 24,232 |
| Proceeds from long-term debt and bond | 90,386 | 39,143 |
| Payments on long-term debt | (70,844) | (69,883) |
| Payments on lease payables | (4,700) | (5,556) |
| Dividends paid to owners of the parent | (9,361) | (3,005) |
| Dividends paid to non-controlling interests | (2,103) | (7,862) |
| Purchase of shares of consolidated subsidiaries from non-controlling interests | - | (2,882) |
| Other | 3 | (4) |
| **Net cash provided by (used in) financing activities** | (30,483) | (25,817) |
| Effect of exchange rate changes on cash and cash equivalents | (9) | (1,189) |
| **Net increase (decrease) in cash and cash equivalents** | 16,474 | (13,655) |
| **Cash and cash equivalents at beginning of period** | 65,455 | 79,110 |
| **Cash and cash equivalents at end of period** | 81,929 | 65,455 |

## (6)Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)
There are no relevant items.

(Important matters for compiling consolidated financial statements)

**1. Scope of consolidation**

Numbers of consolidated subsidiaries: 84

(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 Construction Machinery (China) Co., Ltd.
5) Hitachi Construction Machinery (Shanghai) Co., Ltd.
6) Tata Hitachi Construction Machinery Company Private Limited.
7) Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
8) P.T. Hitachi Construction Machinery Indonesia
9) Hitachi Construction Machinery (Europe) N.V.
10) Hitachi Construction Machinery Holding U.S.A. Corporation
11) Hitachi Construction Truck Manufacturing Ltd.
12) H-E Parts International LLC
13) Bradken Limited

(2) Number of companies included in consolidation during the fiscal year ended March 31, 2018: 2

1) Increase by newly established
H-E Parts International Zambia Co., Ltd and 1 other

(3) Number of companies excluded from consolidation during the fiscal year ended March 31, 2018: 3

1) Decrease by Merger:2
LLC Hitachi Construction Machinery Eurasia Sales and 1 other
2) Other
Decrease by liquidation: 1

**2. Application of the equity method**

Numbers of affiliates accounted for by the equity method: 21

(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
5) Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

(2) Number of companies including equity-method affiliates during the fiscal year ended March 31, 2018: 9

1) Increase by newly invested: 9

(3) Number of affiliates not accounted for by the equity method: 4

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

Below is a list of the consolidation 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: 11

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

(Segment Information)

**1. Reportable segment information**

1) Overview of business segments

The operating segments of the Group are the components for which separate financial information is available and that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The reportable segments are determined based on the operating segment.

Taking into consideration the nature of products and services as well as categories, types of customers, and economic characteristics in a comprehensive manner, the company determines to classify two reportable segments as follows: The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle solutions related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large hydraulic excavators, and wheeled loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide services, production, and distribution parts that are not included in the Construction Machinery Business Segment.

2) Revenue, profit or loss, and other items of business segments

For the year ended March 31, 2018

(Millions of yen)

| | Reportable segment | | | Adjustments (*1) | Total |
|---|---|---|---|---|---|
| | Construction Machinery Business | Solution Business | Total | | |
| Revenue | | | | | |
| External customers | 866,866 | 92,287 | 959,153 | - | 959,153 |
| Intersegment transactions | - | 351 | 351 | (351) | - |
| Total revenues | 866,866 | 92,638 | 959,504 | (351) | 959,153 |
| Adjusted operating income | 91,157 | 2,425 | 93,582 | - | 93,582 |
| Operating income | 93,509 | 2,228 | 95,737 | - | 95,737 |
| Financial income | - | - | - | - | 2,910 |
| Financial expenses | - | - | - | - | (7,390) |
| Share of profits (losses) of investments accounted for using the equity method | 4,355 | - | 4,355 | - | 4,355 |
| Income before income taxes | 97,864 | 2,228 | 100,092 | (4,480) | 95,612 |
| Segment assets | 978,981 | 110,945 | 1,089,926 | (130) | 1,089,796 |
| Segment liabilities | 530,554 | 61,955 | 592,509 | (7,743) | 584,766 |
| Other items: | | | | | |
| Depreciation and amortization | (31,800) | (6,032) | (37,832) | - | (37,832) |
| Impairment losses | (549) | - | (549) | - | (549) |
| Gain on business restructuring | - | - | - | - | - |
| Business structure reform expenses | (59) | (1,326) | (1,385) | - | (1,385) |
| Investments accounted for using the equity method | 29,549 | - | 29,549 | - | 29,549 |

Note (*1): Adjustments represent eliminations of intersegment transactions, and amounts of companies that do not belong to any operating segment.

