

Consolidated Financial Results for the Third Quarter Ended December 31, 2018 (IFRS)

January 30, 2019

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

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

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

Representative: Kotaro Hirano, President and Executive Officer

Scheduled date for submission of the Quarterly Securities Report: February 13, 2019

Scheduled date of commencement of payment of dividends: —

Supplementary materials to the financial statements have been prepared: Yes

Presentation will be held to explain the financial statements: Yes (for institutional investors, analysts and journalists)

(Rounded off to the nearest million)

1. Consolidated results for the third quarter ended December (April 1, 2018 to December 31, 2018)

(1) Consolidated results

(The percentages indicated show changes from the same period of the previous fiscal year.)

	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	%
December 31, 2018	743,192	8.7	85,115	29.4	78,886	14.5	57,937	18.8	51,307	20.1	43,861	(33.8)
December 31, 2017	683,902	34.9	65,763	497.1	68,901	632.4	48,754	905.2	42,709	—	66,206	—

"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 third quarter ended December is as below.

December 31, 2018: ¥81,336million YoY 19.0% December 31, 2017: ¥68,324million YoY 736.6%

Note. During the fiscal year ended March 31, 2018, the company finalized the provisional accounting treatment for business combinations. Numbers in the December, 2017 results reflect important revisions resulting from the completion of the provisional accounting treatment.

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
	Yen	Yen
December 31, 2018	241.27	241.27
December 31, 2017	200.83	200.83

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

December 31, 2018: ¥3,048million December 31, 2017: ¥2,863million

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio
	Millions of yen	Millions of yen	Millions of yen	%
December 31, 2018	1,142,634	527,165	468,036	41.0
March 31, 2018	1,089,796	505,030	448,502	41.2

2. Dividends status

	Cash dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2018	—	36.00	—	49.00	85.00
March 31, 2019	—	43.00			
March 31, 2019 (Projection)				—	—

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

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

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

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

(The percentages indicated show changes from the same period of the previous fiscal year.)

	Revenue		Adjusted Operating income		Income before income taxes		Net income attributable to owners of the parent		Net income attributable to owners of the parent per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
March 31, 2019	1,000,000	4.3	100,000	6.9	92,000	(3.8)	58,000	(3.3)	272.74

Notes: 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 2019 is as below.

March 31, 2019: ¥94,000million YoY (1.8) %

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

[1] Number of outstanding shares (including treasury shares)			
December	2018	215,115,038	
March	2018	215,115,038	
[2] Number of treasury shares			
December	2018	2,460,042	
March	2018	2,457,970	
[3] Average number of common shares outstanding during the fiscal year (shares)			
December	2018	212,656,054	
December	2017	212,659,540	

Indication of audit procedure implementation status

This earnings report is exempt from audit procedure.

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

Any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially. Please refer to "1. Management Performance and Financial Conditions, (3) Outlook for the Fiscal Year Ending March 2019" of the attachment for conditions serving as assumptions for results forecasts.

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1. Management Performance and Financial Conditions

(1) Management Results

Note. During the fiscal year ended March 31, 2018, the company finalized the provisional accounting treatment for business combinations. Numbers in the December 2017 results reflect important revisions resulting from the completion of the provisional accounting treatment.

The HCM Group launched a new mid-term management plan, “CONNECT TOGETHER 2019,” in April 2017. We are promoting the development of “Solution Linkage” utilizing ICT and IoT to offer solutions to customers’ challenges on safety, productivity, and decrease in lifecycle costs. And, to expand the source of revenue besides new machine sales in addition to the existing parts & service business, we are expanding the value chain (Parts & Services, Solution business, Rental etc. other than new machine sales) by enhancing the parts & service business for mining machines and facilities provided by H-E Parts and Bradken, HCM’s consolidated subsidiary that we acquired in FY2016, and by entry into the Rental business in North America through ACME.

We promoted enhancement of the parts & service business through a globally launched service called “ConSite,” and added to the menus of “ConSite” the newly launched “ConSite OIL,” the first service in the industry to predict problems of engines and hydraulic equipment by remotely inspecting the condition of its oil by oil sensors installed in each machine, in order to contribute to reducing customers’ lifecycle costs.

