

Business Result for the Second Quarter ended September 30, 2018

October 25, 2018

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

I. Summary of consolidated results

1

HITACHI

Reliable solutions

HCM retroactively adjusted the income statement in the previous year due to the completion of purchase price allocation (PPA) during the fiscal year 2017 ended March 31, 2018. The impacts of PPA in September results include -3.4 billion yen on adjusted operating income, operating income and quarterly income before income taxes and -2.3 billion on net income attributable to owners of the parent. There is no retroactive adjustment on the income statement for FY 2017 ended March 31, 2018. (For the details, see Appendix 1, 2.)

(billions of yen)

		FY2018 1Q-2Q	FY2017 1Q-2Q	change
Revenue		490.4	440.3	11%
Adjusted operating income *1		10.9% 53.4	7.8% 34.2	56%
Operating income		10.3% 50.5	8.2% 35.9	41%
Income before income taxes		9.9% 48.7	8.3% 36.7	33%
Net income attributable to owners of the parent		6.2% 30.2	5.3% 23.2	30%
EBIT *2		10.2% 49.9	8.7% 38.2	31%
FX rate	Rate (YEN/US\$)	110.3	111.1	-0.7
	Rate (YEN/EURO)	129.9	126.4	3.5
	Rate (YEN/RMB)	16.8	16.4	0.4
	Rate (YEN/AU\$)	82.0	85.4	-3.4
Cash dividend per share (yen) *3		43	36	7

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

*2 "EBIT" stands for Earnings Before Interests and Taxes, and is calculated by excluding "Interest income" and "Interest expenses" from "Income before income taxes"

*3 "Cash dividend per share": Under the company's policy for stable distribution of retained earnings linked to consolidated performance, the company aims for its consolidated dividend payout ratio to be around 30% or more.

- Revenue increased by 24% or 17.2 billion yen in Oceania year on year, by 22% or 14.2 billion yen in North America year on year.
- The overseas revenue ratio increased by 3 points year on year to 82%.

(billions of yen)

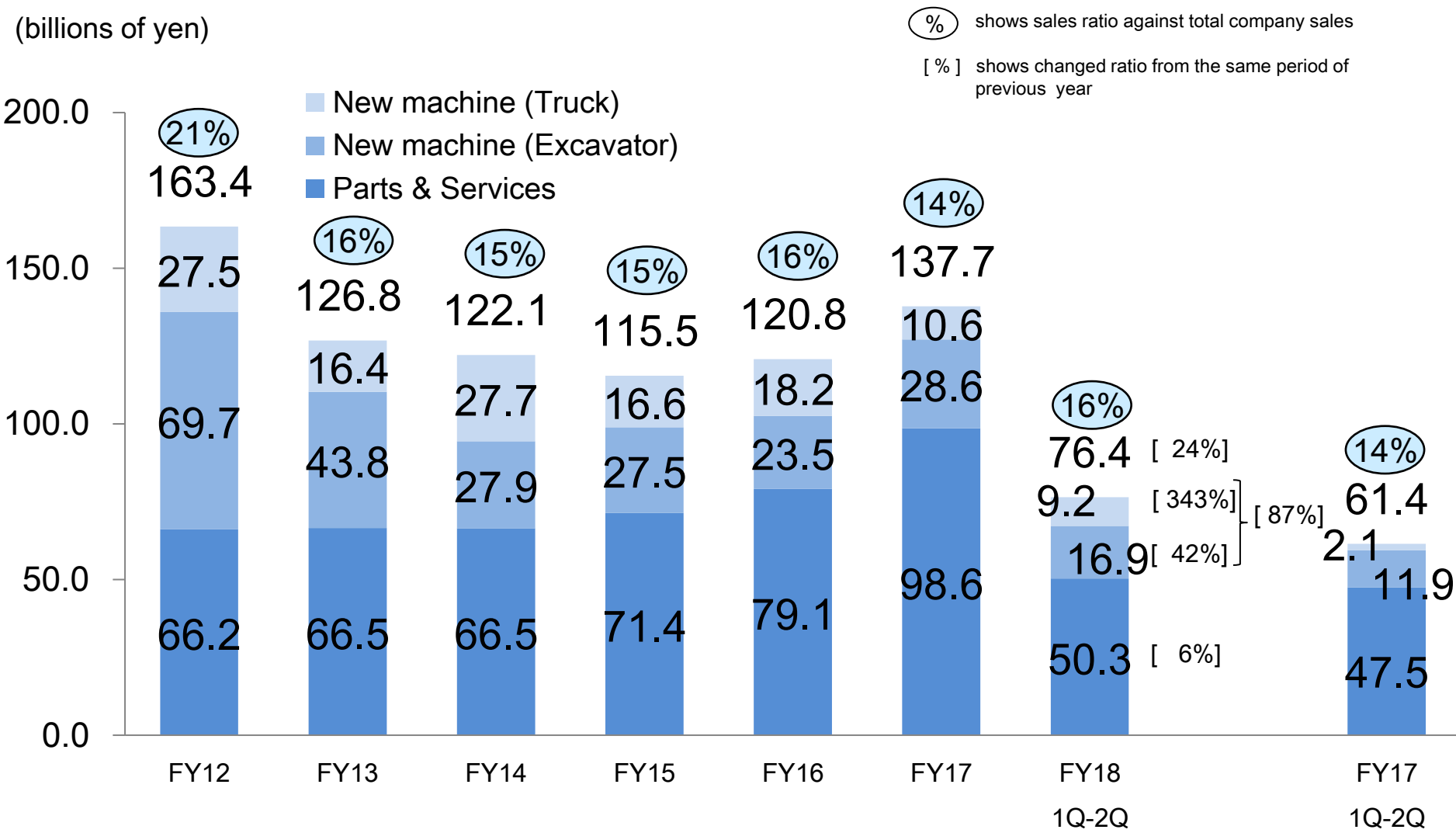
	FY2018 1Q-2Q		FY2017 1Q-2Q		change	
					amount	%
Japan	89.7	18%	94.1	21%	-4.4	-5%
Asia	39.6	8%	34.8	8%	4.8	14%
India	31.9	7%	27.2	6%	4.7	17%
Oceania	88.9	18%	71.8	16%	17.2	24%
Europe	53.3	11%	49.3	11%	4.0	8%
N.America	79.3	16%	65.1	15%	14.2	22%
L.America	8.3	2%	7.4	2%	0.9	11%
Russia-CIS	15.0	3%	11.9	3%	3.1	26%
M.East	7.9	2%	9.1	2%	-1.2	-13%
Africa	19.6	4%	21.3	5%	-1.7	-8%
China	56.9	12%	48.3	11%	8.6	18%
Total	490.4	100%	440.3	100%	50.1	11%

