

# Explanatory Meeting for Business Results for the Second Quarter ended September 30, 2019

1. Regional Market Environments and Projections
2. Business Results Outline
3. Q&A

## **Kotaro Hirano**

Representative Executive Officer  
Executive Officer, President & CEO

## **Tetsuo Katsurayama**

Senior Vice President, Executive Officer, CFO

## **Masafumi Senzaki**

Executive Officer      President, Marketing Div.

October 28, 2019

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**We hereby extend our sincere condolences to the people affected by extensive wind and flood damage especially in eastern Japan due to typhoon Hagibis in Japan.**

## 1. Regional Market Environments and Projections

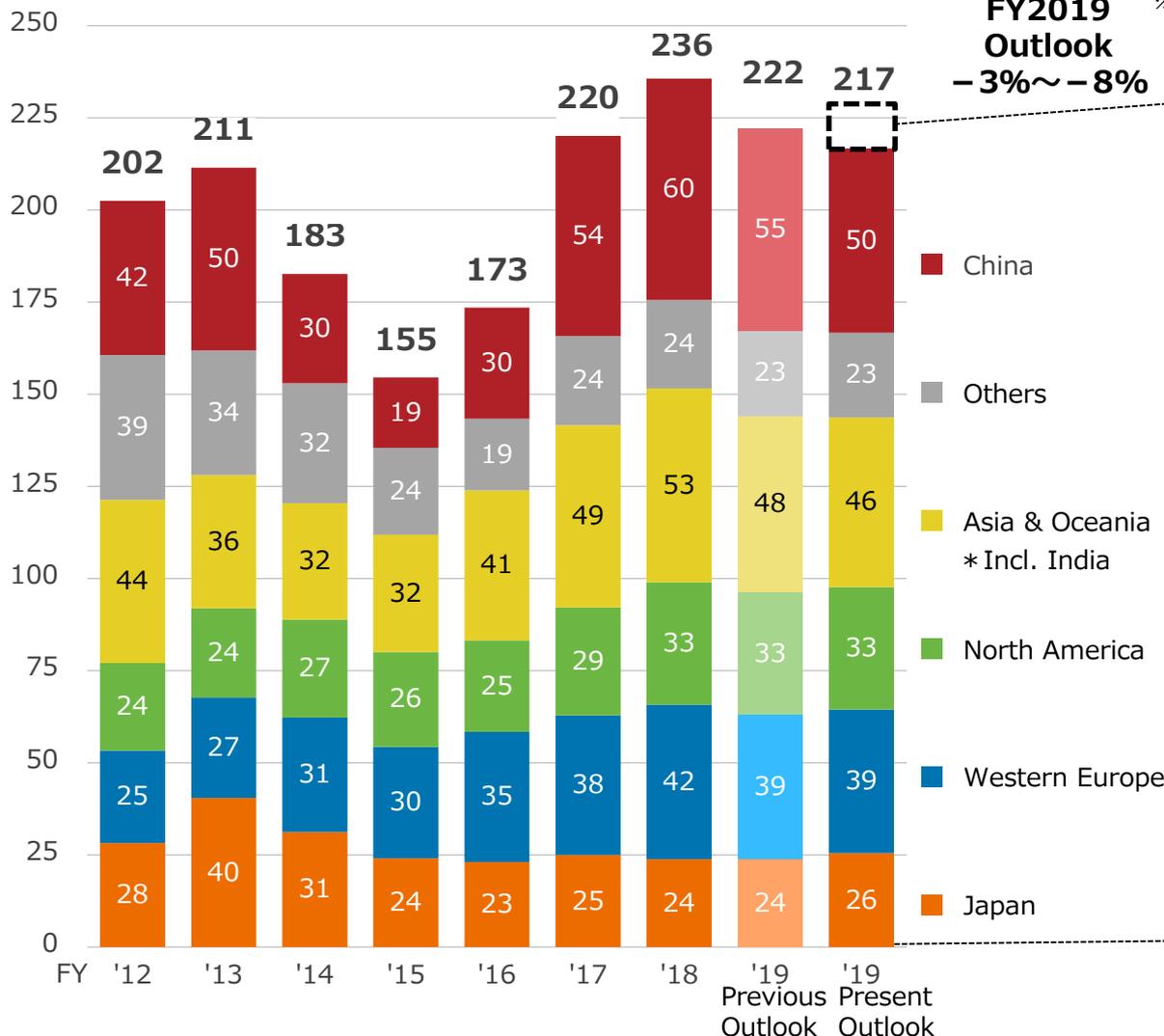
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Masafumi Senzaki