In the Amsterdam factory of Hitachi Construction Machinery Europe, we opened ICT demonstration sites where customers can experience ICT construction. We also decided to introduce ICT hydraulic excavators to the European market, which will be the first time in the overseas market, to strive to spread ICT construction beyond the Japanese market.

We are focusing on expanding sales of the well-accepted AC-3 series of rigid dump trucks equipped with an advanced vehicle body stability-assist function, in addition to offering a fleet management system and aggressively developing an autonomous haulage system (AHS) to optimize the mining operations that we promote jointly with Whitehaven Coal in Australia, by taking advantage of the Hitachi Group’s strengths.

Additionally, as we announced in September 2018, we are working to restructure the main domestic bases to further strengthen technical capability and product development to create a more efficient production system. At the same time, we are working to optimize capital investments and reduce fixed costs, establishing a high profit structure.

Also, at five factories in Ibaraki Prefecture, we utilize Hitachi’s EMilia via IoT technology, which achieves visualization of energy consumption to cut electricity peaks and decreases in standby electricity. Also, we are promoting to improve energy productivity by using originally developed equipment to collect unused energy, etc. These activities are well appraised and we won the ECCJ Chairman Prize of the Energy Conservation Grand Prize for excellent energy conservation equipment for fiscal year 2018 (hosted by The Energy Conservation Center, Japan).

Consolidated revenue for this term (April 1, 2018 to December 31, 2018) increased by 8.7% year on year to ¥743,192 million due to increased sales of new machines mainly in Asia and Oceania, North America, Europe and China, as well as increased sales of the value chain business mainly from parts & services.

Adjusted operating income increased by 29.4% year on year to ¥85,115 million, operating

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

income increased by 19.0% to ¥81,336 million, and net income attributable to the owners of the parent increased by 20.1% to ¥51,307 million due to a decrease in the cost of sales, in addition to the contribution of parts & service business and mining business.

Business results by segment are described below.

1. Construction machinery business

Demand for hydraulic excavators increased globally year on year except in Japan, the Middle East, and Africa. As for mining machinery, demand grew year on year by the increased CAPEX of mining companies.

Consolidated revenue of the construction machinery business for this term (April 1, 2018 to December 31, 2018) increased by 9.0% year on year to ¥670,075 million due to increased sales of new machines in construction and mining, as well as increased sales of the value chain business mainly from parts & services

Adjusted operating income increased by 24.5% to ¥80,582 million due to the contribution of increased sales in new machines, parts & services, and rental, although there were increased expenses in accordance with increased production, and increased overhead costs such as R&D expenses.

2. Solution business

This segment consists of H-E Parts and Bradken, which we acquired in FY2016. H-E Parts mainly provides services and solutions required for machinery and equipment for mining. Bradken supplies wear parts for fixed mining plants and mobile mining equipment, and also provides maintenance and servicing for them.

Consolidated revenue of the solution business for this term (April 1, 2018 to December 31, 2018) increased by 5.8% year on year to ¥73,576 million because of the steady contribution to its revenue from solutions for mining machines in the Americas, Europe, Russia-CIS, etc. Adjusted operating income increased by 328.4% to ¥4,533 million and it includes expenses of amortization for intangible assets due to purchase price allocation (PPA).

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 December 2018.
(Millions of yen)

	Current consolidated cumulative third quarter (April 1, 2018- December 31, 2018) (A)	Previous consolidated cumulative third quarter (April 1, 2017- December 31, 2017) (B)	Change Increase (Decrease)	
			(A)-(B)	(%) (A)/(B)-1
Revenue	743,192	683,902	59,290	8.7
Adjusted operating income*	85,115	65,763	19,352	29.4
Operating income	81,336	68,324	13,012	19.0
Income before income taxes	78,886	68,901	9,985	14.5
Net income attributable to owners of the parent	51,307	42,709	8,598	20.1

* “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.
(Millions of yen)

