

Consolidated Financial Results for the First Quarter Ended June 30, 2018 (IFRS)

July 25, 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 for submission of the Quarterly Securities Report: August 8, 2018

Scheduled date of commencement of payment of dividends: —

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 first quarter ended June (April 1, 2018 to June 30, 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	%
June 30, 2018	240,211	13.6	27,586	64.6	25,026	44.0	18,295	60.5	15,711	64.4	14,438	(1.9)
June 30, 2017	211,499	31.1	16,763	584.5	17,376	—	11,396	—	9,554	—	14,724	—

"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 first quarter ended June is as below.

June 30, 2018: ¥25,717million YoY 52.0 % June 30, 2017: ¥16,919 million YoY 361.5%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
June 30, 2018	Yen 73.88	Yen 73.88
June 30, 2017	44.93	44.93

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

June 30, 2018: ¥350million June 30, 2017: ¥915million

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio
	Millions of yen	Millions of yen	Millions of yen	%
June 30, 2018	1,102,392	508,991	450,390	40.9
March 31, 2018	1,089,796	505,030	448,502	41.2

2. Dividends status

	Cash dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2018	—	36.0	—	49.0	85.0
March 31, 2019	—	—	—	—	—
March 31, 2019 (Projection)	—	—	—	—	—

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

Note: Changes involving the dividend states for the fiscal year ending March 2019: None

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.

2) Changes in consolidated earnings forecast: None

"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	Yes
[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)

June 2018	215,115,038
March 2018	215,115,038

[2] Number of treasury shares

June 2018	2,458,523
March 2018	2,457,970

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

June 2018	212,656,834
June 2017	212,660,521

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, (3) Outlook for the Fiscal Year Ending March 2019" of the attachment for conditions serving as assumptions for results forecasts.

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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 in addition to the existing parts & service business, we are expanding the value chain (Parts & services, Solution business, Rental etc. other than new machine sales) by enhancing the parts & service business for mining machines and facilities provided by H-E Parts and Bradken, HCM’s consolidated subsidiary, which we acquired in FY2016. Additionally, we are working to enhance operational efficiency by establishing a management scheme to build customer satisfaction, expand its market share, and reduce cost.

Consolidated revenue for this term (April 1, 2018 to June 30, 2018) increased by 13.6% year on year to ¥240,211 million due to increased sales of new machines mainly in Asia and Oceania, the Americas, China and Europe, as well as increased sales of the value chain business mainly from parts & services.

Adjusted operating income increased by 64.6% year on year to ¥27,586 million, operating income increased by 52.0% to ¥25,717 million, and net income attributable to the owners of the parent increased by 64.4% to ¥15,711million due to a decrease in the cost of sales and SGA, in addition to the contribution of parts & service business and mining business.

Business results by segment are described below.

1. Construction machinery business

Demand for hydraulic excavators increased globally year on year except in Japan and the Middle East. We promoted enhancement of the parts & service business through a globally launched service called “ConSite,” which assists customers in managing their machines comprehensively, as well as expansion of the parts supply network to improve the profit structure. We added the newly launched “ConSite OIL,” 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, as well as “ConSite Shot” which assists sales dealers in issuing inspection reports of machines at work site and in making proposals, to the menus of “ConSite,” to contribute to reducing customers’ lifecycle costs. 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 the ICT demonstration sites that we established in Hitachi-Naka City of Ibaraki Prefecture and in Zentsuji City of Kagawa 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 aggressively developing an autonomous haulage system to optimize the mining operations that we promote jointly with Whitehaven Coal in Australia, by taking advantage of Hitachi Group’s strengths. Furthermore, we have been working to establish a highly controlled customer support system for higher customer satisfaction by proposing replacements of main parts in a timely manner to enlarge revenue from parts & services.

Consolidated revenue of the construction machinery business for this term (April 1, 2018 to June 30, 2018) increased by 15.6% year on year to ¥216,458 million, and adjusted operating income increased by 82.5% to ¥26,404 million.

2. Solution business

This segment consists of H-E Parts and Bradken, which we acquired in FY2016. 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, 2018 to June 30, 2018) decreased by 2.0% year on year to ¥24,103 million because of the steady contribution to its revenue from solutions for mining machines in Latin America, etc., and the impact of forex in American & Australian dollars. Adjusted operating income decreased by 48.4% to ¥1,182 million due to an increase in temporary expenses of amortization for intangible assets, and elimination and consolidation of an acquired subsidiary, etc.