Executive Officer    President, Marketing Div.

# Global Demand Trend for Hydraulic Excavators

(K units)



※Estimates by HCM, Excluding Chinese manufacturers  
 ※Distributing, copying, or forwarding prohibited

**FY2019 Outlook**  
 -3% ~ -8%

## Year-on-Year Change

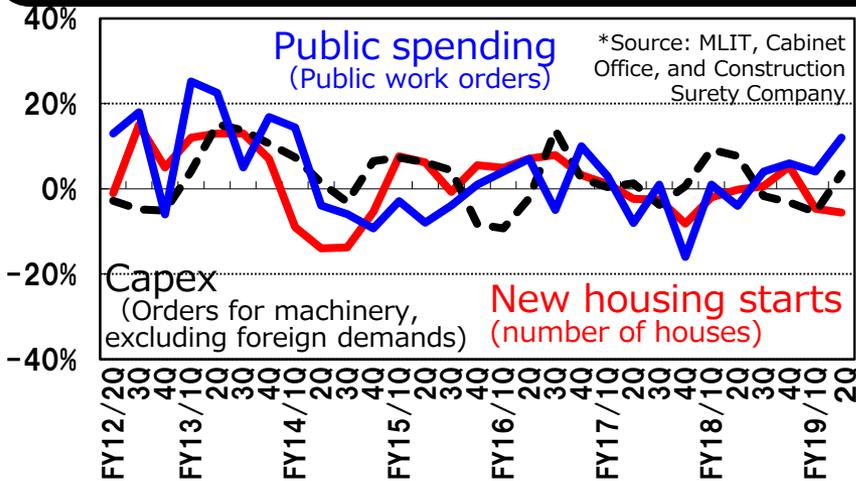
	'18	'19
Total	+7%	-8%
China	+11%	-17%
Russia, CIS, E Europe	+31%	-13%
Africa	-4%	+0%
Middle East	-45%	-2%
Latin	+5%	-5%
Others	-1%	-6%
India	+14%	-11%
Indonesia	+13%	-18%
Others	-3%	-9%
Asia & Oceania	+6%	-12%
N America	+13%	-0%
W Europe	+11%	-7%
Japan	-5%	+7%

■ Emerging Countries ratio FY2019 : 55% (Y-o-Y Change:-3%)

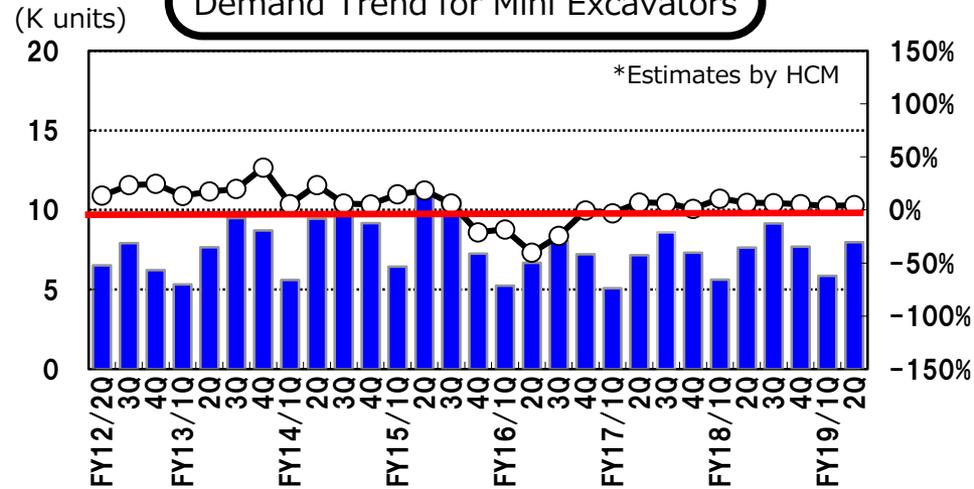
※Emerging Countries: China, Asia/Oceania, and others