	Current consolidated cumulative third quarter (April 1, 2018- December 31, 2018)		Previous consolidated cumulative third quarter (April 1, 2017- December 31, 2017)		Change Increase (Decrease)	
	Revenue (A)	Proportion (%)	Revenue (B)	Proportion (%)	(A)-(B)	(%) (A)/(B)-1
	North America	124,207	16.7	103,269	15.1	20,938
Central and South America	13,032	1.8	11,658	1.7	1,374	11.8
The Americas	137,239	18.5	114,927	16.8	22,312	19.4
Europe	76,747	10.3	71,191	10.4	5,556	7.8
Russia-CIS	24,328	3.3	19,979	2.9	4,349	21.8
Africa	29,762	4.0	34,218	5.0	(4,456)	(13.0)
Middle East	8,994	1.2	11,795	1.7	(2,801)	(23.7)
Russia-CIS, Africa, and the Middle East	63,084	8.5	65,992	9.6	(2,908)	(4.4)
Asia	62,523	8.4	54,930	8.0	7,593	13.8
India	49,696	6.7	45,558	6.7	4,138	9.1
Oceania	125,974	17.0	110,643	16.2	15,331	13.9
Asia and Oceania	238,193	32.0	211,131	30.9	27,062	12.8
China	82,383	11.1	78,330	11.5	4,053	5.2
Sub-total	597,646	80.4	541,571	79.2	56,075	10.4
Japan	145,546	19.6	142,331	20.8	3,215	2.3
Total	743,192	100.0	683,902	100.0	59,290	8.7

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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 third quarter amounted to ¥645,029 million, an increase of 7.9%, or ¥47,200 million, from the previous fiscal year-end. This was due mainly to an increase of ¥70,322 million in inventories despite a decrease of ¥22,227 million in cash and cash equivalents and 14,822 million in trade receivables. Non-current assets amounted to ¥497,605 million, an increase of 1.1%, or ¥5,638 million, from the previous fiscal year-end. This was due mainly to an increase of ¥5,025 million in property, plant and equipment.

As a result, total assets increased 4.8%, or ¥52,838 million, from the previous fiscal year-end to ¥1,142,634 million.

(b) Liabilities

Current liabilities amounted to ¥443,544 million, an increase of 21.0%, or ¥77,122 million, from the previous fiscal year-end. This was primarily due to an increase of ¥116,586 million in bonds and borrowings despite a decrease of ¥33,820 million in trade and other payables.

Non-current liabilities decreased by 21.3%, or ¥46,419 million, from the previous fiscal year-end to ¥171,925 million. This was mainly due to a decrease of ¥40,138 million in bonds and borrowings.

As a result, total liabilities increased by 5.3%, or ¥30,703 million, from the previous fiscal year-end to ¥615,469 million.

(c) Equity

Total equity increased by 4.4%, or ¥22,135 million, from the previous fiscal year-end to ¥527,165 million.

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[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the third quarter totaled ¥59,702 million, a decrease of ¥22,227 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

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

Net cash provided by (used in) operating activities for the third quarter based on ¥57,937 million in net income, and included ¥23,914 million in depreciation, a ¥9,860 million decrease of trade receivables as cash inflow, a ¥27,689 million decrease in trade payables, a ¥78,907 million increase in inventories, and a ¥27,252 million income tax paid as cash outflow.

As a result, net cash used in operating activities for the third quarter totaled ¥49,161 million, a decrease of ¥96,494 million year on year.

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

Net cash used in investing activities for the third quarter amounted to ¥19,848 million, a decrease of ¥9,556 million year on year. This was mainly due to a ¥18,128 million of capital expenditures and a ¥1,003 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 used in operating activities and net cash used in investing activities, amounted to an outflow of ¥69,009 million.

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

Net cash provided by financing activities for the third quarter amounted ¥49,686 million, an increase of ¥53,392 million year on year. This was due mainly to an increase of ¥10,132 million in Proceeds from long-term debt and bond and an increase of ¥67,925 in short-term debt, despite an outlay of ¥23,541 million in dividends paid (including dividends paid to non-controlling interests).