Overseas ratio 82%

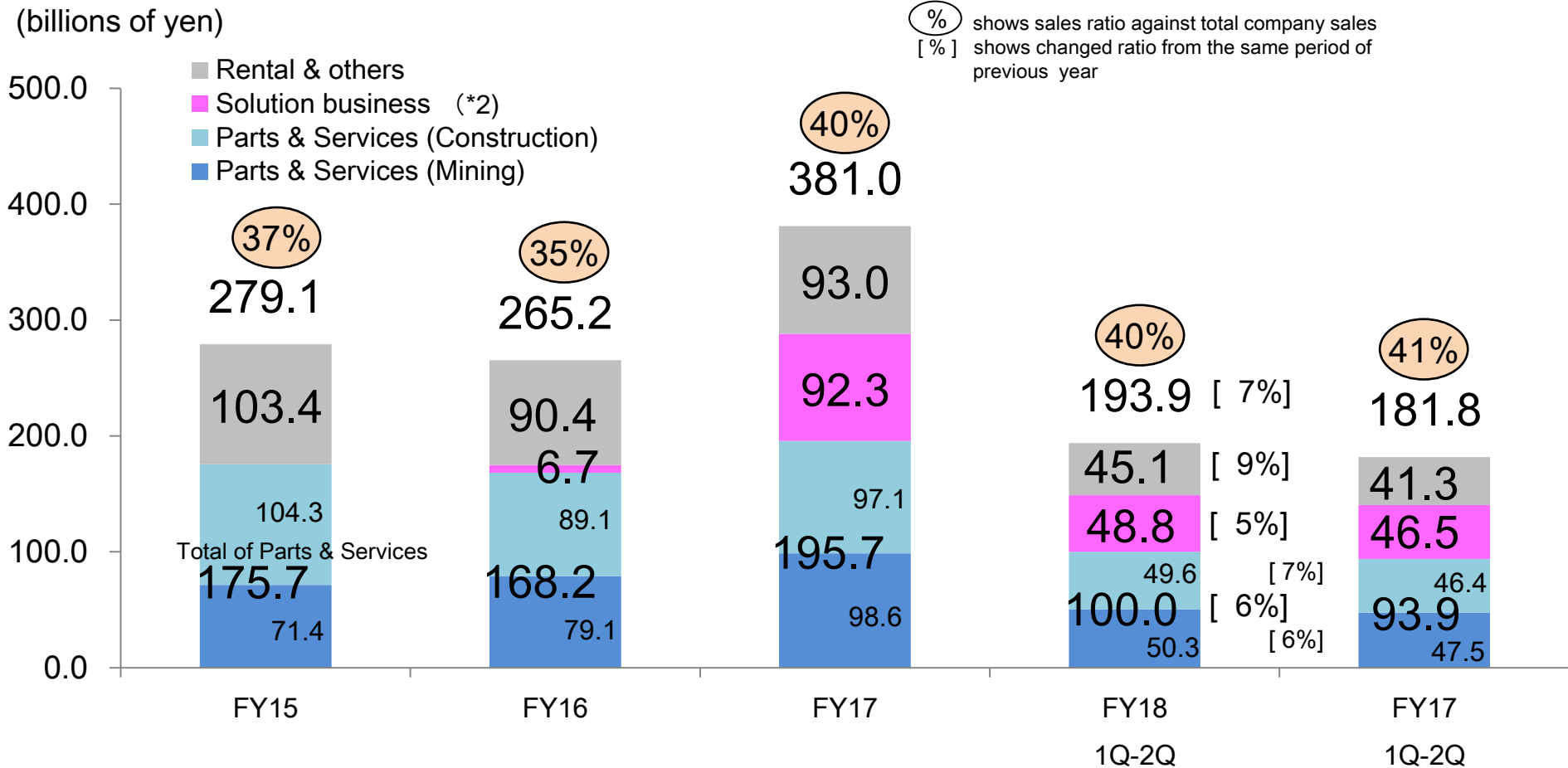
79%

Revenue of mining in the FY2018 2Q increased by 24% year on year. Particularly the revenue of new machines increased by 87% year on year.

(billions of yen)



