

# **Hitachi Construction Machinery Co., Ltd.**

**Financial Results for the Year Ended**

**March 31, 2017**

**Consolidated Financial Results for the Year Ended March 31, 2017  
(IFRS)**

April 26, 2017

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 26, 2017

Scheduled date of commencement of payment of dividends: May 31, 2017

Scheduled date for submission of Securities Report: June 27, 2017

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 2017 (April 1, 2016 to March 31, 2017)

(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, 2017	753,947	(0.6)	28,265	21.0	23,859	(2.7)	14,190	37.8	8,022	(8.9)	11,671	—
March 31, 2016	758,331	(7.0)	23,364	(62.3)	24,517	(58.4)	10,300	(66.0)	8,804	(66.2)	(26,148)	—

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" from the first quarter of fiscal year 2016. 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. "Operating income" for the year ended March 2017 is as below.

March 31, 2017            ¥ 23,622 million            YoY-30.6%

March 31, 2016            ¥ 34,052million            YoY-46.1%

	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, 2017	37.72	37.72	2.0	2.5	3.1
March 31, 2016	41.41	41.41	2.1	2.5	4.5

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

March 31, 2017: ¥ -311million    March 31, 2016: ¥ 234million

"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, 2017	999,601	450,430	399,619	40.0	1,879.14
March 31, 2016	926,628	456,816	395,963	42.7	1,861.93

(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, 2017	87,961	(74,610)	(25,817)	65,455
March 31, 2016	114,874	18,255	(98,163)	79,110

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, 2016	—	30.0	—	10.0	40.0	8,505	96.6	2.1
March 31, 2017	—	4.0	—	8.0	12.0	2,552	31.8	0.6
March 31, 2018 (Projection)	—	—	—	—	—	—	—	—

Dividends for the fiscal year ending March 2018 are to be determined.

3. Projected consolidated results for the fiscal year ending March 2018(April 1, 2017 to March 31, 2018)

(%: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
March 31, 2018	810,000	7.4	46,000	62.7	37,000	55.1	18,000	124.4	84.64

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".

"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 2018 is as below.

Year end            ¥ 44,000billion            YoY% 86.3%

\*Notes

(1)Important changes in the scope of the consolidation during period (changes involving specific subsidiaries accompanying changes in the scope of consolidation): Yes

New: 18 (Bradken Limited and 17 companies)

Elimination: one (Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.)

(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 2017: 215,115,038            March 2016: 215,115,038

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

March 2017: 2,454,022            March 2016: 2,451,828

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

March 2017: 212,662,072            March 2016: 212,616,017

(Reference) Non-consolidated Financial Results

Non-consolidated results for the year ended March 2017(April 1, 2016 to March 31, 2017)

(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, 2017	357,072	0.7	(25,454)	-	13,883	-	17,209	-
March 31, 2016	354,746	(9.7)	(44,961)	-	(21,835)	-	(433)	-

	Net income per share	Net income per share (Diluted)
	Yen	Yen
March 31, 2017	80.92	80.92
March 31, 2016	-	-

(2)Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2017	495,190	216,277	43.6	1,014.66
March 31, 2016	458,715	202,394	44.0	948.11

Reference: Total equity at fiscal year-end            March 2017: ¥215,779 million            March 2016: ¥201,628 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 .....	2
(1) Management Results .....	2
(2) Analysis of Financial Condition .....	5
(3) Outlook for the Fiscal Year Ending March 31, 2018.....	8
(4) Business Risks .....	9
2. Our Fundamental Position Concerning Selection of Accounting Standards Policy .....	11
3. Consolidated Financial Statements .....	12
(1) Consolidated Balance Sheets .....	12
(2) Consolidated Statements of Income.....	13
(3) Consolidated Statements of Comprehensive Income.....	14
(4) Consolidated Statements of Changes in Equity.....	15
(5) Consolidated Statements of Cash Flows .....	17
(6) Notes on consolidated financial statements .....	18
Notes on the Preconditions for a Going Concern .....	18
Important matters for compiling consolidated financial statements .....	18
Segment Information .....	20
Note on consolidated statements of income.....	23
Business Combination .....	24
Earnings per share .....	34
Important Subsequent Events .....	35
4. Others .....	
Changes in the Members of the Board of Directors .....	36

## **1. Management Performance and Financial Conditions**

### **(1) Management Results**

#### **[1] Overview of Business Results**

The HCM Group worked on securing profit by the establishment of a global management support scheme, expansion of its market share, cost reduction, and continued enhancement of operational efficiency by business/structural reform. In addition, we created the global research/development framework and strengthened the development marketing function to provide appropriate products by region and solutions for customers' life-cycle cost reduction. HCM acquired H-E Parts and it became our wholly owned subsidiary on December 21, 2016 for enhancement of our value chain through strengthening of solution business. As for the crawler crane business, HCM transferred a portion of its Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (HSC) stock to Sumitomo Heavy Industries, Ltd. (SHI) and it became an equity-method affiliate of HCM on March 31, 2017.