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(3) Outlook for the Fiscal Year Ending March 2019

Regarding global hydraulic excavator demand in FY2018 (from April 1, 2018 to March 31, 2019), we forecast a decrease by 4,000 units from our forecast as of the second quarter, which is a slight increase from the previous year. As for mining machinery, a slight increase in demand for ultra-large dump trucks and excavators is expected, led by an expected continuing increase in miners' capital spending. Especially for the ultra-large dump truck and hydraulic excavator, demand for them will remain the same as we forecast to increase as of the beginning of the fiscal year.

While there are the signs of changes in some markets, we try to catch the changes in the trend of the global market by paying closer attention than ever. At the same time, we are working to improve sales marketing and to enhance an efficient production system to respond the changes quickly.

Although there are some concerns such as economic conflict between US and China, as well as Brexit, we revise the consolidated earnings forecast for FY2018 for the HCM group (from April 1, 2018 to March 31, 2019) as follows in accordance with the results of the third quarter/nine months ended December 2018.

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

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

	Revenue	Adjusted Operating Income	Operating income	Income before income taxes	Net income attributable to owners of the parent	Net income attributable to owners of the parent per share (basic)
Previous forecast (A)	¥Millions 980,000	¥Millions 91,000	¥Millions 86,000	¥Millions 84,000	¥Millions 51,000	Yen 239.82
Forecast (B)	1,000,000	100,000	94,000	92,000	58,000	272.74
Change (B)-(A)	20,000	9,000	8,000	8,000	7,000	
% Change	2.0	9.9	9.3	9.5	13.7	
(Reference) FY2017	¥Millions 959,153	¥Millions 93,582	¥Millions 95,737	¥Millions 95,612	¥Millions 60,004	Yen 282.16

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.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Third quarter As of Dec. 31, 2018 (A)	Previous fiscal year-end As of Mar. 31, 2018 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	59,702	81,929	(22,227)
Trade receivables	204,777	219,599	(14,822)
Inventories	325,945	255,623	70,322
Other financial assets	34,406	29,923	4,483
Other current assets	17,583	10,342	7,241
Subtotal	642,413	597,416	44,997
Assets held for sale	2,616	413	2,203
Total current assets	645,029	597,829	47,200
Non-current assets			
Property, plant and equipment	305,012	299,987	5,025
Intangible assets	40,853	37,748	3,105
Goodwill	34,659	35,016	(357)
Investments accounted for using the equity method	31,588	29,549	2,039
Trade receivables	40,292	41,392	(1,100)
Deferred tax assets	17,269	17,463	(194)
Other financial assets	16,886	20,148	(3,262)
Other non-current assets	11,046	10,664	382
Total non-current assets	497,605	491,967	5,638
Total assets	1,142,634	1,089,796	52,838
Liabilities			
Current liabilities			
Trade and other payables	234,410	268,230	(33,820)
Bonds and borrowings	186,478	69,892	116,586
Income taxes payable	8,965	11,000	(2,035)
Other financial liabilities	10,888	11,584	(696)
Other current liabilities	2,803	5,716	(2,913)
Total current liabilities	443,544	366,422	77,122
Non-current liabilities			
Trade and other payables	15,995	18,839	(2,844)
Bonds and borrowings	120,635	160,773	(40,138)
Retirement and severance benefit	17,496	17,341	155
Deferred tax liabilities	10,678	11,314	(636)
Other financial liabilities	1,104	2,354	(1,250)
Other non-current liabilities	6,017	7,723	(1,706)
Total non-current liabilities	171,925	218,344	(46,419)
Total liabilities	615,469	584,766	30,703
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	81,991	81,991	-
Retained earnings	311,098	279,201	31,897
Accumulated other comprehensive income	(3,553)	8,802	(12,355)
Treasury stock, at cost	(3,077)	(3,069)	(8)
Total Equity attribute to owners of the parent	468,036	448,502	19,534
Non-controlling interests	59,129	56,528	2,601
Total equity	527,165	505,030	22,135
Total liabilities and equity	1,142,634	1,089,796	52,838