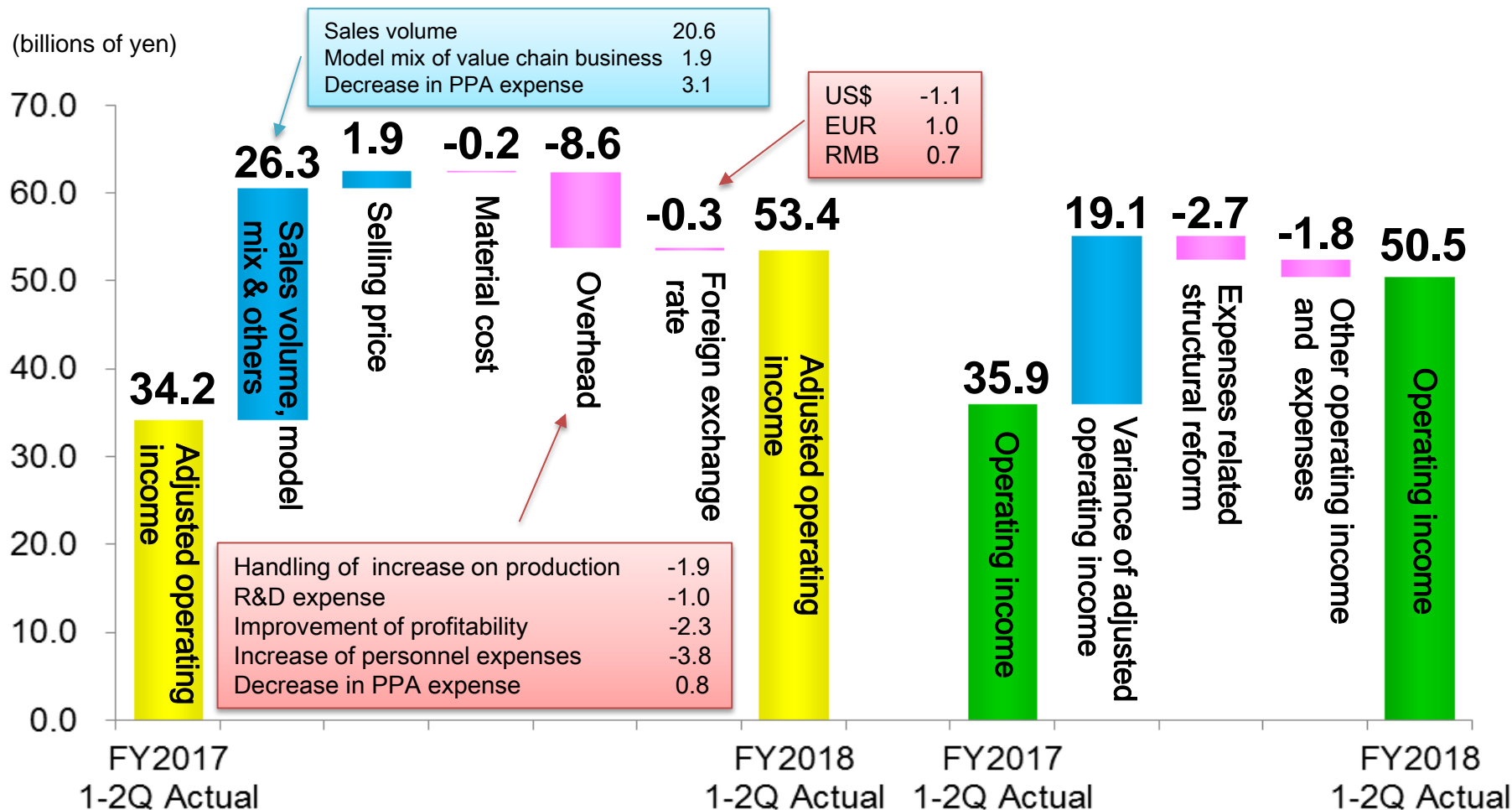
Revenue of the value chain business in the FY2018 2Q increased by 7% year on year.



(*)1 Value chain: Total of Parts & services, Solution business, Rental etc. other than new machine sales.

(*)2 Solution business: Business segment consists of parts manufacturing, sales of parts and services that are not included in construction machinery business.

Adjusted operating income increased by 19.1 billion yen year on year due to mainly the increased sales volume.



- Revenue increased by 11% compared to the previous year due to the increase in sales volume.
- The ratio of adjusted operating income was 10.9%.

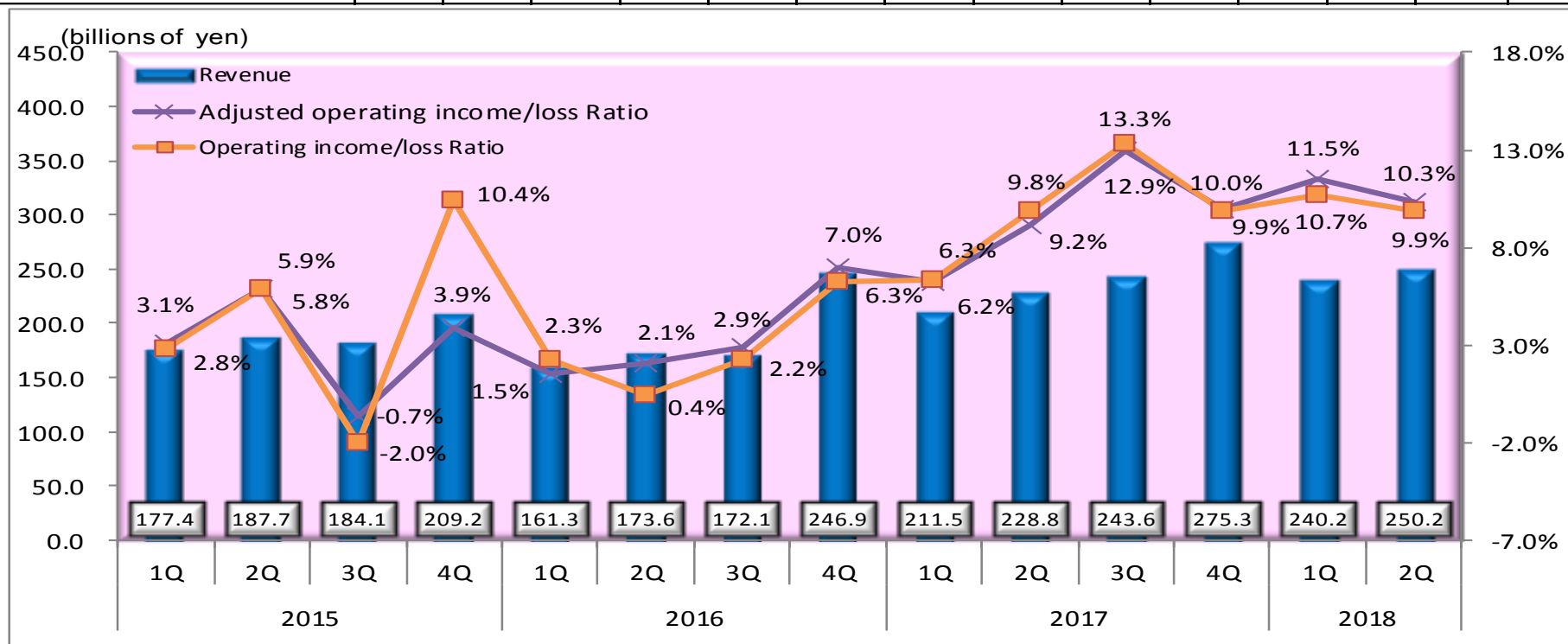
(billions of yen)