Consequently, consolidated revenue for this term (April 1, 2016 to May 31, 2017) was ¥753,947 million, down 0.6% year on year. Adjusted operating income increased by 21.0% year on year to ¥28,265 million due to a decrease in overhead costs, operating income was ¥23,622 million, down 30.6% year on year due to booking of the restructuring cost in addition to the negative impact of the gain from the restructuring booked in FY2015. Net income attributable to owners of the parent was ¥8,022 million, down 8.9% year on year.

Solution business, our new business segment, consists of HE-Parts International LLC, which we consolidated in FY2016 3Q, and Bradken Limited, which became our consolidated subsidiary in FY2016 4Q, has been added to the existing construction machinery business since FY2016. Business results by these segments are as below.

#### 1. Construction machinery business

Demand for hydraulic excavators increased by approx. 10% year on year due to the recovery in China, India, Asia, and Europe. We promoted enhancement of 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. In Japan, for i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, HCM have been working to promote ICT hydraulic excavators and smart construction solutions.

As for mining machinery, demand for hydraulic excavators increased by approx. 10% year on year because of the recovery of commodity prices that could be seen from the middle of FY2016;

however, demand for rigid dump trucks decreased by approx. 20% year on year. The decrease in ultra-large machines was significant for both hydraulic excavators and rigid dump trucks. We are focusing on expanding sales of the well-accepted AC-3 series rigid dump trucks especially the one for trolley use or high-altitude use equipped with an advanced vehicle body stability-assist function, in addition to offering a fleet management system and development of an autonomous haulage system to optimize mine operation, by bringing Hitachi Group's strengths. Furthermore, we have been working on establishment of a highly controlled customer support system to enlarge revenue from parts and service.

## 2. Solution business

This segment consists of H-E Parts and Bradken. H-E Parts provides service and solution required for machinery or equipment for mining, crushing, and construction mainly in Australia and the US. Bradken conducts various businesses concerning our value chain such as specialty castings for the industrial and energy industries, and wear parts for mining fixed plants and mining mobile plants, and it also provides maintenance and service for them.

Consolidated revenue for this term (April 1, 2016 to March 31, 2017) was ¥6,691 million, and adjusted operating income was ¥452 million because of consolidation of H-E Parts.

The following table summarizes the consolidated results for this term ended March 31, 2017.

(Millions of yen; %)

	March 2017 (A)	March 2016 (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	753,947	758,331	(4,384)	(0.6)
Adjusted operating income	28,625	23,364	4,901	21.0
Operating income	23,622	34,052	(10,430)	(30.6)
Income before income taxes	23,859	24,517	(658)	(2.7)
Net income attributable to owners of the parent	8,022	8,804	(782)	(8.9)

(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 the consolidated net revenue by geographic area.

		March 2017		March 2016		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	78,488	10.4	92,953	12.3	(14,465)	(15.6)
	Latin America	6,996	0.9	6,741	0.9	255	3.8
The Americas		85,484	11.3	99,694	13.1	(14,210)	(14.3)
Europe		87,565	11.6	89,011	11.7	(1,446)	(1.6)
	Russia-CIS,	19,476	2.6	16,889	2.2	2,587	15.3
	Africa	34,051	4.5	37,033	4.9	(2,982)	(8.1)
	Middle East	22,741	3.0	28,245	3.7	(5,504)	(19.5)
Russia-CIS, Africa and the Middle East		76,268	10.1	82,167	10.8	(5,899)	(7.2)
	Asia	62,239	8.3	66,927	8.8	(4,688)	(7.0)
	India	48,551	6.4	40,409	5.3	8,142	20.1
	Oceania	96,391	12.8	93,518	12.3	2,873	3.1
Asia and Oceania		207,181	27.5	200,854	26.5	6,327	3.2
China		71,463	9.5	53,805	7.1	17,658	32.8
Subtotal		527,961	70.0	525,531	69.3	2,430	0.5
Japan		225,986	30.0	232,800	30.7	(6,814)	(2.9)
Total		753,947	100.0	758,331	100.0	(4,384)	(0.6)

(Rounded off to the nearest million)

## **(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 ¥527,011 million, a decrease of 4.0%, or ¥22,206 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥16,199 million in inventories.