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated cumulative quarter

Consolidated Statements of Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2018 (A)	Third quarter Nine months ended Dec. 31, 2017 (B)	(A)/(B)×100 (%)
Revenue	743,192	683,902	109
Cost of sales	(525,283)	(496,158)	106
Gross profit	217,909	187,744	116
Selling, general and administrative expenses	(132,794)	(121,981)	109
Adjusted operating income	85,115	65,763	129
Other income	3,494	5,346	65
Other expenses	(7,273)	(2,785)	261
Operating income	81,336	68,324	119
Financial income	3,191	2,319	138
Financial expenses	(8,689)	(4,605)	189
Share of profits of investments accounted for using the equity method	3,048	2,863	106
Income before income taxes	78,886	68,901	114
Income taxes	(20,949)	(20,147)	104
Net income	57,937	48,754	119
Net income attributable to			
Owners of the parent	51,307	42,709	120
Non-controlling interests	6,630	6,045	110
Total net income	57,937	48,754	119
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	241.27	200.83	120
Net income per share (Diluted) (yen)	241.27	200.83	120

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2018 (A)	Third quarter Nine months ended Dec. 31, 2017 (B)	(A)/(B)×100 (%)
Net income	57,937	48,754	119
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	(2,077)	1,850	-
Remeasurements of defined benefit obligations	77	2	-
Other comprehensive income of equity method associates	8	7	114
Items that can be reclassified into net income			
Foreign currency translation adjustments	(12,239)	16,076	-
Cash flow hedges	225	(266)	-
Other comprehensive income of equity method associates	(70)	(217)	32
Other comprehensive income, net of taxes	(14,076)	17,452	-
Comprehensive income	43,861	66,206	66
Comprehensive income attributable to			
Owners of the parent	39,074	57,786	68
Non-controlling interests	4,787	8,420	57

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
Third quarter nine months ended Dec. 31, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	81,991	279,201	(1,232)	8,992	149
Cummulative impact of change in accounting policy			32			
Balance at beginning of period reflected change in accounting policy	81,577	81,991	279,233	(1,232)	8,992	149
Net income			51,307			
Other comprehensive income				96	(2,075)	225
Comprehensive income	-	-	51,307	96	(2,075)	225
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(19,564)			
Transfer to retained earnings			122		(122)	
Expiration of subscription rights						
Transaction with owners	-	-	(19,442)	-	(122)	-
Balance at end of period	81,577	81,991	311,098	(1,136)	6,795	374

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	893	8,802	(3,069)	448,502	56,528	505,030
Cummulative impact of change in accounting policy		-		32		32
Balance at beginning of period reflected change in accounting policy	893	8,802	(3,069)	448,534	56,528	505,062
Net income		-		51,307	6,630	57,937
Other comprehensive income	(10,479)	(12,233)		(12,233)	(1,843)	(14,076)
Comprehensive income	(10,479)	(12,233)	-	39,074	4,787	43,861
Acquisition of treasury stock			(8)	(8)		(8)
Sale of treasury stock						
Dividends to stockholders of the Company				(19,564)	(2,186)	(21,750)
Transfer to retained earnings		(122)				
Expiration of subscription rights						
Transaction with owners	-	(122)	(8)	(19,572)	(2,186)	(21,758)
Balance at end of period	(9,586)	(3,553)	(3,077)	468,036	59,129	527,165

Consolidated cumulative quarter
Third quarter nine months ended Dec. 31, 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			42,709			
Other comprehensive income				68	1,857	(263)
Comprehensive income	-	-	42,709	68	1,857	(263)
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(9,357)			
Gains/losses on change in equity		(64)				
Transfer to retained earnings			22		(22)	
Expiration of subscription rights		(498)	498			
Transaction with owners	-	(562)	(8,837)	-	(22)	-
Balance at end of period	81,577	81,991	261,898	(881)	9,406	(277)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	3,910	10,518	(3,055)	399,619	50,811	450,430
Net income		-		42,709	6,045	48,754
Other comprehensive income	13,415	15,077		15,077	2,375	17,452
Comprehensive income	13,415	15,077	-	57,786	8,420	66,206
Acquisition of treasury stock		-	(11)	(11)		(11)
Sale of treasury stock		-		-		-
Dividends to stockholders of the Company		-		(9,357)	(1,700)	(11,057)
Gains/losses on change in equity	(119)	(119)		(183)	436	253
Transfer to retained earnings		(22)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	(119)	(141)	(11)	(9,551)	(1,264)	(10,815)
Balance at end of period	17,206	25,454	(3,066)	447,854	57,967	505,821