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 June 2018.

(Millions of yen)

	Current consolidated cumulative first quarter	Previous consolidated cumulative first quarter	Year-on-year change	
	(April 1, 2018- June 30, 2018) (A)	(April 1, 2017- June 30, 2017) (B)	(A)-(B)	(A)/(B)-1 (%)
Revenue	240,211	211,499	28,712	13.6
Adjusted operating income*	27,586	16,763	10,823	64.6
Operating income	25,717	16,919	8,798	52.0
Income before income taxes	25,026	17,376	7,650	44.0
Net income attributable to owners of the parent	15,711	9,554	6,157	64.4

(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:

	Current consolidated cumulative first quarter		Previous consolidated cumulative first quarter		Increase (Decrease)	
	(April 1, 2018- June 30, 2018)		(April 1, 2017- June 30, 2017)			
	Revenue (Millions of yen) (A)	Proportion (%)	Revenue (Millions of yen) (B)	Proportion (%)	Change (Millions of yen) (A)-(B)	% Change (%) (A)/(B)-1
North America	38,316	16.0	32,339	15.3	5,977	18.5
Central and South America	4,769	2.0	3,848	1.8	921	23.9
The Americas	43,085	17.9	36,187	17.1	6,898	19.1
Europe	28,621	11.9	25,577	12.1	3,044	11.9
Russia-CIS	6,196	2.6	4,654	2.2	1,542	33.1
Africa	9,437	3.9	9,444	4.5	(7)	(0.1)
Middle East	4,443	1.8	3,451	1.6	992	28.7
Russia-CIS, Africa, and the Middle East	20,076	8.4	17,549	8.3	2,527	14.4
Asia	18,210	7.6	14,966	7.1	3,244	21.7
India	16,593	6.9	15,472	7.3	1,121	7.2
Oceania	41,980	17.5	34,835	16.5	7,145	20.5
Asia and Oceania	76,783	32.0	65,273	30.9	11,510	17.6
China	32,194	13.4	26,506	12.5	5,688	21.5
Sub-total	200,759	83.6	171,092	80.9	29,667	17.3
Japan	39,452	16.4	40,407	19.1	(955)	(2.4)
Total	240,211	100.0	211,499	100.0	28,712	13.6

(Rounded off to the nearest million)

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

(2) Analysis of Financial Condition

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

(a) Assets

Current assets at the end of the first quarter amounted to ¥616,033 million, an increase of 3.0%, or ¥18,204 million, from the previous fiscal year-end. This was due mainly to an increase of ¥26,295 million in inventories. Non-current assets amounted to ¥486,359 million, a decrease of 1.1%, or ¥5,608 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥4,414 million in property, plant and equipment.

As a result, total assets increased 1.2%, or ¥12,596 million, from the previous fiscal year-end to ¥1,102,392 million.

(b) Liabilities

Current liabilities amounted to ¥407,645 million, an increase of 11.3%, or ¥41,223 million, from the previous fiscal year-end. This was primarily due to an increase of ¥72,565 million in bonds and borrowings despite a decrease of ¥22,598 million in trade and other payables.

Non-current liabilities decreased by 14.9%, or ¥32,588 million, from the previous fiscal year-end to ¥185,756 million. This was mainly due to a decrease of ¥28,866 million in bonds and borrowings.

As a result, total liabilities increased by 1.5%, or ¥8,635 million, from the previous fiscal year-end to ¥593,401 million.

(c) Equity

Total equity increased by 0.8%, or ¥3,961 million, from the previous fiscal year-end to ¥508,991million.

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

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the first quarter totaled ¥81,090 million, a decrease of ¥839 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

(Net cash provided by (used in) operating activities)

Net cash provided by (used in) operating activities for the first quarter based on ¥18,295 million in net income, and included ¥7,828 million in depreciation, a ¥13,657 million decrease of trade receivables as cash inflow, a ¥14,955 million decrease in trade payables, a ¥922 million increase in lease receivables, a ¥27,999 million increase in inventories, and a ¥13,753 million income tax paid as cash outflow.

As a result, net cash used in operating activities for the first quarter totaled ¥26,797 million, a decrease of ¥36,183 million of cash inflow year on year.