Non-current assets amounted to ¥472,590 million, an increase of 25.2%, or ¥95,179 million, from the previous fiscal year-end. This was due mainly to an increase of ¥48,409 million in goodwill and ¥15,850 million in property, plants, and equipment resulting from the consolidation of H-E Parts and Bradken.

As a result, total assets increased 7.9%, or ¥72,973 million, from the previous fiscal year-end to ¥999,601 million.

#### **(b) Liabilities**

Current liabilities amounted to ¥399,333 million, an increase of 27.8%, or ¥86,922 million, from the previous fiscal year-end. This was primarily due to an increase of ¥23,074 million in trade and other payables and ¥41,995 million in bonds and borrowings resulting from the consolidation of H-E Parts and Bradken.

Non-current liabilities decreased by 4.8%, or ¥7,563 million, from the previous fiscal year-end to ¥149,838 million. This was mainly due to a decrease of 11,189 million in bonds and borrowings.

As a result, total liabilities increased by 16.9%, or ¥79,359 million, from the previous fiscal year-end to ¥549,171 million.

#### **(c) Equity**

Total equity decreased by 1.4%, or ¥6,386 million, from the previous fiscal year-end to ¥450,430million.

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

Cash and cash equivalents at the end of the fiscal year totaled ¥65,455 million, a decrease of ¥13,655 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 included ¥14,190 million in net income, ¥30,680 million in depreciation, a ¥28,974 million decrease in inventories, a ¥20,580 million increase in accounts and notes payables as cash inflow, a ¥1,482 million increase in accounts and notes receivables, and a ¥4,754 million increase in lease receivables included as cash outflow.

As a result, net cash provided by operating activities during the fiscal year totaled ¥87,961 million, a decrease of ¥26,913 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 ¥74,610 million, an increase of ¥92,865 million from the previous fiscal year. This is mainly due to a used ¥56,070 million from the 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 investing activities and net cash provided by (used in) investing activities, amounted to an inflow of ¥13,351 million.

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

Net cash used in financing activities in the consolidated fiscal year totaled ¥25,817 million, a decrease of ¥72,346 million from the previous fiscal year. This was due mainly to an increase of ¥24,232 million in short-term debt, a decrease of ¥30,740 million in long-term borrowings and bonds, ¥10,867 million in dividends paid (including dividends paid to non-controlling interests), etc.

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

	March 2017	March 2016	March 2015
Equity attributable to owners of the parent ratio (%)	40.0	42.7	40.5
Equity attributable to owners of the parent ratio on a market price basis (%)	59.0	41.0	42.0
Interest-bearing debt to operating cash flow ratio (%)	2.7	2.2	3.1
Interest coverage ratio (times)	24.9	22.0	13.2

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 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) Outlook for the Fiscal Year Ending March 31, 2018

As for the business environment of construction machinery business in FY2017, global demand for construction machinery such as hydraulic excavators is expected to be slightly higher than that of 2016. We expect an increase in India and China, while we expect continuous slow demand in Russia and Middle East. Demand for mining machinery is expected to slightly increase resulting from the increase in capex at some major mining companies.

Recovery of the environment of solution business is also expected because of an increase in utilization of mining machinery or equipment resulting from production increase in minerals at the principal customers such as mining companies.

Consequently, we promote enhancement of operational efficiency, after-sales business centering on parts and service, mining business, and solution business. On the other hand, we continue to reduce the cost of sales, fixed cost ratio, and inventories.

The assumed foreign exchange rate for this fiscal year is ¥105 for one US dollar, ¥110 for one euro, and ¥15 for one Chinese yuan.

#### Consolidated Earnings Forecast for the Full Year Ending March 31, 2018

	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	810,000	46,000	44,000	37,000	18,000	84.64
Difference	56,053	17,735	20,378	13,141	9,978	46.92
Change (%)	7.4	62.7	86.3	55.1	124.4	124.4
Previous year ended Mar. 31, 2017	753,947	28,265	23,622	23,859	8,022	37.72

