

Hitachi Construction Machinery Co., Ltd.

Financial Results for the Second Quarter
Ended September 30, 2017

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

Consolidated Financial Results for the Second Quarter Ended September 30, 2017 (IFRS)

October 25, 2017

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)

Stock exchange: Tokyo (first section) Code number: 6305

URL <https://www.hitachim.com/global/>

Representative: Kotaro Hirano, President and Executive Officer

Scheduled date for submission of the Quarterly Securities Report: November 8, 2017

Scheduled date of commencement of payment of dividends: November 30, 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 second quarter ended September 2017 (April 1, 2017 to September 30, 2017)

(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	%
September 30, 2017	440,276	31.5	37,614	524.2	40,106	—	28,897	629.9	25,545	—	40,475	—
September 30, 2016	334,937	(8.3)	6,026	(63.4)	3,645	(66.5)	3,959	(50.5)	2,265	(66.9)	(27,249)	—

"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 September 2017 is as below.

September 30, 2017 ¥39,291 million YoY 799.7 %

September 30, 2016 ¥4,367 million YoY (72.8%)

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
September 30, 2017	Yen 120.12	Yen 120.12
September 30, 2016	10.65	10.65

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio
September 30, 2017	Millions of yen 1,069,848	Millions of yen 487,498	Millions of yen 433,548	% 40.5
March 31, 2017	1,003,011	450,430	399,619	39.8

2. Dividends status

	Cash dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2017	—	4.00	—	8.00	12.00
March 31, 2018	—	36.00			
March 31, 2018 (Projection)			—	—	—

Year end dividends for the fiscal year ending March 2018 are to be determined.

Note: Changes involving the dividend states for the fiscal year ending March 2018: Yes

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

	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, 2018	890,000	18.0	57,000	101.7	51,000	113.8	30,000	274.0	141.07

Notes: 1) The percentages indicated show changes from the same period of the previous fiscal year.
2) Changes in consolidated earnings forecast: Yes

"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 2018 is as below.

Year end ¥55,000 million YoY 132.8%

*Notes

- (1) Important changes in the scope of the consolidation during period(changes involving specific subsidiaries accompanying changes in the scope of consolidation): None
- (2) Changes in accounting policies; changes in accounting estimates

[1] Changes in accounting policies required by IFRS	None
[2] Changes in accounting policies other than those in [1]	None
[3] Changes in accounting estimates	None
- (3) Number of outstanding shares (common shares)

[1] Number of outstanding shares at September 30, 2017 (including treasury shares)			
	September 2017: 215,115,038	March 2017	212,115,038
[2] Number of treasury shares at September 30, 2017			
	September 2017: 2,455,808	March 2017	2,454,022
[3] Average number of common shares outstanding during first half of FY2017			
	September 2017: 212,660,061	September 2016	212,662,726

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 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 2018" of the attachment for conditions serving as assumptions for results forecasts.

Adjustment of the provisional accounting treatment for business combination

During the second quarter of the fiscal year ending March 2018, the company finalized the provisional accounting treatment for business combinations. As a result, numbers as of March 2017 reflect the revision of the initially allocated amounts of acquisition cost. Please refer to "2. Consolidated Financial Statements, (5) Notes on Consolidated Financial Statements (Business Combination)" for details.

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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 development and offering solutions by utilizing ICT and IoT as “Solution Linkage” to resolve customers’ challenges on “safety,” “productivity,” and “life-cycle costs.” And, to expand the source of revenue besides new machine sales, we are expanding the value chain business by enhancement of the parts and service business for mining machines and facilities provided by H-E Parts and Bradken, HCM’s consolidated subsidiary that we acquired in the previous fiscal year. Additionally, we are working to secure profit by the establishment of a global management support scheme, the expansion of its market share, cost reduction, and enhancement of operational efficiency.

Consolidated revenue for this term (April 1, 2017 to September 30, 2017) increased by 31.5% year on year to ¥440,276 million due to sales increase mainly in China and the consolidation of H-E Parts and Bradken, while we saw negative impact of the stock transfer of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., which became an equity-method affiliate of HCM on March 31, 2017. Adjusted operating income increased by 524.2% year on year to ¥37,614 million, operating income increased by 799.7% to ¥39,291 million, and net income attributable to owners of the parent was ¥25,545 million (¥2,265 million as of September 30, 2016) due to a decrease in the cost of sales and SGA, in addition to the contribution of solution business and parts & service business.

Business results by segment are as below.