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

Net cash used in investing activities for the first quarter amounted to ¥4,791 million, a decrease of ¥16,933 million year on year. This was mainly due to a ¥2,755 million of proceeds from sale of property despite of ¥4,996 million for capital expenditure.

As a result, free cash flows, the sum of net cash used in operating activities and net cash used in investing activities, amounted to an outflow of ¥31,588 million.

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

Net cash provided by financing activities for the first quarter amounted ¥31,697 million, an increase of ¥12,546 million year on year. This was due mainly to an increase of ¥39,715 million in short-term debt and an increasing of ¥3,849 in Proceeds from long-term debt and bond, an outlay of ¥10,421 million in dividends paid (including dividends paid to non-controlling interests).

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

(3) Outlook for the Fiscal Year Ending March 2019

Regarding global hydraulic excavator demand in FY2018 (from April 1, 2018 to March 31, 2019), demand for the second quarter onward will be a slight increase as our original forecast while demand for the first quarter was strong. As for mining machinery, continuous increased demand for ultra large dump trucks and excavators is expected as we originally estimate, led by an expected continuing increase in miners' capital spending.

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 and increasing operational efficiency.

Under these circumstances, the previous consolidated earnings forecast for FY2018 for the HCM group (From April 1, 2018 to March 31, 2019) that we announced on April 26, 2018 remains unchanged because of uncertainty in the global economy such as trade conflicts and the depreciation trend of emerging countries' currencies, although market situation was strong in the first quarter.

The assumed foreign exchange rate applied after July onward is also unchanged and is ¥100 for one US dollar, ¥120 for one euro, and ¥15.5 for one Chinese yuan.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	First quarter As of Jun. 30, 2018 (A)	Previous fiscal year-end As of Mar. 31, 2018 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	81,090	81,929	(839)
Trade receivables	204,787	219,599	(14,812)
Inventories	281,918	255,623	26,295
Other financial assets	31,444	29,923	1,521
Other current assets	13,550	10,342	3,208
Subtotal	612,789	597,416	15,373
Assets held for sale	3,244	413	2,831
Total current assets	616,033	597,829	18,204
Non-current assets			
Property, plant and equipment	295,573	299,987	(4,414)
Intangible assets	37,987	37,748	239
Goodwill	35,054	35,016	38
Investments accounted for using the equity method	27,949	29,549	(1,600)
Trade receivables	41,210	41,392	(182)
Deferred tax assets	17,660	17,463	197
Other financial assets	20,074	20,148	(74)
Other non-current assets	10,852	10,664	188
Total non-current assets	486,359	491,967	(5,608)
Total assets	1,102,392	1,089,796	12,596
Liabilities			
Current liabilities			
Trade and other payables	245,632	268,230	(22,598)
Bonds and borrowings	142,457	69,892	72,565
Income taxes payable	4,688	11,000	(6,312)
Other financial liabilities	11,463	11,584	(121)
Other current liabilities	3,405	5,716	(2,311)
Total current liabilities	407,645	366,422	41,223
Non-current liabilities			
Trade and other payables	17,496	18,839	(1,343)
Bonds and borrowings	131,907	160,773	(28,866)
Retirement and severance benefit	17,194	17,341	(147)
Deferred tax liabilities	10,996	11,314	(318)
Other financial liabilities	1,409	2,354	(945)
Other non-current liabilities	6,754	7,723	(969)
Total non-current liabilities	185,756	218,344	(32,588)
Total liabilities	593,401	584,766	8,635
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	81,991	81,991	-
Retained earnings	284,469	279,201	5,268
Accumulated other comprehensive income	5,424	8,802	(3,378)
Treasury stock, at cost	(3,071)	(3,069)	(2)
Total Equity attribute to owners of the parent	450,390	448,502	1,888
Non-controlling interests	58,601	56,528	2,073
Total equity	508,991	505,030	3,961
Total liabilities and equity	1,102,392	1,089,796	12,596

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated cumulative quarter

Consolidated Statements of Income

(Millions of yen)