- Housing investment decreased, while public investment increased and capital investment slightly increased y-o-y, going steady.
- Demand for hydraulic excavators ,mini excavators and wheel loaders increased (23% 4%, and 31% y-o-y, respectively.)

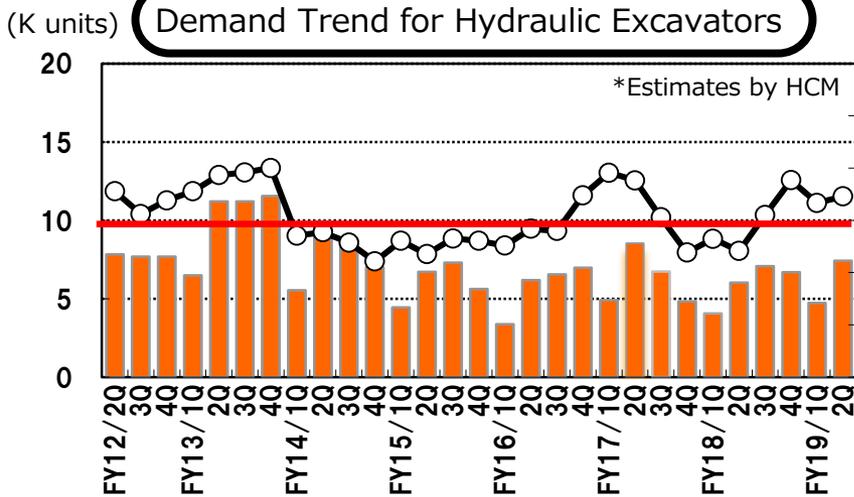
Market Environment: Housing/Public Spending and Capex (y-o-y)