1. Construction machinery business

Demand for hydraulic excavators increased globally year on year except in the Middle East and Africa. We promoted enhancement of the parts and service business through a globally launched service solution called “ConSite,” as well as expansion of the parts supply network to enlarge sales and revenue. In Japan, for i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, the HCM Group has been working to promote smart construction by providing its workshop to customers at an ICT demonstration site that we established in Hitachi-Naka City of Ibaraki Prefecture and by offering solutions for an efficient construction process.

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

Consolidated revenue of the construction machinery business for this term (April 1, 2017 to September 30, 2017) increased by 17.6% year on year to ¥393,767 million, and adjusted operating income increased by 471.2% to ¥34,420 million.

2. Solution business

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

Consolidated revenue of the solution business for this term (April 1, 2017 to September 30, 2017) was ¥46,605 million, and adjusted operating income was ¥3,194 million because of the steady contribution to its revenue from solutions for mining machines in Australia and Latin America. The above adjusted operating income includes a depreciation loss and amortization cost of ¥1,121 million based on purchase price allocation for H-E Parts.

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 September 2017.

	September 2017 (A)	September 2016 (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	440,276	334,937	105,339	31.5
Adjusted operating income*	37,614	6,026	31,588	524.2
Operating income	39,291	4,367	34,924	799.7
Income before income taxes	40,106	3,645	36,461	–
Net income attributable to owners of the parent	25,545	2,265	23,280	–

(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 second quarter (April 1, 2017 - September 30, 2017)		Previous consolidated cumulative second quarter (April 1, 2016 - September 30, 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	65,108	14.8	40,594	12.1	24,514	60.4
Central and South America	7,438	1.7	1,740	0.5	5,698	327.5
The Americas	72,546	16.5	42,334	12.6	30,212	71.4
Europe	49,274	11.2	44,116	13.2	5,158	11.7
Russia-CIS	11,884	2.7	7,662	2.3	4,222	55.1
Africa	21,333	4.8	14,413	4.3	6,920	48.0
Middle East	9,110	2.1	12,624	3.8	(3,514)	(27.8)
Russia-CIS, Africa, and the Middle East	42,327	9.6	34,699	10.4	7,628	22.0
Asia	34,752	7.9	26,605	7.9	8,147	30.6
India	27,220	6.2	20,301	6.1	6,919	34.1
Oceania	71,761	16.3	41,989	12.5	29,772	70.9
Asia and Oceania	133,733	30.4	88,895	26.5	44,838	50.4
China	48,268	11.0	22,985	6.9	25,283	110.0
Sub-total	346,148	78.6	233,029	69.6	113,119	48.5
Japan	94,128	21.4	101,908	30.4	(7,780)	(7.6)
Total	440,276	100.0	334,937	100.0	105,339	31.5

(Rounded off to the nearest million)

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(2) Analysis of Financial Condition

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

(a) Assets

Current assets at the end of the second quarter amounted to ¥579,065 million, an increase of 9.7%, or ¥51,323 million, from the previous fiscal year-end. This was due mainly to an increase of ¥10,947 million in cash and cash equivalents, an increase of ¥11,903 million in trade receivables, and an increase of ¥24,395 million in inventories. Non-current assets amounted to ¥490,783 million, an increase of 3.3%, or ¥15,514 million, from the previous fiscal year-end. This was due mainly to an increase of ¥3,420 million in property, plants and equipment and, an increase of ¥4,656 million in trade receivables and, an increase of ¥2,342 million in deferred tax assets.

As a result, total assets increased 6.7%, or ¥66,837 million, from the previous fiscal year-end to ¥1,069,848 million.

(b) Liabilities

Current liabilities amounted to ¥370,906 million, a decrease of 7.2%, or ¥28,719 million, from the previous fiscal year-end. This was primarily due to a decrease of ¥50,288 million in bonds and borrowings despite an increase of ¥31,560 million in trade and other payables.

Non-current liabilities increased by 38.2%, or ¥58,488 million, from the previous fiscal year-end to ¥211,444 million. This was mainly due to an increase of ¥59,706 million in bonds and borrowings.

As a result, total liabilities increased by 5.4%, or ¥29,769 million, from the previous fiscal year-end to ¥582,350 million.

(c) Equity

Total equity increased by 8.2%, or ¥37,068 million, from the previous fiscal year-end to ¥487,498 million.

(Note)

During the second quarter of the fiscal year ending March 31, 2018, the company finalized the provisional accounting treatment for business combinations. As a result, numbers as of March 31, 2017 reflect the revision of the initially allocated amounts of acquisition cost.