	FY2018 1Q-2Q		FY2017 1Q-2Q		change	
					amount	%
Revenue		490.4		440.3	50.1	11%
Cost of Sales	(71.4%)	350.2	(74.0%)	325.9	24.3	7%
SGA expenses	(17.7%)	86.8	(18.2%)	80.1	6.7	8%
Adjusted operating income *1	(10.9%)	53.4	(7.8%)	34.2	19.1	56%
Other Income/expenses		-2.9		1.7	-4.5	-
Operating income	(10.3%)	50.5	(8.2%)	35.9	14.6	41%
Financial income/expenses		-3.5		-1.4	-2.1	155%
Share of profits of investments accounted for using the equity method		1.7		2.2	-0.5	-21%
Income before income taxes	(9.9%)	48.7	(8.3%)	36.7	12.0	33%
Income taxes		13.8		10.1	3.7	36%
Net income	(7.1%)	34.9	(6.0%)	26.6	8.3	31%
Net income attributable to owners of the parent	(6.2%)	30.2	(5.3%)	23.2	7.0	30%
Comprehensive income		32.8		38.1	-5.3	-14%

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

(billions of yen)

	2015				2016				2017				2018	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Revenue	177.4	187.7	184.1	209.2	161.3	173.6	172.1	246.9	211.5	228.8	243.6	275.3	240.2	250.2
Adjusted operating income/loss	5.5	11.0	-1.2	8.1	2.4	3.6	5.0	17.3	13.2	21.0	31.5	27.5	27.6	25.8
Operating income/loss	4.9	11.1	-3.8	21.8	3.7	0.7	3.8	15.5	13.4	22.5	32.4	27.1	25.7	24.8



FX rate	2015				2016				2017				2018	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Rate (YEN/US\$)	121.4	122.2	121.5	115.5	108.1	102.4	109.3	113.6	111.1	111.0	113.0	108.3	109.1	111.5
Rate (YEN/EURO)	134.2	136.0	133.0	127.2	122.0	114.3	117.8	121.1	122.2	130.4	133.0	133.2	130.1	129.6
Rate (YEN/RMB)	19.6	19.3	18.9	17.6	16.5	15.4	16.0	16.6	16.2	16.6	17.1	17.1	17.1	16.4
Rate (YEN/AU\$)	94.4	88.8	87.4	83.2	80.6	77.6	81.9	86.2	83.4	87.6	86.8	85.3	82.6	81.5

- Total assets increased by 34.8 billion yen compared to the previous fiscal year-end by the increase in mainly inventories.
- On hand days of inventories increased by one day to 110 days year on year.

(billions of yen)

	(A) FY18-2Q	(B) Mar '2018	(C) FY17-2Q	(A)-(B) change
Cash and cash equivalents	63.0	81.9	76.4	-18.9
Trade receivables	214.1	219.6	196.4	-5.5
Inventories	303.0	255.6	257.4	47.4
Total current assets	629.3	597.8	579.0	31.5
Total non-current assets	495.2	492.0	496.5	3.3
Total assets	1,124.6	1,089.8	1,075.5	34.8

Trade receivables incl. non-current	254.2	261.0	232.3	-6.8
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Inventories by products

Unit	79.5	56.7	63.5	22.8
Parts	100.2	93.5	90.5	6.8
Raw materials, WIP and etc	123.3	105.5	103.3	17.8
Total inventories	303.0	255.6	257.4	47.4

On hand days(divided by net sales) (Days)

Trade receivables	92	99	99	-7
Inventories	110	97	109	13
Trade payables	54	71	68	-16
Net working capital	144	125	138	19

	(D) FY18-2Q	(E) Mar '2018	(F) FY17-2Q	(D)-(E) change
Trade and other payables	254.4	287.1	258.4	-32.7
Bonds and borrowings	289.6	230.7	258.1	59.0
Total current liabilities	599.3	584.8	590.4	14.5
(Equity attributable to owners of the parent ratio)	(41.5%)	(41.2%)	(40.1%)	(0.3%)
Total equity	525.3	505.0	485.1	20.2
Total liabilities and equity	1,124.6	1,089.8	1,075.5	34.8

	(25.8%)	(21.2%)	(24.0%)	(4.6%)
Interest-bearing debt	289.6	230.7	258.1	59.0
Cash and Cash equivalents	63.0	81.9	76.4	-18.9
Net interest-bearing debt	(20.1%)	(13.6%)	(16.9%)	(6.5%)
Debt	226.6	148.7	181.7	77.8

Net D/E Ratio	0.49	0.33	0.42	0.15
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Net cash provided by (used in) operating activities was a negative 46.8 billion yen due to the increase in inventories and the decrease in trade payable by the earlier payment to a particular supplier domestically.

(billions of yen)

	FY2018 1Q-2Q	FY2017 1Q-2Q	change
Net income	34.9	26.6	8.3
Depreciation and amortization	52.7 17.9	45.7 19.1	7.1 -1.2
(Increase)decrease in trade/lease receivables	6.0	-8.8	14.7
(Increase)decrease in inventories	-47.7	-16.8	-31.0
Increase(decrease) in trade payables	-76.0 -34.2	-1.6 23.9	-74.3 -58.1
Others, net	-23.5	-14.6	-9.0
Net cash provided by (used in) operating activities	-46.8	29.4	-76.2
Cash flow margin for operating activities	-9.5%	6.7%	-16.2%
Net cash provided by (used in) investing activities	-11.3	-23.1	11.9
Free cash flows	-58.0	6.3	-64.3
Net cash provided by (used in) financing activities	40.4	2.9	37.6

HCM forecasts a FY2018 consolidated income statement with an upward-corrected revenue by 30.0 billion yen and adjusted operating income of 7.0 billion yen against the previous forecast due to an increased sales volume of 1Q-2Q and reflecting the impact of the depreciating trend of the Japanese yen on foreign exchange rates.

note : < > shows previous forecast as of July 2018□

(billions of yen)