For the year ended March 31, 2017

(Millions of yen)

| | Reportable segment | | | Adjustments (*1) | Total |
|---|---|---|---|---|---|
| | Construction Machinery Business | Solution Business | Total | | |
| Revenue | | | | | |
| External customers | 747,256 | 6,691 | 753,947 | - | 753,947 |
| Intersegment transactions | - | - | - | - | - |
| Total revenues | 747,256 | 6,691 | 753,947 | - | 753,947 |
| Adjusted operating income | 27,813 | 452 | 28,265 | - | 28,265 |
| Operating income | 23,066 | 556 | 23,622 | - | 23,622 |
| Financial income | - | - | - | - | 4,008 |
| Financial expenses | - | - | - | - | (3,460) |
| Share of profits (losses) of investments accounted for using the equity method | (311) | - | (311) | - | (311) |
| Income before income taxes | 22,755 | 556 | 23,311 | 548 | 23,859 |
| Segment assets | 869,218 | 152,303 | 1,021,521 | (9,313) | 1,012,208 |
| Segment liabilities | 496,489 | 74,602 | 571,091 | (9,313) | 561,788 |
| Other items: | | | | | |
| Depreciation and amortization | (33,847) | (117) | (33,964) | - | (33,964) |
| Impairment losses | (3,883) | - | (3,883) | - | (3,883) |
| Gain on business restructuring | 933 | - | 933 | - | 933 |
| Business structure reform expenses | (479) | - | (479) | - | (479) |
| Investments accounted for using the equity method | 23,126 | - | 23,126 | - | 23,126 |

Note (*1): Adjustments represent eliminations of intersegment transactions, and amounts of companies that do not belong to any operating segment.

**2. Information on products and services**

The following tables show revenue from outside customers by product and service for the year ended March 31, 2018 and 2017.

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Mining machinery | 137,740 | 120,824 |
| Construction machinery and others | 821,413 | 633,123 |
| Total | 959,153 | 753,947 |

(Note on consolidated statements of income)

The main components of other income for the years ended March 31, 2018 and 2017 are as follows:

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Gain on sales of property, plants, and equipment | 623 | 223 |
| Subsidy income | 453 | 121 |
| Gain on business restructuring (note ) | - | 933 |
| Other | 5,582 | 3,491 |
| Total | 6,658 | 4,768 |

(Note on gain on business restructuring)

Gain on business restructuring for the year ended March 31, 2017 is mainly recognized for sales of the Company's portion of shares in Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., which was a subsidiary of the Group.

The main components of other expenses for the years ended March 31, 2018 and 2017 are as follows:

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Loss on sales of property, plants, and equipment | 49 | 172 |
| Loss on disposal of property, plants, and equipment | 514 | 548 |
| Impairment of property, plants, and equipment | 549 | 3,883 |
| Business structure improvement expenses (note ) | 1,385 | 479 |
| Other | 2,006 | 4,329 |
| Total | 4,503 | 9,411 |

(Note on gain on business structure improvement expenses)
Business structure improvement expenses recognized for the year ended March 31, 2018 and the year ended March 31, 2017 include a special severance payment and so forth.

(Note on Business Combination)

For the year ended March 31, 2018

Allocation of the acquisition cost to the acquired assets and liabilities from the acquisition of H-E Parts was completed.

On December 21, 2016, the company acquired 100% of the voting shares of H-E Parts International LLC and H-E Parts Australian Holdings LLC (collectively "H-E Parts"), and H-E Parts became a consolidated subsidiary of the Group. The company completed the allocation of the acquisition cost in the second quarter/six months ended September 30, 2017 although it recognized the amounts of acquired assets and liabilities on a provisional basis since the allocation of the acquisition cost was not completed in the previous fiscal year. Consideration of the share acquisition of H-E Parts and fair value of assets acquired and liabilities assumed are as follows.