	First quarter Three months ended Jun. 30, 2018 (A)	First quarter Three months ended Jun. 30, 2017 (B)	(A)/(B)×100 (%)
Revenue	240,211	211,499	114
Cost of sales	(169,996)	(155,619)	109
Gross profit	70,215	55,880	126
Selling, general and administrative expenses	(42,629)	(39,117)	109
Adjusted operating income	27,586	16,763	165
Other income	1,663	1,865	89
Other expenses	(3,532)	(1,709)	207
Operating income	25,717	16,919	152
Financial income	1,688	857	197
Financial expenses	(2,729)	(1,315)	208
Share of profits of investments accounted for using the equity method	350	915	38
Income before income taxes	25,026	17,376	144
Income taxes	(6,731)	(5,980)	113
Net income	18,295	11,396	161
Net income attributable to			
Owners of the parent	15,711	9,554	164
Non-controlling interests	2,584	1,842	140
Total net income	18,295	11,396	161
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	73.88	44.93	164
Net income per share (Diluted) (yen)	73.88	44.93	164

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	First quarter Three months ended Jun. 30, 2018 (A)	First quarter Three months ended Jun. 30, 2017 (B)	(A)/(B)×100 (%)
Net income	18,295	11,396	161
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	(90)	468	-
Remeasurements of defined benefit obligations	(46)	(59)	78
Other comprehensive income of equity method associates	-	-	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	(2,884)	3,985	-
Cash flow hedges	32	(614)	-
Other comprehensive income of equity method associates	(869)	(452)	192
Other comprehensive income, net of taxes	(3,857)	3,328	-
Comprehensive income	14,438	14,724	98
Comprehensive income attributable to			
Owners of the parent	12,278	12,447	99
Non-controlling interests	2,160	2,277	95

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
First quarter three months ended Jun. 30, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				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	81,991	279,201	(1,232)	8,992	149
Cummulative impact of change in accounting policy			32			
Balance at beginning of period reflected change in accounting policy	81,577	81,991	279,233	(1,232)	8,992	149
Net income			15,711			
Other comprehensive income				(28)	(90)	32
Comprehensive income	-	-	15,711	(28)	(90)	32
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(10,420)			
Transfer to retained earnings			(55)		55	
Expiration of subscription rights						
Transaction with owners	-	-	(10,475)	-	55	-
Balance at end of period	81,577	81,991	284,469	(1,260)	8,957	181

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	893	8,802	(3,069)	448,502	56,528	505,030
Cummulative impact of change in accounting policy		-		32		32
Balance at beginning of period reflected change in accounting policy	893	8,802	(3,069)	448,534	56,528	505,062
Net income		-		15,711	2,584	18,295
Other comprehensive income	(3,347)	(3,433)		(3,433)	(424)	(3,857)
Comprehensive income	(3,347)	(3,433)	-	12,278	2,160	14,438
Acquisition of treasury stock			(2)	(2)		(2)
Sale of treasury stock						
Dividends to stockholders of the Company				(10,420)	(87)	(10,507)
Transfer to retained earnings		55				
Expiration of subscription rights						
Transaction with owners	-	55	(2)	(10,422)	(87)	(10,509)
Balance at end of period	(2,454)	5,424	(3,071)	450,390	58,601	508,991

Consolidated cumulative quarter
First quarter three months ended Jun. 30, 2017

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				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			9,554			
Other comprehensive income				(37)	468	(614)
Comprehensive income	-	-	9,554	(37)	468	(614)
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(1,701)			
Transfer to retained earnings						
Expiration of subscription rights		(498)	498			
Transaction with owners	-	(498)	(1,203)	-	-	-
Balance at end of period	81,577	82,055	236,377	(986)	8,039	(628)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	3,910	10,518	(3,055)	399,619	50,811	450,430
Net income				9,554	1,842	11,396
Other comprehensive income	3,076	2,893		2,893	435	3,328
Comprehensive income	3,076	2,893	-	12,447	2,277	14,724
Acquisition of treasury stock			(3)	(3)		(3)
Sale of treasury stock						
Dividends to stockholders of the Company				(1,701)		(1,701)
Transfer to retained earnings						
Expiration of subscription rights						
Transaction with owners	-	-	(3)	(1,704)	-	(1,704)
Balance at end of period	6,986	13,411	(3,058)	410,362	53,088	463,450

(4) Consolidated Statements of Cash Flows

Consolidated cumulative quarter

(Millions of yen)