	FY2018 Forecast		FY2017 Actual	change	
				amount	%
Revenue	<950.0>	980.0	959.2	20.8	2%
Adjusted operating income	<8.8%>	(9.3%)	(9.8%)	(-0.5%)	
	<84.0>	91.0	93.6	-2.6	-3%
Operating income	<8.6%>	(8.8%)	(10.0%)	(-1.2%)	
	<82.0>	86.0	95.7	-9.7	-10%
Income before income taxes	<8.4%>	(8.6%)	(10.0%)	(-1.4%)	
	<80.0>	84.0	95.6	-11.6	-12%
Net income attributable to owners of the parent	<5.2%>	(5.2%)	(6.3%)	(-1.1%)	
	<49.0>	51.0	60.0	-9.0	-15%
EBIT	<82.8>	86.6	98.1	-11.5	

Currency	1Q-2Q	3Q-4Q	Total	FY2017 Actual	change
	Actual	Forecast	Forecast		
Rate (YEN/US\$)	110.3	100.0	104.7	110.9	-6.2
Rate (YEN/EURO)	129.9	120.0	124.3	130.1	-5.8
Rate (YEN/RMB)	16.8	15.5	16.0	16.8	-0.8
Rate (YEN/AU\$)	82.0	79.0	80.6	85.7	-5.2

For FX sensitivity, please refer to appendix 3.

Cash dividend per share (yen) *1	to be determined	85	-
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*1 "Cash dividend per share": The Company will pay dividends linked to its consolidated business results twice, interim and year end, in the fiscal year and aim to achieve a consolidated dividend payout ratio of approx. 30% or more.

Compared with the previous year, HCM forecasts an increase in total revenue for FY2018 due to the increase in revenue in all regions except M. East and Africa excluding the impact of foreign exchange.

(billions of yen)

	FY2018 Forecast		FY2017 Actual		change	
					amount	%
Japan	194.6	20%	193.2	20%	1.3	1%
Asia	82.0	8%	75.4	8%	6.6	9%
India	62.9	6%	65.1	7%	-2.2	-3%
Oceania	151.8	15%	151.9	16%	-0.1	-0%
Europe	109.1	11%	104.2	11%	4.9	5%
N.America	152.3	16%	136.3	14%	16.0	12%
L.America	15.9	2%	16.1	2%	-0.2	-1%
Russia-CIS	32.6	3%	27.4	3%	5.3	19%
M.East	19.9	2%	23.1	2%	-3.2	-14%
Africa	40.4	4%	44.8	5%	-4.4	-10%
China	118.5	12%	121.6	13%	-3.1	-3%
Total	980.0	100%	959.2	100%	20.8	2%

Overseas ratio

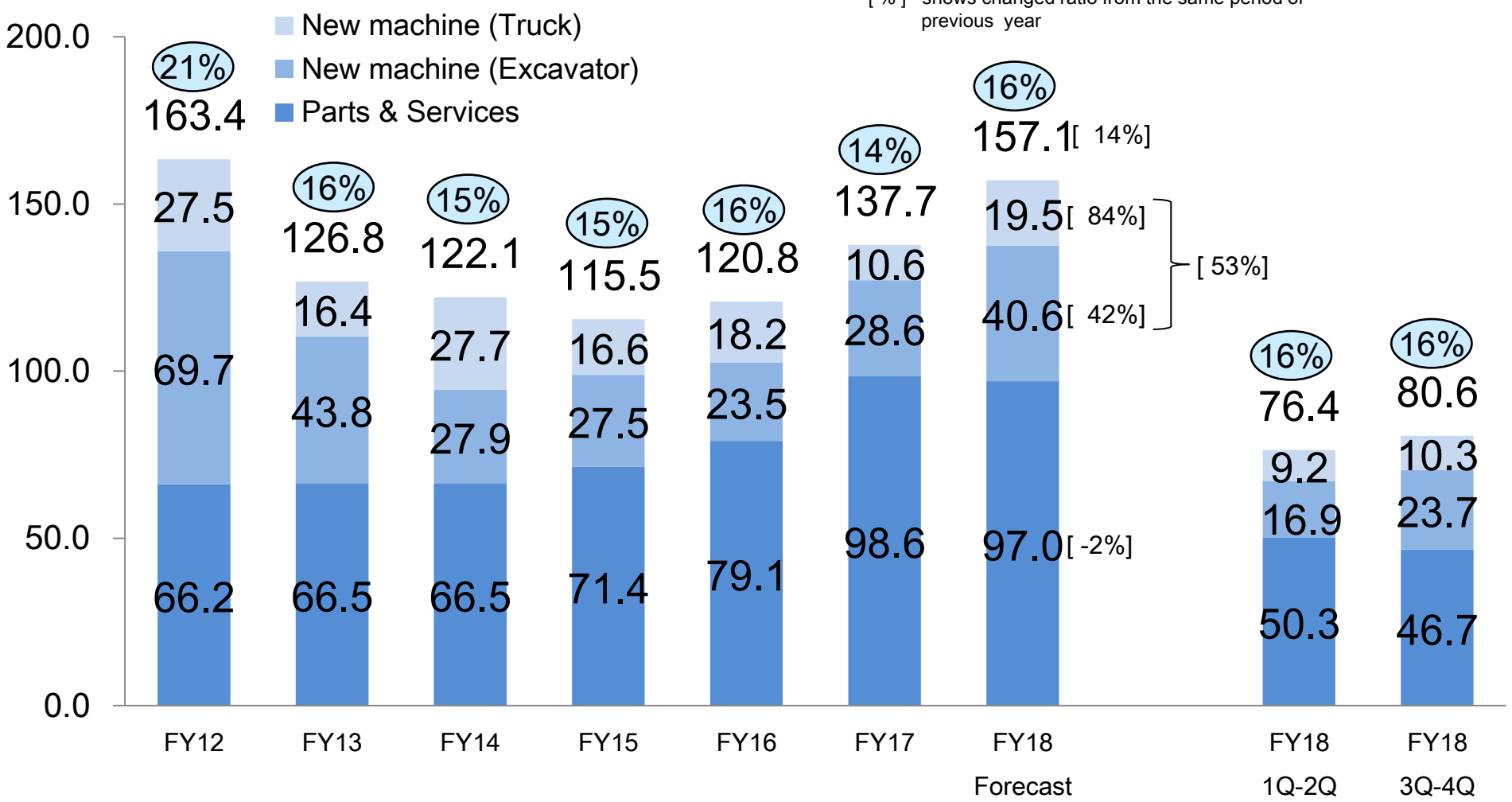
80%

80%

HCM forecasts an increase in FY2018 sales of new machines by 53% compared to the previous year due to the sales volume increase based on demand increase despite the strong yen appreciation of the expected exchange rate. HCM also forecasts that the sales of parts and services will decrease by 2% compared to the previous year due to the impact on yen appreciation of the expected exchange rate.