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 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 70% 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 engaging in 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 ¥249 billion as of March 31, 2017. 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 effects 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 authorization 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 upon 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. 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, 2017 (A)	Previous fiscal year-end As of Mar. 31, 2016 (B)	(A)-(B)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	65,455	79,110	(13,655)
Trade receivables	184,460	182,928	1,532
Inventories	232,365	248,564	(16,199)
Other financial assets	31,817	29,727	2,090
Other current assets	12,837	8,888	3,949
Subtotal	526,934	549,217	(22,283)
Assets held for sale	77	-	77
Total current assets	527,011	549,217	(22,206)
Non-current assets			
Property, plant and equipment	292,143	276,293	15,850
Intangible assets	15,906	9,611	6,295
Goodwill	57,103	8,694	48,409
Investments accounted for using the equity method	23,126	18,726	4,400
Trade receivables	31,279	23,125	8,154
Deferred tax assets	22,508	15,241	7,267
Other financial assets	19,354	15,668	3,686
Other non-current assets	11,171	10,053	1,118
Total non-current assets	472,590	377,411	95,179
<b>Total assets</b>	<b>999,601</b>	<b>926,628</b>	<b>72,973</b>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	205,722	182,648	23,074
Bonds and borrowings	153,883	111,888	41,995
Income taxes payable	4,063	4,728	(665)
Other financial liabilities	29,696	8,936	20,760
Other current liabilities	5,969	4,211	1,758
Total current liabilities	399,333	312,411	86,922
Non-current liabilities			
Trade and other payables	21,604	23,224	(1,620)
Bonds and borrowings	94,818	106,007	(11,189)
Retirement and severance benefit	16,768	16,855	(87)
Deferred tax liabilities	7,620	6,057	1,563
Other financial liabilities	577	32	545
Other non-current liabilities	8,451	5,226	3,225
Total non-current liabilities	149,838	157,401	(7,563)
<b>Total liabilities</b>	<b>549,171</b>	<b>469,812</b>	<b>79,359</b>
<b>Equity</b>			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	82,553	84,095	(1,542)
Retained earnings	228,026	222,721	5,305
Accumulated other comprehensive income	10,518	10,621	(103)
Treasury stock, at cost	(3,055)	(3,051)	(4)
Total Equity attribute to owners of the parent	399,619	395,963	3,656
Non-controlling interests	50,811	60,853	(10,042)
<b>Total equity</b>	<b>450,430</b>	<b>456,816</b>	<b>(6,386)</b>
<b>Total liabilities and equity</b>	<b>999,601</b>	<b>926,628</b>	<b>72,973</b>

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

## (2) Consolidated Statements of Income

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2017 (A)	Previous fiscal year For the year ended Mar. 31, 2016 (B)	(A)/(B)×100 (%)
Revenue	753,947	758,331	99
Cost of sales	(583,021)	(578,734)	101
Gross profit	170,926	179,597	95
Selling, general and administrative expenses	(142,661)	(156,233)	91
Adjusted operating income	28,265	23,364	121
Other income	4,768	24,695	19
Other expenses	(9,411)	(14,007)	67
Operating income	23,622	34,052	69
Financial income	4,008	3,418	117
Financial expenses	(3,460)	(13,187)	26
Share of profits of investments accounted for using the equity method	(311)	234	-
Income before income taxes	23,859	24,517	97
Income taxes	(9,669)	(14,217)	68
Net income	14,190	10,300	138
Net income attributable to			
Owners of the parent	8,022	8,804	91
Non-controlling interests	6,168	1,496	412
Total net income	14,190	10,300	138
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	37.72	41.41	91
Net income per share (Diluted) (yen)	37.72	41.41	91

(Rounded off to the nearest million)



### (3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2017 (A)	Previous fiscal year For the year ended Mar. 31, 2016 (B)	(A)/(B)×100 (%)
Net income for the year	14,190	10,300	138
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	2,916	(2,354)	-
Remeasurements of defined benefit obligations	3,142	(4,316)	-
Other comprehensive income of equity method associates	1	(24)	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	(8,284)	(26,222)	32
Cash flow hedges	(88)	195	-
Other comprehensive income of equity method associates	(206)	(3,727)	6
Other comprehensive income, net of taxes	(2,519)	(36,448)	7
Comprehensive income	11,671	(26,148)	-
Comprehensive income attributable to			
Owners of the parent	7,876	(22,394)	-
Non-controlling interests	3,795	(3,754)	-

(Rounded off to the nearest million)

**(4) Consolidated Statements of Changes in Equity**  
**Year ended Mar. 31, 2017**

(Millions of yen)

	Equity attributable to owners of the Company					
	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 year	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 for the year	-	-	8,022	3,051	2,913	(91)
Acquisition of treasury stock						
Sale of treasury stock						
Increase/decrease by share exchange						
Dividends to stockholders of the Company			(2,978)			
Gains/losses on change in equity		(1,275)			(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 year	81,577	82,553	228,026	(949)	7,571	(14)

(Millions of yen)