	First quarter Three months ended Jun. 30, 2018	First quarter Three months ended Jun. 30, 2017
Net income	18,295	11,396
Depreciation	7,828	7,832
Amortization of intangible asset	1,101	831
Impairment losses	1,224	236
Income tax expense	6,731	5,980
Equity in net earnings of associates	(350)	(915)
(Gain) loss on sales of property, plant and equipment	(155)	(56)
Financial income	(1,688)	(857)
Financial expense	2,729	1,315
(Increase) decrease in trade receivables	13,657	10,861
(Increase) decrease in lease receivables	(922)	(2,947)
(Increase) decrease in inventories	(27,999)	(14,989)
Increase (decrease) in trade payables	(14,955)	10,315
Increase (decrease) in retirement and severance benefit	(235)	(235)
Other	(18,493)	(13,627)
Subtotal	(13,232)	15,140
Interest received	629	666
Dividends received	750	773
Interest paid	(1,191)	(1,569)
Income tax paid	(13,753)	(5,624)
Net cash provided by (used in) operating activities	(26,797)	9,386
Capital expenditures	(4,996)	(2,966)
Proceeds from sale of property, plant and equipment	2,755	676
Acquisition of intangible assets	(1,349)	(697)
Acquisition of investments in securities and other financial assets (including investments in associates)	-	(17,625)
(Increase) decrease in short-term loan receivables, net	(1,199)	(1,103)
Collection of long-term loan receivables	3	6
Other	(5)	(15)
Net cash provided by (used in) investing activities	(4,791)	(21,724)
Increase (decrease) in short-term debt, net	39,715	13,807
Proceeds from long-term debt and bond	5,244	17,945
Payments on long-term debt	(1,395)	(9,760)
Payments on lease payables	(1,444)	(1,129)
Dividends paid to owners of the parent	(10,421)	(1,701)
Dividends paid to non-controlling interests	-	(8)
Other	(2)	(3)
Net cash provided by (used in) financing activities	31,697	19,151
Effect of exchange rate changes on cash and cash equivalents	(948)	576
Net increase (decrease) in cash and cash equivalents	(839)	7,389
Cash and cash equivalents at beginning of period	81,929	65,455
Cash and cash equivalents at end of period	81,090	72,844

(5)Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There are no relevant items.

(Changes in Accounting Policies)

Beginning from the fiscal year 2018, the Group has adopted IFRS 9 “Financial instruments” (Amended in July 2014) though the Group adopted IFRS 9 “Financial instruments” (issued in November 2009, amended in October 2010) in the previous fiscal year. When applying IFRS 9, the group applied retrospectively as a transition measure and recognized the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of this fiscal year. The effect of the application of this standard on the Group’s opening balance of retained earnings, and interim consolidated financial statements is immaterial.

Beginning from the fiscal year 2018, the group has adopted IFRS 15 “Revenues from contracts with customers”. When applying IFRS 15, the group applied retrospectively as a transition measure and recognized the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of this fiscal year. The effect of the application of this standard on the Group’s opening balance of retained earnings, and interim consolidated financial statements is immaterial.

(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

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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 first quarter three months ended Jun. 30, 2018

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	216,225	23,986	240,211	-	240,211
Intersegment transactions	233	117	350	(350)	-
Total revenues	216,458	24,103	240,561	(350)	240,211
Adjusted operating income	26,404	1,182	27,586	-	27,586
Operating income (loss)	26,774	(1,057)	25,717	-	25,717
Financial income	-	-	-	1,688	1,688
Financial expenses	-	-	-	(2,729)	(2,729)
Share of profits (losses) of investments accounted for using the equity method	350	-	350	-	350
Income (loss) before income taxes	27,124	(1,057)	26,067	(1,041)	25,026

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

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For the first quarter three months ended Jun. 30, 2017

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	186,936	24,563	211,499	-	211,499
Intersegment transactions	241	22	263	(263)	-
Total revenues	187,177	24,585	211,762	(263)	211,499
Adjusted operating income	14,471	2,292	16,763	-	16,763
Operating income	14,269	2,650	16,919	-	16,919
Financial income	-	-	-	857	857
Financial expenses	-	-	-	(1,315)	(1,315)
Share of profits (losses) of investments accounted for using the equity method	915	-	915	-	915
Income before income taxes	15,184	2,650	17,834	(458)	17,376

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

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