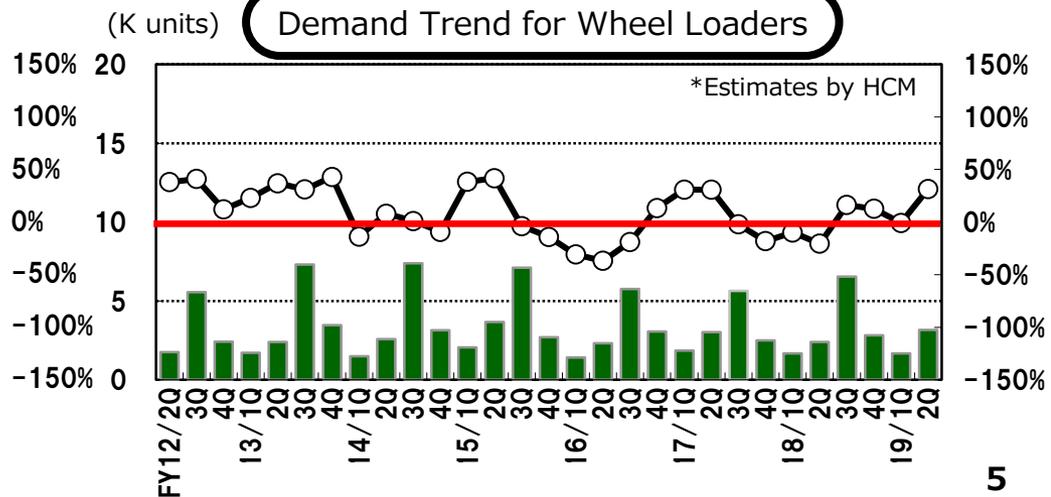
Demand Trend for Mini Excavators



Demand Trend for Hydraulic Excavators



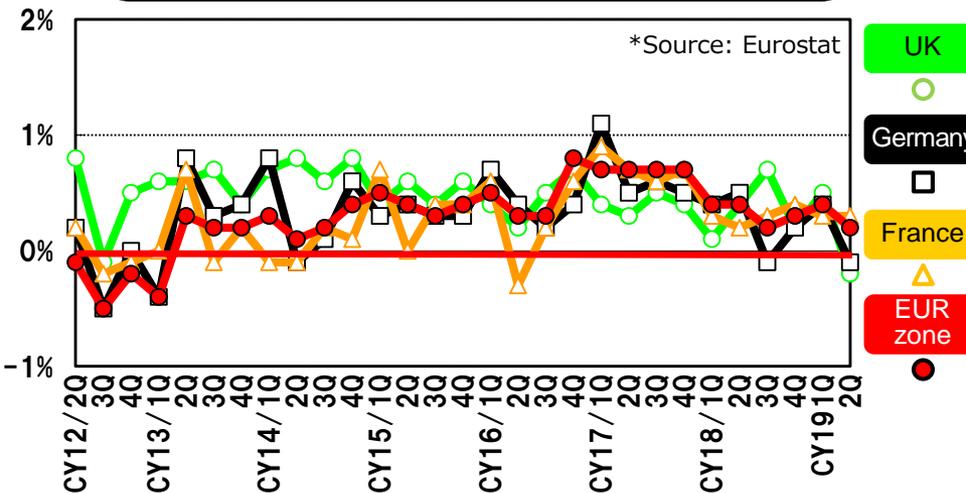
Demand Trend for Wheel Loaders



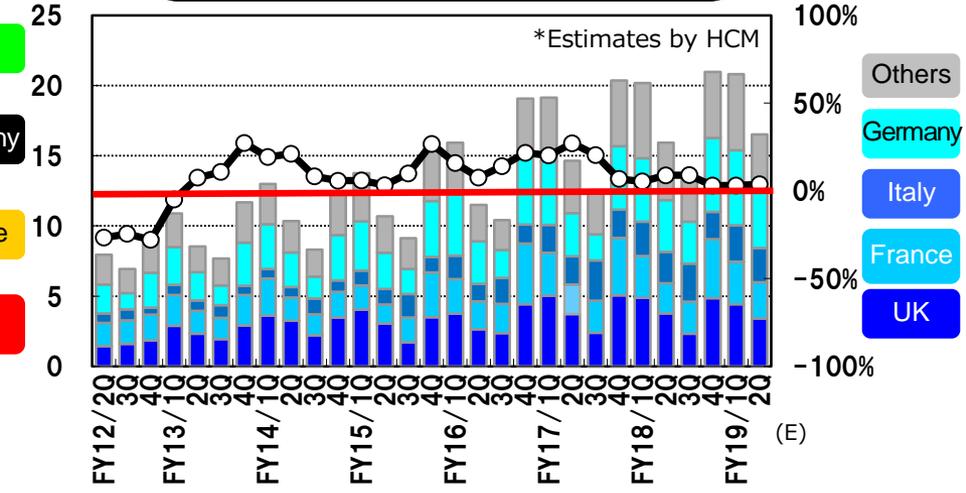
■ Throughout the Eurozone, GDP growth rate slightly increased, while GDP growth rate slightly decreased in UK and Germany.