	Equity attributable to owners of the Company					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of year	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		-	-	-		-
Increase/decrease by share exchange		-	-	-		-
Dividends to stockholders of the Company		-		(2,978)	(7,290)	(10,268)
Gains/losses on change in equity	45	37		(1,238)	(6,547)	(7,785)
Transfer to retained earnings		6		-		-
Other increase/decrease		-		-		-
Transaction with owners	45	43	(4)	(4,220)	(13,837)	(18,057)
Balance at end of year	3,910	10,518	(3,055)	399,619	50,811	450,430

Year ended Mar. 31, 2016

(Millions of yen)

	Equity attributable to owners of the Company					
	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 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	-	-	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					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	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

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

## (5) Consolidated Statements of Cash Flows

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2017	Previous fiscal year For the year ended Mar. 31, 2016
Net income	14,190	10,300
Depreciation	30,680	31,966
Amortization of intangible assets	3,284	3,481
Impairment losses	3,883	151
Gains on business restructuring	(933)	(21,611)
Income tax expense	9,669	14,217
Share of profits of investments accounted for using the equity method	311	(234)
Gain (loss) on sales of property, plant and equipment	(51)	(141)
Financial income	(4,008)	(3,418)
Financial expenses	3,460	13,187
(Increase) decrease in accounts and notes receivables	(1,482)	40,650
(Increase) decrease in lease receivables	(4,754)	11,741
(Increase) decrease in inventories	28,974	59,818
Increase (decrease) in accounts and notes payables	20,580	(14,654)
Increase (decrease) in provisions and retirement benefit obligations	2,704	825
Other	(3,152)	(13,169)
<b>Subtotal</b>	<b>103,355</b>	<b>133,109</b>
Interest received	2,573	2,994
Dividends received	593	463
Interest paid	(3,534)	(5,210)
Income tax paid	(15,026)	(16,482)
<b>Net cash provided by operating activities</b>	<b>87,961</b>	<b>114,874</b>
Capital expenditures	(13,999)	(17,515)
Proceeds from sale of property, plant and equipment	1,998	576
Acquisition of intangible assets	(3,304)	(2,287)
Acquisition of investments in securities and other financial assets (including investments in associates)	(56,070)	(4,013)
Sales of investments in securities and other financial assets (including investments in associates)	(3,807)	32,184
Collection of long-term loan receivables	172	10,506
Payments for transfer of business	-	(1,810)
Other	400	614
<b>Net cash provided by (used in) investing activities</b>	<b>(74,610)</b>	<b>18,255</b>
Increase (decrease) in short-term borrowings, net	24,232	(46,226)
Proceeds from long-term borrowings and bond	39,143	19,735
Payments on long-term borrowings	(69,883)	(50,921)
Payments on lease payables	(5,556)	(3,893)
Dividends paid to owners of the parent	(3,005)	(12,743)
Dividends paid to non-controlling interests	(7,862)	(4,156)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(2,882)	-
Other	(4)	41
<b>Net cash provided by (used in) financing activities</b>	<b>(25,817)</b>	<b>(98,163)</b>
Effect of exchange rate changes on cash and cash equivalents	(1,189)	(7,289)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(13,655)</b>	<b>27,677</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>79,110</b>	<b>51,433</b>
<b>Cash and cash equivalents at end of year</b>	<b>65,455</b>	<b>79,110</b>

## **(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**

Number of consolidated subsidiaries: 85

#### (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, 2017: 46

##### 1) Increase by additional share acquisition

H-E Parts International LLC, and H-E Parts Australian Holdings LLC and its subsidiaries: 26(\*)

Bradken Limited and its subsidiaries: 17

Note\*: H-E Parts Australian Holdings LLC was merged into H-E Parts International LLC immediately after the acquisition.

#### (3) Number of companies excluded from consolidation during the fiscal year ended March 31, 2017: 4

##### 1) Decrease by sales part of shares

Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

##### 2) Other

Decrease by liquidation: 2

Decrease by sales of all shares: 1

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

## **2. Application of the equity method**

Number of affiliates accounted for by the equity method: 12

(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, 2017: 1

1) Increase by sales of shares

Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

(3) Number of affiliates not accounted for by the equity method: 5

## **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.
- 4) H-E Parts International LLC
- 5) Bradken Limited

Others: 45

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 which is 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 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.

The company discloses its reportable segment as the Construction Machinery Business Segment and Solution Business Segment from this fiscal year as a result of the company consolidating the H-E Parts International LLC group (“H-E Parts”) and Bradken Limited group (“Bradken”), which compose the Solution Business Segment in this fiscal year. Details of H-E Parts and Bradken are in the notes on (Business Combination).