(Millions of yen)

| Category | H-E Parts International LLC | H-E Parts Australian Holdings LLC | Total amount |
|---|---|---|---|
| Cash and cash equivalents | 217 | 289 | 506 |
| Trade receivables | 1,922 | 2,637 | 4,559 |
| Inventories | 5,374 | 4,569 | 9,943 |
| Property, plants, and equipment | 597 | 804 | 1,401 |
| Intangible assets | 4,265 | 7,156 | 11,421 |
| Others | 621 | 657 | 1,278 |
| Total assets | 12,996 | 16,112 | 29,108 |
| Trade and other payables | 1,980 | 2,776 | 4,756 |
| Bonds and borrowings | 4,820 | 3,535 | 8,355 |
| Other liabilities | 1,642 | 2,476 | 4,118 |
| Total liabilities | 8,442 | 8,787 | 17,229 |
| Consideration paid (cash) | | | 19,834 |
| Goodwill (non-deductible for tax expense) | | | 7,955 |

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

The company revised numbers as of March 2017 retroactively which are disclosed as comparative information. The goodwill on the acquisition date was decreased by ¥6,511 million as the main component of the revision from the provisional amount. This was due to a ¥700 million increase in inventories, a ¥9,212 million increase in intangible assets, and a ¥3,401 million increase in deferred tax liabilities, and so forth.

Allocation of the acquisition cost to the acquired assets and liabilities from the acquisition of Bradken Limited was completed.

On March 20, 2017, Bradken Limited became a consolidated subsidiary of the Group through the acquisition of voting shares by the company. The company completed the allocation of the acquisition cost in the fourth quarter/twelve months ended March 31, 2018 although it recognized the amounts of acquired assets and liabilities on a provisional basis since the allocation of the acquisition cost was not completed in the previous fiscal year. Consideration of the share acquisition of Bradken Limited and fair value of assets acquired and liabilities assumed are as follows.

(Millions of yen)

| Category | Total amount |
|---|---:|
| Cash and cash equivalents | 3,572 |
| Trade receivables | 8,349 |
| Inventories | 17,593 |
| Property, plants, and equipment | 36,188 |
| Intangible assets | 19,870 |
| Deferred tax assets | 4,803 |
| Others | 4,255 |
| Total assets | 94,630 |
| Trade and other payables | 13,729 |
| Bonds and borrowings | 31,427 |
| Retirement and severance benefit | 1,220 |
| Other liabilities | 10,432 |
| Total liabilities | 56,808 |
| Consideration paid (cash) | 58,614 |
| Goodwill (non-deductible for tax expense) | 20,792 |

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

The company revised numbers as of March 2017 retroactively which are disclosed as comparative information. The goodwill on the acquisition date was decreased by ¥13,930 million as the main component of the revision from the provisional amount. This was due to a ¥2,457 million increase in inventories, a ¥5,700 million increase in property, plants, and equipment, a ¥14,970 million increase in intangible assets, and a ¥9,197 million increase in deferred tax liabilities, and so forth.

(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, 2018 and 2017 are as follows:

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Net income attributable to owners of the parent | 60,004 | 8,022 |
| Net income attributable to owners of the Parent (diluted) | 60,004 | 8,022 |

(Number of shares)

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Weighted average number of common shares outstanding | 212,659,005 | 212,662,072 |
| Dilutive effect of stock options | - | - |
| Weighted average number of common shares outstanding - diluted | 212,659,005 | 212,662,072 |

(Yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Net income attributable to owners of the parent per share (basic) | 282.16 | 37.72 |
| Net income attributable to owners of the parent per share (diluted) | 282.16 | 37.72 |

| | For the year ended March 31, 2018 | For the year ended March 31, 2017 |
|---|---|---|
| Summary of dilutive shares not included the calculation of diluted earnings per share (attributed to owners of the parent) due to no dilutive effect | - | 3,320 shares of subscription rights to shares as a result of a special resolution at the Annual Meeting of Shareholders dated June 25, 2007 |

(Important subsequent events)

There are no relevant items.

(English translation of "KESSAN TANSHIN" originally issued in the Japanese language.)