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the second quarter totaled ¥76,402 million, an increase of ¥10,947 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 for the second quarter/six months ended based on ¥28,897 million in net income, and included ¥15,878 million in depreciation, a ¥23,892 increase of trade payables as cash inflow, a ¥4,014 million increase in trade receivables, a ¥4,738 million increase in lease receivables, and a ¥19,179 million increase in inventories as cash outflow.

As a result, net cash provided by operating activities for the second quarter/six months ended totaled ¥29,441 million, a decrease of ¥11,036 million year on year.

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

Net cash used in investing activities for the second quarter/six months ended amounted to ¥23,143 million, an increase of ¥13,478 million year on year. This was mainly due to an outlay of ¥7,941 million for capital expenditures, and an outlay of ¥17,625 million for acquisition of investments in securities and other financial assets (including investments in associates).

As a result, free cash flows, the sum of net cash provided by operating activities and net cash used in investing activities, amounted to an inflow of ¥6,298 million.

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

Net cash provided by financing activities for the second quarter/six months ended totaled ¥2,876 million, an increase of ¥28,153 million year on year. This was due mainly to an increase of ¥38,980 million in long-term borrowings and bonds, despite ¥2,662 million in dividends paid (including dividends paid to non-controlling interests), and a decrease of ¥31,138 in short-term debt.

(3) Outlook for the Fiscal Year Ending March 2018

We revised the consolidated earnings forecast for the full year ending March 2018 (from April 1, 2017 to March 31, 2018) announced on July 27th due to a favorable sales forecast from the higher demand beyond our expectations mainly in China, North America, and Europe. We changed the previous demand outlook for hydraulic excavators from the 185,000 units announced on July 27th to 194,000 units because of the global demand increase except in the Middle East and Africa during the first half of FY2017.

For more information, please refer to the “Revisions to the Consolidated Earnings Forecast” published today.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Second quarter As of Sep. 30, 2017 (A)	Previous fiscal year-end As of Mar. 31, 2017 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	76,402	65,455	10,947
Trade receivables	196,363	184,460	11,903
Inventories	257,460	233,065	24,395
Other financial assets	28,728	31,817	(3,089)
Other current assets	20,054	12,868	7,186
Subtotal	579,007	527,665	51,342
Assets held for sale	58	77	(19)
Total current assets	579,065	527,742	51,323
Non-current assets			
Property, plant and equipment	295,563	292,143	3,420
Intangible assets	25,538	25,118	420
Goodwill	52,900	50,570	2,330
Investments accounted for using the equity method	23,477	23,126	351
Trade receivables	35,935	31,279	4,656
Deferred tax assets	24,850	22,508	2,342
Other financial assets	20,630	19,354	1,276
Other non-current assets	11,890	11,171	719
Total non-current assets	490,783	475,269	15,514
Total assets	1,069,848	1,003,011	66,837
Liabilities			
Current liabilities			
Trade and other payables	237,282	205,722	31,560
Bonds and borrowings	103,595	153,883	(50,288)
Income taxes payable	7,955	4,063	3,892
Other financial liabilities	12,334	29,696	(17,362)
Other current liabilities	9,740	6,261	3,479
Total current liabilities	370,906	399,625	(28,719)
Non-current liabilities			
Trade and other payables	21,148	21,604	(456)
Bonds and borrowings	154,524	94,818	59,706
Retirement and severance benefit	17,174	16,768	406
Deferred tax liabilities	10,341	10,738	(397)
Other financial liabilities	1,065	577	488
Other non-current liabilities	7,192	8,451	(1,259)
Total non-current liabilities	211,444	152,956	58,488
Total liabilities	582,350	552,581	29,769
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	82,055	82,553	(498)
Retained earnings	252,390	228,026	24,364
Accumulated other comprehensive income	20,587	10,518	10,069
Treasury stock, at cost	(3,061)	(3,055)	(6)
Total Equity attribute to owners of the parent	433,548	399,619	33,929
Non-controlling interests	53,950	50,811	3,139
Total equity	487,498	450,430	37,068
Total liabilities and equity	1,069,848	1,003,011	66,837