■ Demand for hydraulic excavators and wheel loaders slightly decreased, while demand for mini excavators slightly increased. (-2%, -1%, and 4% y-o-y, respectively)

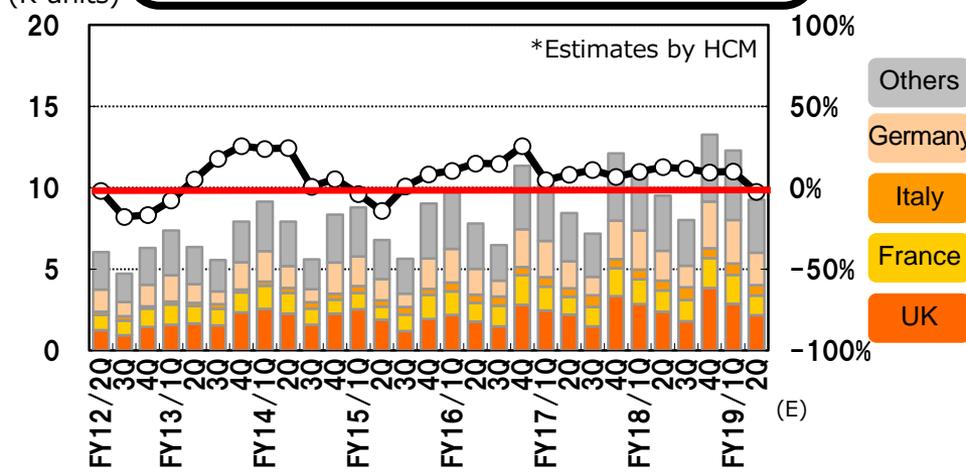
GDP Growth Rate in Major Countries (y-o-y)