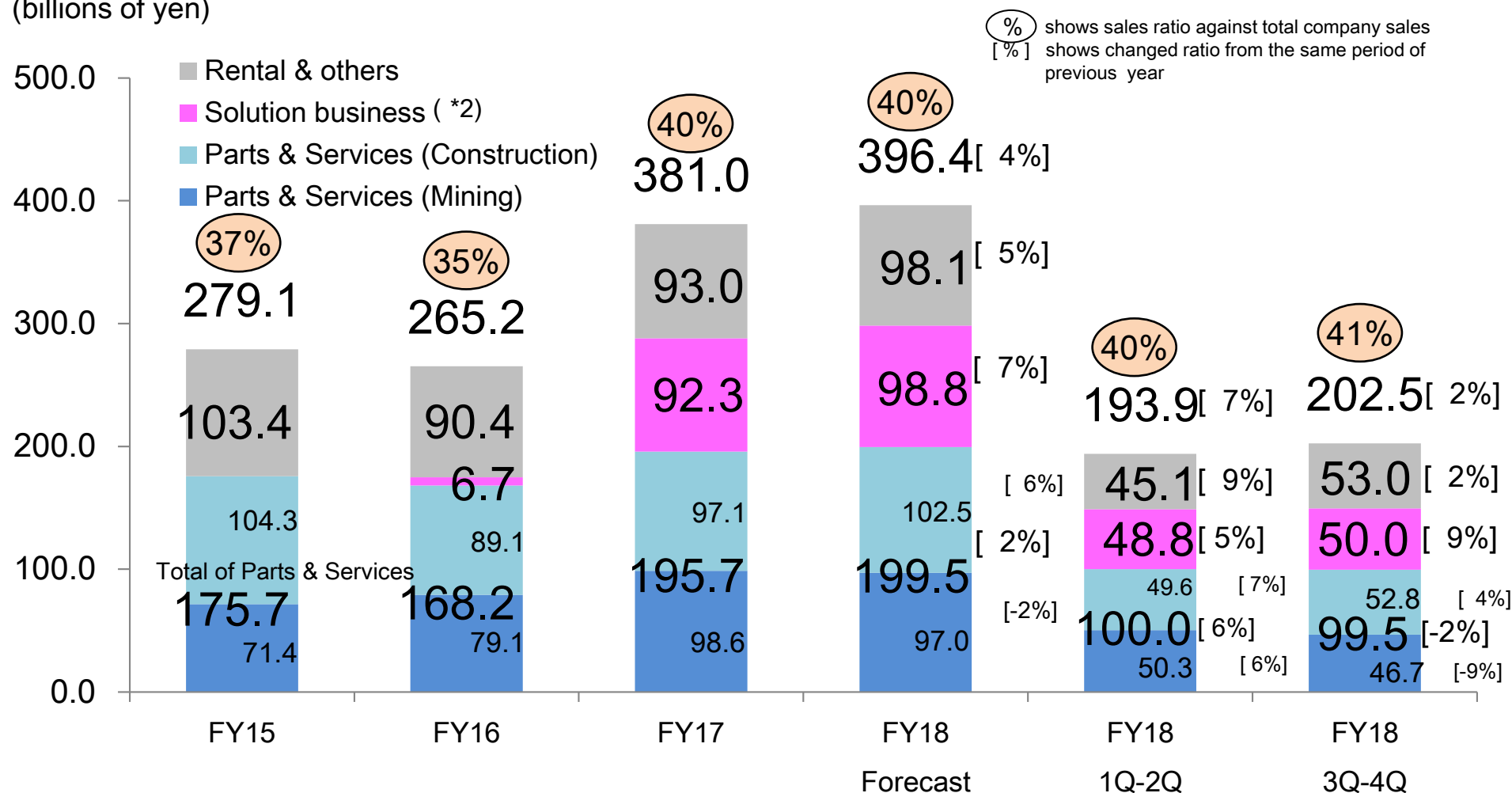
(billions of yen)

(%) shows sales ratio against total company sales
[%] shows changed ratio from the same period of previous year



HCM forecasts an increase in FY2018 sales of the value chain business by 4% compared to the previous year due to the increase in the revenue of solution business, parts and services and rental business despite the strong yen appreciation of the expected exchange rate.

(billions of yen)