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated cumulative quarter

Consolidated Statements of Income

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2017 (A)	Second quarter Six months ended Sep. 30, 2016 (B)	(A)/(B)×100 (%)
Revenue	440,276	334,937	131
Cost of sales	(323,521)	(259,953)	124
Gross profit	116,755	74,984	156
Selling, general and administrative expenses	(79,141)	(68,958)	115
Adjusted operating income	37,614	6,026	624
Other income	3,552	2,306	154
Other expenses	(1,875)	(3,965)	47
Operating income	39,291	4,367	900
Financial income	1,594	1,812	88
Financial expenses	(2,976)	(2,612)	114
Share of profits (losses) of investments accounted for using the equity method	2,197	78	-
Income before income taxes	40,106	3,645	-
Income taxes	(11,209)	314	-
Net income (loss)	28,897	3,959	730
Net income (loss) attributable to			
Owners of the parent	25,545	2,265	-
Non-controlling interests	3,352	1,694	198
Total net income (loss)	28,897	3,959	730
EPS attributable to owners of the parent			
Net income (loss) per share (Basic) (yen)	120.12	10.65	-
Net income (loss) per share (Diluted) (yen)	120.12	10.65	-

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second quarter As of Sep. 30, 2017 (A)	Second quarter As of Sep. 30, 2016 (B)	(A)/(B)×100 (%)
Net income (loss)	28,897	3,959	730
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	1,705	549	311
Remeasurements of defined benefit obligations	111	(12)	-
Other comprehensive income of equity method associates	-	-	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	10,895	(30,329)	-
Cash flow hedges	(711)	622	-
Other comprehensive income of equity method associates	(422)	(2,038)	21
Other comprehensive income, net of taxes	11,578	(31,208)	-
Comprehensive income	40,475	(27,249)	-
Comprehensive income attributable to			
Owners of the parent	35,636	(22,525)	-
Non-controlling interests	4,839	(4,724)	-

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
Second quarter six months ended Sep. 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 (loss)			25,545			
Other comprehensive income				133	1,705	(711)
Comprehensive income	-	-	25,545	133	1,705	(711)
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(1,701)			
Gains/losses on change in equity						
Transfer to retained earnings			22		(22)	
Expiration of subscription rights		(498)	498			
Transaction with owners	-	(498)	(1,181)	-	(22)	-
Balance at end of period	81,577	82,055	252,390	(816)	9,254	(725)

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Total		
	Foreign currency translation adjustments	Total					
Balance at beginning of period	3,910	10,518	(3,055)	399,619	50,811	450,430	
Net income (loss)		-		25,545	3,352	28,897	
Other comprehensive income	8,964	10,091		10,091	1,487	11,578	
Comprehensive income	8,964	10,091	-	35,636	4,839	40,475	
Acquisition of treasury stock			(6)	(6)		(6)	
Sale of treasury stock							
Dividends to stockholders of the Company				(1,701)	(1,700)	(3,401)	
Gains/losses on change in equity							
Transfer to retained earnings		(22)					
Expiration of subscription rights							
Transaction with owners	-	(22)	(6)	(1,707)	(1,700)	(3,407)	
Balance at end of period	12,874	20,587	(3,061)	433,548	53,950	487,498	

Second quarter six months ended Sep. 30, 2016

(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	84,095	222,721	(4,000)	4,660	77
Net income (loss)			2,265			
Other comprehensive income				(12)	551	622
Comprehensive income	-	-	2,265	(12)	551	622
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(2,127)			
Gains/losses on change in equity		(1,097)				
Transfer to retained earnings			(6)		6	
Expiration of subscription rights		(267)	267			
Transaction with owners	-	(1,364)	(1,866)	-	6	-
Balance at end of period	81,577	82,731	223,120	(4,012)	5,217	699

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of period	9,884	10,621	(3,051)	395,963	60,853	456,816
Net income (loss)		-		2,265	1,694	3,959
Other comprehensive income	(25,951)	(24,790)		(24,790)	(6,418)	(31,208)
Comprehensive income	(25,951)	(24,790)	-	(22,525)	(4,724)	(27,249)
Acquisition of treasury stock			(2)	(2)		(2)
Sale of treasury stock						
Dividends to stockholders of the Company				(2,127)	(7,208)	(9,335)
Gains/losses on change in equity				(1,097)	2,166	1,069
Transfer to retained earnings		6				
Expiration of subscription rights						
Transaction with owners	-	6	(2)	(3,226)	(5,042)	(8,268)
Balance at end of period	(16,067)	(14,163)	(3,053)	370,212	51,087	421,299