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

For the year ended March 31, 2016

Since the Group’s line of business is manufacturing and sales of construction machinery and there is no operating segment to be segregated, its reportable segment is the single category of “Construction Machinery Business.”

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
Segment profit (*2)	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)
Income before income taxes					23,859
Segment assets	869,218	139,696	1,008,914	(9,313)	999,601
Segment liabilities	496,489	61,995	558,484	(9,313)	549,171
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
Capital expenditure	33,910	59	33,969	-	33,969

Note (\*1): Adjustments represent eliminations of intersegment transactions.

Note (\*2): Segment profit is based on operating income.



## 2. Information on products and services

The following tables show revenue from outside customers by product and service for the years ended March 31, 2016 and 2017.

(Millions of yen)

	March 2017	March 2016
Mining machinery	120,824	115,509
Construction machinery and others	633,123	642,822
Total	753,947	758,331

(Note on consolidated statements of income)

The main components of other income for the years ended March 31, 2017 and 2016 are as follows:

(Millions of yen)

	March 2017	March 2016
Gain on sales of property, plants, and equipment	223	177
Subsidy income	121	434
Gain on business restructuring (note )	933	21,611
Other	3,491	2,473
Total	4,768	24,695

(Note on gain on business restructuring)

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

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, 2017 and 2016 are as follows:

(Millions of yen)

	March 2017	March 2016
Loss on sales of property, plants, and equipment	172	36
Loss on disposal of property, plants, and equipment	548	408
Impairment of property, plants, and equipment	3,883	151
Business structure improvement expenses (note )	479	10,070
Other	4,329	3,342
Total	9,411	14,007

(Note on gain on business structure improvement expenses)

Business structure improvement expenses recognized for the year ended March 31, 2016 and the year ended March 31, 2017 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
<b>Total assets</b>	<b>29,131</b>
Current liabilities	21,142
Non-current liabilities	3,207
<b>Total liabilities</b>	<b>24,349</b>
Cash and cash equivalents	3,156
Fair value of shares that the company had already had upon acquisition of control	1,626
<b>Total consideration of acquisition</b>	<b>4,782</b>

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
<b>Total assets</b>	<b>3,280</b>
Current liabilities	590
Non-current liabilities	880
<b>Total liabilities</b>	<b>1,470</b>
Cash and cash equivalents	1,810
<b>Total consideration of acquisition</b>	<b>1,810</b>

(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	-
<b>Total</b>	<b>11,009</b>	<b>10</b>

(5) Expenses related to acquisition

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

(6) Gain and loss on step acquisition

A re-measurement 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” in the consolidated statements of income.

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

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

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

Revenue and net income of the 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.

The following significant business combination occurred during the year ended March 31, 2017.

(Acquisition all the shares of H-E Parts International LLC and H-E Parts Australian Holdings LLC)

On December 21, 2016, the company acquired all the shares of H-E Parts International LLC and H-E Parts Australian Holdings LLC (collectively “H-E Parts”) that are headquartered in Delaware, United States. H-E Parts provides solution service for mining, quarrying, construction machine, and materials processing. Also, it develops, manufactures, sells, and repairs aftermarket parts for, among others, mining and construction machines in Australia, USA, and other markets.

1. Purpose of business combination

Faced with uncertain market conditions, the Company has promoted its “GROW TOGETHER 2016” Mid-term Management Plan and proactively sought to streamline management, including through establishing a global support framework, in order to flexibly adapt to changes in the operating environment. The Company aims to provide highly efficient solution services at low cost, enhance the Company’s value chain, and improve business stability and profitability through the acquisition of H-E Parts. The Company also plans to expand its solution service business by leveraging the knowledge and expertise of H-E Parts.

2. Name of the acquired company and its business

1) H-E Parts International LLC

Name of the acquired company: H-E Parts International LLC

Business contents of the acquired company: Provider of services related to mining and construction machines, and the manufacture, development, and sales of aftermarket parts.

Acquired ratio of voting rights: 100%

2) H-E Parts Australian Holdings LLC (\*)

Name of the acquired company: H-E Parts Australian Holdings LLC

Business contents of the acquired company: Shareholding of its subsidiaries

Acquired ratio of voting rights: 100%

Note\*: H-E Parts Australian Holdings LLC established as a special-purpose company to own units in HEP Australia Holdings Pty Ltd and was merged into H-E Parts International LLC immediately after the acquisition.

(Reference) Overview of the company owned by H-E Parts Australian Holdings LLC

Name of the company: HEP Australia Holdings Pty Ltd

Business contents of the company: Provider of services related to mining and construction machines, and the manufacture, development, and sales of aftermarket parts.