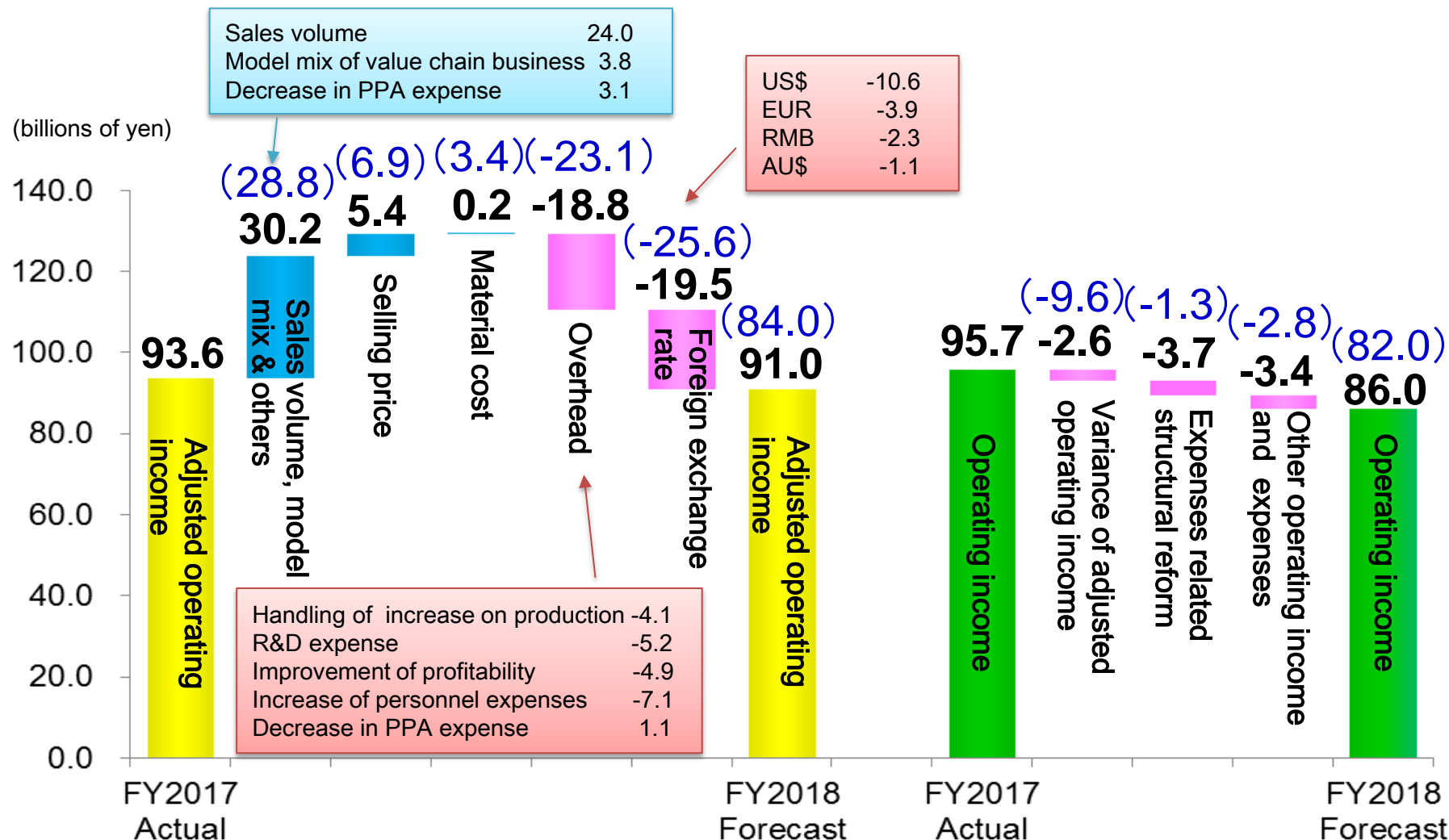


(*1) Value chain: Total of Parts & services, Solution business, Rental etc. other than new machine sales.

(*2) Solution business: Business segment consists of parts manufacturing, sales of parts and services that are not included in construction machinery business.

HCM forecasts FY2018 adjusted operating income to be 91.0 billion yen due to the increase in the sales volume of construction machines, despite the strong yen appreciation of the expected exchange rate and the increase in overheads.

note : () shows previous forecast as of Jul. 2018



[Cautionary Statement]

This material contains forward-looking statements that reflect management's views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results, and business strategies. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured. Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, changes in the economic conditions in the Company's principal markets; changes in demand for the Company's products, changes in exchange rates, and the impact of regulatory changes and accounting principles and practices.

END

For further inquiries:

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<Appendix 1> Retroactive adjustment by completion of PPA in the consolidated statement of income on FY2017

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HCM recognized the amortization based on the asset book value of the company as that of acquisition under IFRS as the process of the purchase price allocation (PPA) of the acquired company takes time. After the completion of PPA, HCM needs to retroactively recognize the difference between the amortization based on the PPA amount and the provisional amortization in the previous fiscal year.

■Retroactive adjustment of adjusted operating income on FY 2017

① Depreciation (Amortization) on PPA in the quarterly FY2017

(billions of yen)

The account item	Assets of evaluation	FY2017 1Q	FY2017 1Q-2Q	FY2017 1Q-3Q	FY2017
Cost of Sales	Inventories	2.7	3.1	3.1	3.1
SGA expenses	Property, plant and equipment	0.1	0.2	0.3	0.4
	Intangibles	0.7	1.2	1.6	1.9
Total		3.6	4.5	5.0	5.4

② Depreciation (Amortization) on PPA of the provisional accounting treatment in the quarterly FY2017

The account item	Assets of evaluation	FY2017 1Q	FY2017 1Q-2Q	FY2017 1Q-3Q	FY2017
Cost of Sales	Inventories	—	0.7	3.1	3.1
SGA expenses	Property, plant and equipment	—	—	—	0.4
	Intangibles	—	0.4	1.6	1.9
Total		—	1.1	4.8	5.4

※For the gray parts, Depreciation (Amortization) of PPA is not reflected in the consolidated statement of income due to the calculation of PPA has not been completed.

③Retroactive adjustment of adjusted operating income on FY 2017 (③=①-②)

The account item	Assets of evaluation	FY2017 1Q	FY2017 1Q-2Q	FY2017 1Q-3Q	FY2017
Cost of Sales	Inventories	2.7	2.4	—	—
SGA expenses	Property, plant and equipment	0.1	0.2	0.3	—
	Intangibles	0.7	0.8	—	—
Total		3.6	3.4	0.3	—

<Appendix 2> Consolidated statement of income before completion of PPA and the retroactive adjustment of PPA

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Shows a comparison between the consolidated statement of income before the completion of PPA on the second quarter of FY2017 announced in October 2017 and the consolidated statement of income for the second quarter of FY2018. The details of the retroactive adjustment of PPA are as follows.