(4) Consolidated Statements of Cash Flows

Consolidated cumulative quarter

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2018	Third quarter Nine months ended Dec. 31, 2017
Net income	57,937	48,754
Depreciation	23,914	24,060
Amortization of intangible asset	3,471	4,340
Impairment losses	1,769	417
Income tax expense	20,949	20,147
Equity in net earnings of associates	(3,048)	(2,863)
(Gain) loss on sales of property, plant and equipment	(298)	(493)
Financial income	(3,191)	(2,319)
Financial expense	8,689	4,605
(Increase) decrease in trade receivables	9,860	(2,660)
(Increase) decrease in lease receivables	(1,869)	(8,617)
(Increase) decrease in inventories	(78,907)	(33,110)
Increase (decrease) in trade payables	(27,689)	34,723
Increase (decrease) in retirement and severance benefit	276	224
Other	(33,635)	(25,581)
Subtotal	(21,772)	61,627
Interest received	1,839	1,751
Dividends received	1,758	1,144
Interest paid	(3,734)	(4,013)
Income tax paid	(27,252)	(13,176)
Net cash provided by (used in) operating activities	(49,161)	47,333
Capital expenditures	(18,128)	(11,967)
Proceeds from sale of property, plant and equipment	5,058	4,430
Acquisition of intangible assets	(6,101)	(3,197)
Acquisition of investments in securities and other financial assets (including investments in associates)	(1,003)	(17,625)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	301	427
(Increase) decrease in short-term loan receivables, net	167	(1,445)
Collection of long-term loan receivables	23	30
Other	(165)	(57)
Net cash provided by (used in) investing activities	(19,848)	(29,404)
Increase (decrease) in short-term debt, net	67,925	(19,822)
Proceeds from long-term debt and bond	34,370	89,931
Payments on long-term debt	(24,238)	(58,959)
Payments on lease payables	(4,822)	(3,670)
Dividends paid to owners of the parent	(19,562)	(9,363)
Dividends paid to non-controlling interests	(3,979)	(1,829)
Other	(8)	6
Net cash provided by (used in) financing activities	49,686	(3,706)
Effect of exchange rate changes on cash and cash equivalents	(2,904)	2,908
Net increase (decrease) in cash and cash equivalents	(22,227)	17,131
Cash and cash equivalents at beginning of period	81,929	65,455
Cash and cash equivalents at end of period	59,702	82,586

(5)Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There are no relevant items.

(Changes in Accounting Policies)

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

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

(Segment Information)

1) Overview of business segments

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

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

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

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

For the third quarter nine months ended Dec. 31, 2018

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	670,075	73,117	743,192	-	743,192
Intersegment transactions	-	459	459	(459)	-
Total revenues	670,075	73,576	743,651	(459)	743,192
Adjusted operating income	80,582	4,533	85,115	-	85,115
Operating income	80,560	776	81,336	-	81,336
Financial income	-	-	-	3,191	3,191
Financial expenses	-	-	-	(8,689)	(8,689)
Share of profits (losses) of investments accounted for using the equity method	3,048	-	3,048	-	3,048
Income (loss) before income taxes	83,608	776	84,384	(5,498)	78,886

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

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

For the third quarter nine months ended Dec. 31, 2017

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	614,522	69,380	683,902	-	683,902
Intersegment transactions	-	185	185	(185)	-
Total revenues	614,522	69,565	684,087	(185)	683,902
Adjusted operating income(loss)	64,705	1,058	65,763	-	65,763
Operating income	66,916	1,408	68,324	-	68,324
Financial income	-	-	-	2,319	2,319
Financial expenses	-	-	-	(4,605)	(4,605)
Share of profits (losses) of investments accounted for using the equity method	2,863	-	2,863	-	2,863
Income before income taxes	69,779	1,408	71,187	(2,286)	68,901

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

(Important subsequent events)

There are no relevant items.

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