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

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

Consideration of the share acquisition of H-E Parts and fair value of assets acquired and liabilities assumed are as follows (as allocation of the acquisition cost has not been completed, amounts are provisional based on information currently available):

(Millions of yen)

	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	5,151	4,092	9,243
Property, plants, and equipment	597	804	1,401
Intangible assets	1,618	591	2,209
Goodwill	2,064	3,751	5,815
Other assets	621	626	1,247
Total assets	12,190	12,790	24,980
Trade and other payables	1,980	2,776	4,756
Bonds and borrowings	4,820	3,535	8,355
Other liabilities	345	363	708
Total liabilities	7,145	6,674	13,819
Consideration paid (cash)			19,812
Goodwill (non-deductible for tax expense)			8,651

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

4. Trade receivables acquired

(Millions of yen)

	Carrying amount		Of which, the amount expected to be unrecoverable	
	H-E Parts International LLC	H-E Parts Australian Holdings LLC	H-E Parts International LLC	H-E Parts Australian Holdings LLC
Trade receivables	1,970	2,651	48	14
Total	1,970	2,651	48	14



5. Expenses related to acquisition

Expenses related to acquisition are 551 million yen and included in “Other expenses” in the consolidated statements of income.

6. Revenue and net income of the acquired company

The revenue of the acquired company from the acquisition date to March 31, 2017 in the consolidated statements of income is 6,691 million yen and the net income is not disclosed because it has no material impact on the consolidated financial statements.

7. Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year

Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year are 772,826 million yen and 14,737 million yen respectively.

(Acquisition of shares Bradken Limited)

The company commenced a share takeover offer (the “takeover offer”) for all issued common shares in Bradken Limited (Australian Stock Exchange: BKN; Head office: Newcastle, Australia; Chairman: Phillip Arnall; “Bradken”) on November 1, 2016. As a result of Bradken shareholders’ acceptance of the takeover offer, Bradken became a consolidated subsidiary of the company on March 20, 2017.

1. Purpose of business combination

Demand for construction machinery and mining machinery has decelerated in China, Indonesia, the CIS, and other emerging countries and has stagnated in advanced countries, and the market climate continues to be austere. Faced with these conditions, the Company has promoted its “GROW TOGETHER 2016” Mid-term Management Plan and proactively sought to streamline management, including through establishing a global support framework, in order to flexibly adapt to changes in the operating environment.

In the future, the Company intends to pursue growth through alliances and acquisitions in its core business of manufacturing and distributing construction and mining equipment, together with the associated value chains. This will be combined with an ongoing focus on streamlining operations.

Bradken’s business is wide-ranging across the value chain globally. Its operations include a mining equipment business, a business for wear parts in mining, and a maintenance service business, as well as a manufacturing business of industrial products for mining and infrastructure. The Company believes that the acquisition of Bradken will complement and bolster the parts service business in the Company’s mining business and expects further improvement in business income stability and profitability through mutual utilization of a global network.

2. Name of the acquired company and its business

Name of the acquired company: Bradken Limited

Business contents of the acquired company: Metal casting and manufacture and distribution services for metal casting products

Acquired ratio of voting rights: 68.62%

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

Consideration of the share acquisition of Bradken and fair value of assets acquired and liabilities assumed are as follows (as allocation of the acquisition cost has not been completed, amounts are provisional based on information currently available):

(Millions of yen)

	Amount
Cash and cash equivalents	3,572
Trade receivables	8,349
Other current assets	15,136
Property, plants, and equipment	30,488
Intangible assets	4,900
Goodwill	8,827
Deferred tax assets	4,803
Others	4,225
Total assets	80,330
Trade and other payables	13,729
Bonds and borrowings	31,427
Retirement and severance benefits	1,220
Others	1,235
Total liabilities	47,611
Total consideration of acquisition (*1)	58,614
Goodwill (non-deductible for tax purposes) (*2)	25,895

Note (\*1): The consideration of shares acquired by March 31, 2017 is paid by cash.

Acceptance of the takeover offer is over 90% although the takeover offer is still open as of March 31, 2017. Since the company will proceed with the squeeze-out procedure to acquire the remaining shares of Bradken held by its minority shareholders (the “squeeze-out”) aiming to make Bradken a wholly owned subsidiary, the Company fully consolidated Bradken as it was deemed that the company substantially acquires 100% shares.

Note (\*2): The goodwill consisted primarily of excess earnings and synergies with existing operations.