		[Announced this time]		[Please refer to appendix 1]		[Announced in October 25, 2017]		(billions of yen)	
	FY2018 1Q-2Q		FY2017 1Q-2Q (After PPA completion)		Adjustment	FY2017 1Q-2Q (Before PPA completion)		change	
								amount	%
Revenue		490.4		440.3	0.0		440.3	50.1	11%
Cost of Sales	(71.4%)	350.2	(74.0%)	325.9	2.4	(73.5%)	323.5	26.7	8%
SGA expenses	(17.7%)	86.8	(18.2%)	80.1	1.0	(18.0%)	79.1	7.7	10%
Adjusted operating income *1	(10.9%)	53.4	(7.8%)	34.2	3.4	(8.5%)	37.6	15.7	42%
Other Income/expenses		-2.9		1.7	0.0		1.7	-4.5	-
Operating income	(10.3%)	50.5	(8.2%)	35.9	3.4	(8.9%)	39.3	11.2	29%
Financial income/expenses		-3.5		-1.4	0.0		-1.4	-2.1	155%
Share of profits of investments accounted for using the equity method		1.7		2.2	0.0		2.2	-0.5	-21%
Income before income taxes	(9.9%)	48.7	(8.3%)	36.7	3.4	(9.1%)	40.1	8.6	21%
Income taxes		13.8		10.1	-1.1		11.2	2.6	23%
Net income	(7.1%)	34.9	(6.0%)	26.6	2.3	(6.6%)	28.9	6.0	21%
Net income attributable to owners of the parent		0.0			0.0				
	(6.2%)	30.2	(5.3%)	23.2	2.3	(5.8%)	25.5	4.7	18%
Comprehensive income		32.8		38.1	2.3		40.5	-7.7	-19%

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

(billions of yen)

FX rate and FX sensitivity

Currency	FX rate				FX sensitivity (3Q-4Q)		
	FY18			FY17 Actual	Condition	Revenue	Adjusted operating income
	1Q-2Q Actual	3Q-4Q Forecast	Total Forecast				
US\$	110.3	100.0	104.7	110.9	Impact by 1 yen depreciation	1.1	0.9
EURO	129.9	120.0	124.3	130.1	Impact by 1 yen depreciation	0.4	0.4
RMB	16.8	15.5	16.0	16.8	Impact by 0.1 yen depreciation	0.5	0.2
AU\$	82.0	79.0	80.6	85.7	Impact by 1 yen depreciation	1.1	0.1

<Appendix 4> Detail of mining revenue

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(billions of yen)

		FY17 Actual			FY18 Forecast			Change		
		1-2Q	3-4Q	Year	1-2Q	3-4Q	Year	1-2Q	3-4Q	Year
America	Excavator	7.1	6.5	13.6	6.4	5.9	12.3	-0.7	-0.6	-1.4
	Dump Truck	4.1	3.7	7.8	3.4	2.6	6.0	-0.7	-1.1	-1.7
	Total	11.2	10.2	21.4	9.8	8.5	18.3	-1.4	-1.7	-3.1
Europe, Africa and Middle East	Excavator	8.4	9.8	18.2	11.7	13.2	25.0	3.3	3.5	6.8
	Dump Truck	7.0	8.9	15.9	6.8	10.8	17.6	-0.2	1.9	1.7
	Total	15.5	18.6	34.1	18.6	24.0	42.6	3.1	5.4	8.5
Asia & Oceania	Excavator	26.0	32.7	58.7	29.1	34.0	63.2	3.1	1.3	4.5
	Dump Truck	7.6	13.5	21.1	18.0	12.6	30.7	10.5	-0.9	9.6
	Total	33.5	46.2	79.8	47.1	46.7	93.8	13.6	0.5	14.1
China	Excavator	0.8	1.1	1.9	0.5	0.6	1.2	-0.2	-0.5	-0.7
	Dump Truck	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.1
	Total	0.8	1.2	2.0	0.6	0.7	1.3	-0.2	-0.5	-0.7
Japan	Excavator	0.4	0.1	0.5	0.3	0.7	1.0	-0.1	0.6	0.5
	Dump Truck	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total	0.4	0.1	0.5	0.3	0.7	1.0	-0.1	0.6	0.5
Total	Excavator	42.7	50.2	92.9	48.2	54.5	102.6	5.4	4.3	9.7
	Dump Truck	18.7	26.1	44.8	28.3	26.2	54.4	9.5	0.1	9.6
	Total	61.4	76.3	137.7	76.4	80.6	157.1	15.0	4.3	19.3

<Appendix 5> Segment information

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The amortizations of PPA are included in the adjusted operating income of the solution business. The amounts of 0.6 billion yen are included in the second quarter of FY2018, and the 1.2 billion yen forecast for FY2018.

(billions of yen)

< Actual > FY2018 1Q-2Q	Reportable segment		Adjustments *1	Total
	Construction Machinery Business	Solution Business		
Revenue	442.1	49.0	-0.7	490.4
Adjusted operating income	11.4% 50.6	5.7% 2.8	-	10.9% 53.4

(billions of yen)

< Forecast > FY2018	Reportable segment		Adjustments *1	Total
	Construction Machinery Business	Solution Business		
Revenue	881.2	99.5	-0.7	980.0
Adjusted operating income	9.6% 84.9	6.1% 6.1	-	9.3% 91.0

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

<Appendix 6> Actual and forecast of consolidated capital expenditures, depreciation, and R&D expenses

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1.Capital Expenditure (Based on completion) (billion of yen)

	FY2015	FY2016	FY2017	FY2018 1Q-2Q	FY2018 3Q-4Q	FY2018
	Actual	Actual	Actual	Actual	Forecast	Forecast
Capital Expenditure	21.0	14.1	18.7	12.3	28.8	41.1
Assets held for operating lease	14.1	16.5	23.1	12.0	15.6	27.5
Total	35.2	30.7	41.8	24.2	44.4	68.6

2.Depreciation (tangible and intangible fixed assets) (billion of yen)

	FY2015	FY2016	FY2017	FY2018 1Q-2Q	FY2018 3Q-4Q	FY2018
	Actual	Actual	Actual	Actual	Forecast	Forecast
Capital Expenditure	23.7	22.4	27.5	13.0	13.3	26.2
Assets held for operating lease	11.8	11.5	10.3	4.9	5.9	10.8
Total	35.4	34.0	37.8	17.9	19.2	37.1

3.R&D expenses (billion of yen)

	FY2015	FY2016	FY2017	FY2018 1Q-2Q	FY2018 3Q-4Q	FY2018
	Actual	Actual	Actual	Actual	Forecast	Forecast
Total of consolidation	18.8	19.3	24.6	12.1	17.7	29.8