(4) Consolidated Statements of Cash Flows
Consolidated cumulative quarter

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2017	Second quarter Six months ended Sep. 30, 2016
Net income (loss)	28,897	3,959
Depreciation	15,878	15,329
Amortization of intangible asset	2,225	1,587
Impairment losses	271	2,887
Income tax expense	11,209	(314)
Equity in net earnings of associates	(2,197)	(78)
Gain (loss) on sales of property, plant and equipment	(348)	(61)
Financial income	(1,594)	(1,812)
Financial expense	2,976	2,612
(Increase) decrease in trade receivables	(4,014)	11,861
(Increase) decrease in lease receivables	(4,738)	1,374
(Increase) decrease in inventories	(19,179)	1,661
Increase (decrease) in trade payables	23,892	19,788
Increase (decrease) in retirement and severance benefit	19	(443)
Other	(15,101)	(11,104)
Subtotal	38,196	47,246
Interest received	1,357	1,300
Dividends received	1,019	400
Interest paid	(2,810)	(1,732)
Income tax paid	(8,321)	(6,737)
Net cash provided by operating activities	29,441	40,477
Capital expenditures	(7,941)	(7,833)
Proceeds from sale of property, plant and equipment	4,049	212
Acquisition of intangible assets	(1,907)	(1,215)
Acquisition of investments in securities and other financial assets (including investments in associates)	(17,625)	-
Sales of investments in securities and other financial assets (including investments in associates)	424	-
(Increase) decrease in short-term loan receivables, net	(147)	(1,319)
Collection of long-term loan receivables	21	82
Other	(17)	408
Net cash provided by (used in) investing activities	(23,143)	(9,665)
Increase (decrease) in short-term debt, net	(31,138)	(2,081)
Proceeds from long-term debt and bond	67,962	7,785
Payments on long-term debt	(28,982)	(22,593)
Payments on lease payables	(2,298)	(2,749)
Dividends paid to owners of the parent	(1,705)	(2,146)
Dividends paid to non-controlling interests	(957)	(2,080)
Purchase of shares of consolidated subsidiaries from non-controlling interests	-	(1,411)
Other	(6)	(2)
Net cash provided by (used in) financing activities	2,876	(25,277)
Effect of exchange rate changes on cash and cash equivalents	1,773	(7,046)
Net increase (decrease) in cash and cash equivalents	10,947	(1,511)
Cash and cash equivalents at beginning of period	65,455	79,110
Cash and cash equivalents at end of period	76,402	77,599

(5)Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There are no relevant items.

(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 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 the previous fiscal year as a result of the company consolidating the H-E Parts International LLC Group (“H-E Parts”) and the Bradken Limited Group (“Bradken”), which comprise the Solution Business Segment in the fourth quarter ended March 2017.

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

For the second quarter/six months ended September 30, 2016

Since the Group’s line of business is 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, there is no operating segment to be segregated. Therefore, the company omitted disclosure of business segments.

For the second quarter/six months ended September 30, 2017

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	393,767	46,509	440,276	-	440,276
Intersegment transactions	-	96	96	(96)	-
Total revenues	393,767	46,605	440,372	(96)	440,276
Adjusted operating income	34,420	3,194	37,614	-	37,614
Operating income	35,545	3,746	39,291	-	39,291
Financial income	-	-	-	1,594	1,594
Financial expenses	-	-	-	(2,976)	(2,976)
Share of profits (losses) of investments accounted for using the equity method	2,197	-	2,197	-	2,197
Income before income taxes	37,742	3,746	41,488	(1,382)	40,106

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

(Business Combination)

For the second quarter/six months ended Sep. 30, 2017

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

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

(Millions of yen)

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

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

The company retroactively revised numbers on the statement of consolidated financial position as of March 31, 2017 which is disclosed as comparative information. The goodwill on the acquisition date as a main item revised from the provisional amount decreased by ¥6,511 million. This was due to a ¥700 million increase in inventories, a ¥9,212 million increase in intangible assets, and a ¥3,401 million increase in deferred tax liability.

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

(Subsequent Event)

Issuance of domestic unsecured straight bonds

The company has adopted a comprehensive resolution regarding the issuance of domestic unsecured straight bonds at the Board of the Directors meeting held on October 25, 2017. An outline of the resolution is as follows:

(1) Total issuing amount	10,000 million yen or less (However, this does not prevent multiple issuances within this range.)
(2) Term	Five years or less
(3) Yield	1.0%
(4) Issue price	100 yen per bond amount of 100yen
(5) Issue period	Between after resolution of Board of Directors and December 31, 2017.
(6) Purpose of funds	Redemption of bonds

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