4. Trade receivables acquired

(Millions of yen)

	Carrying amount	Of which, the amount expected to be unrecoverable
Trade receivables	8,057	15
Lease receivables	307	0
Total	8,364	15

5. Expenses related to acquisition

Expenses related to acquisition are 1,009 million yen and included in “Other expenses” in the consolidated statements of income.

6. Revenue and net income of the acquired company

Information on the revenue and net income of the acquired company from the acquisition date to March 31, 2017 is not disclosed because it has no material impact on the consolidated financial statements.

7. Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year

Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year are 815,537 million yen and 8,037 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, 2017 and 2016 is as follows:

(Millions of yen)

	March 2017	March 2016
Profit attributable to owners of the parent	8,022	8,804
Profit used to calculate the basic earnings per share	8,022	8,804

(Number of shares)

	March 2017	March 2016
Weighted average number of common shares outstanding	212,662,072	212,616,017
Dilutive effect of stock options	-	4,295
Weighted average number of common shares outstanding - diluted	212,662,072	212,620,312

(Yen)

	March 2017	March 2016
Earnings per share attributable to owners - basic	37.72	41.41
Earnings per share attributable to owners - diluted	37.72	41.41

	March 2017	March 2016
Summary of dilutive shares not included the calculation of diluted earnings per share (attributed to owners of the parent) due to no dilutive effect		3,050 shares of subscription rights to shares as a result of a special resolution at the Annual Meeting of Shareholders dated June 26, 2006
	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	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)

(Results of the share takeover offer for the acquisition of shares in Australian Corporation Bradken Limited)

The company commenced a takeover offer for all issued common shares in Bradken Limited, which conducts metal casting and operates manufacturing and distribution services for metal casting products. The takeover offer commenced on November 1, 2016, following the determination of its implementation on October 3, 2016. The company fulfilled the acquisition conditions on March 20, 2017, and completed the takeover offer on April 7, 2017.

The results are as follows:

1. Outline of the Takeover Offer

- |                                  |                                                                                          |
|----------------------------------|------------------------------------------------------------------------------------------|
| (1) Tender offeror               | : Hitachi Construction Machinery Co., Ltd.                                               |
| (2) Target company               | : Bradken Limited                                                                        |
| (3) Type of shares acquired      | : Common shares                                                                          |
| (4) Offer period                 | : From November 1, 2016 (Tuesday) through April 7, 2017 (Friday)                         |
| (5) Offer price                  | : AUD 3.25 per share                                                                     |
| (6) Minimum acceptance threshold | : More than 50% of the issued and outstanding shares of Bradken on a fully diluted basis |

2. Outcome of the Takeover Offer

- |                               |                      |
|-------------------------------|----------------------|
| (1) Number of shares tendered | : 193,741,575 shares |
| (2) Ratio of shares tendered  | : 92.8%              |

3. Steps and Outlook Following the Takeover Offer

The Company, which has acquired more than 90% of the issued and outstanding shares of Bradken as a result of the takeover offer, will proceed with the squeeze-out procedure to acquire the remaining shares of Bradken held by its minority shareholders (the “squeeze-out”), aiming to make Bradken a wholly owned subsidiary. The Company plans to take measures to delist Bradken’s shares from the Australian Securities Exchange after the squeeze-out is completed.

4. Impact on Consolidated Financial Statements

As noted in (Business Combination), the Company accounted this transaction under the business combination as the company deemed that 100% of Bradken’s shares were acquired as of March 31, 2017.

#### **4. Others**

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

Following the resolution of the Nominating Committee on April 26, 2017, 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 53<sup>rd</sup> Ordinary General Meeting of Shareholders scheduled for June 26, 2017.

##### **[1]Candidates for Director**

Title	Name	Current Title
Outside Director *	Kazushige Okuhara	Outside Director
Outside Director *	Haruyuki Toyama	Outside Director
Outside Director *	Junko Hirakawa	Outside Director
Director	Tatsuro Ishizuka	Representative Executive Officer, Chairman and Executive Officer
Director	Osamu Okada	Director
Director	Tetsuo Katsurayama	Vice President, Executive Officer and Director
Director	Yutaka Saito	Director
Director	Koji Sumioka	Representative Executive Officer , Executive Vice President, Executive Officer and Director
Director	Kotaro Hirano	Representative Executive Officer, President and Executive Officer
Director	Hirotoyo Fujii	Senior Vice President and Executive Officer

\*Outside board member under Japanese corporate law.

##### **[2]Resigning Directors (effective on June 26, 2017)**

Name	Current Title
Yuichi Tsujimoto	Director and Corporate Consultant