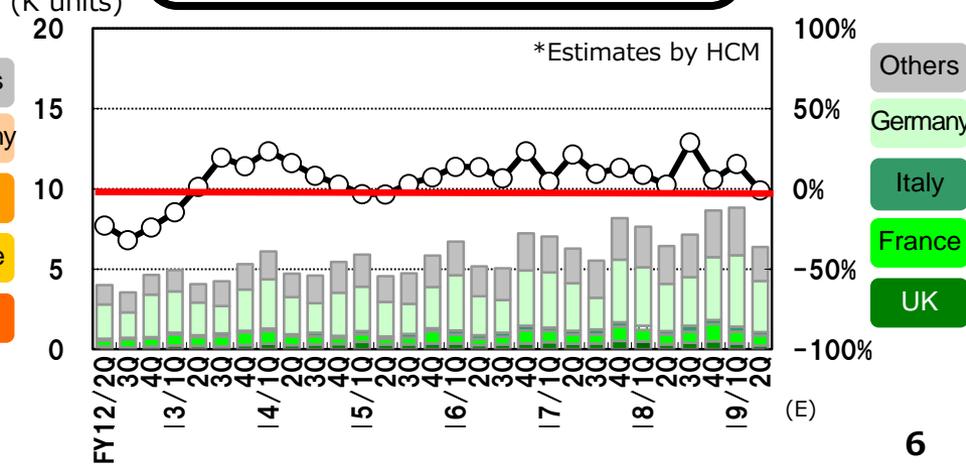
Demand Trend for Mini Excavators



Demand Trend for Hydraulic Excavators

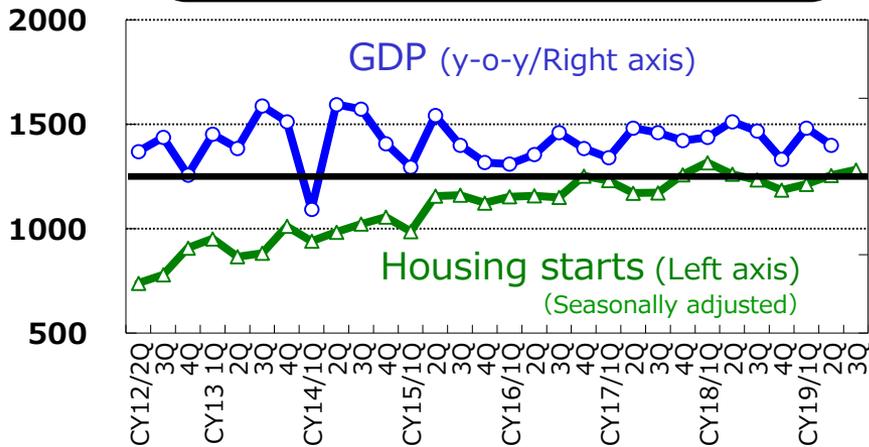


Demand Trend for Wheel Loaders



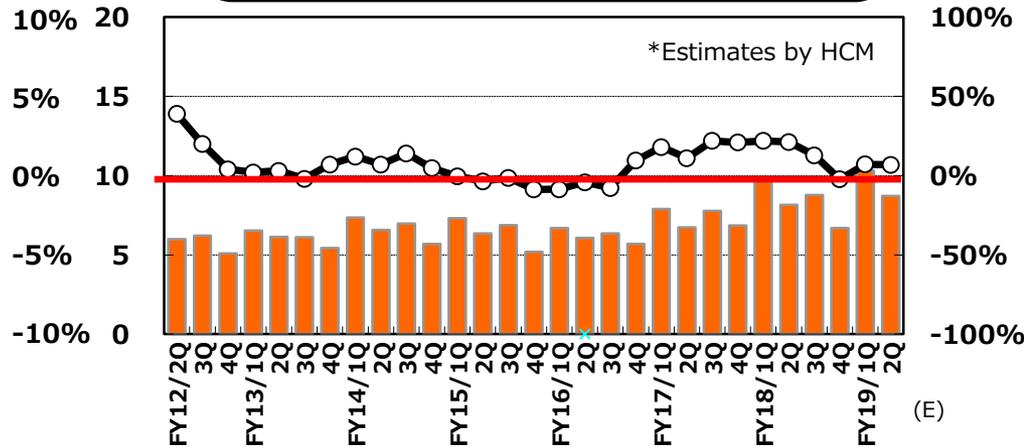
- GDP Growth Rate and Housing starts steadily increased. Public construction spending continues to increase, while residential and non-residential decreased y-o-y.
- Demand for hydraulic excavators increased and demand for mini excavators slightly increased. (+7% and +2% y-o-y, respectively).

(K units) **GDP Growth Rate, Housing Starts in US**



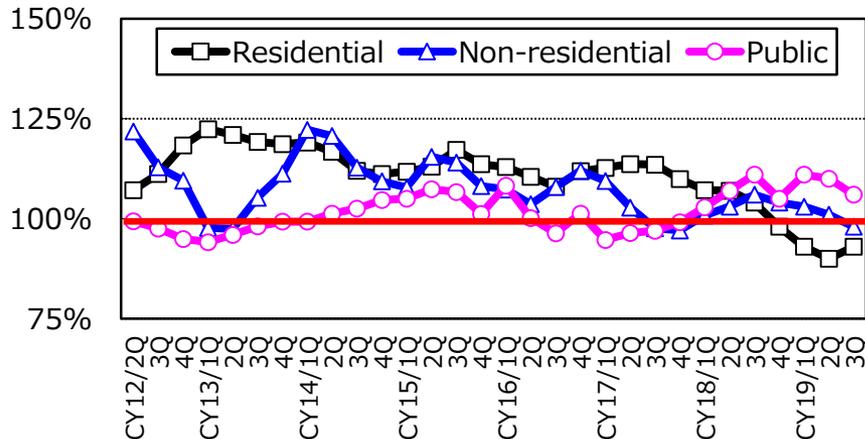
\* Bureau of Economic Census, US Census Bureau

(K units) **Demand Trend for Hydraulic Excavators**



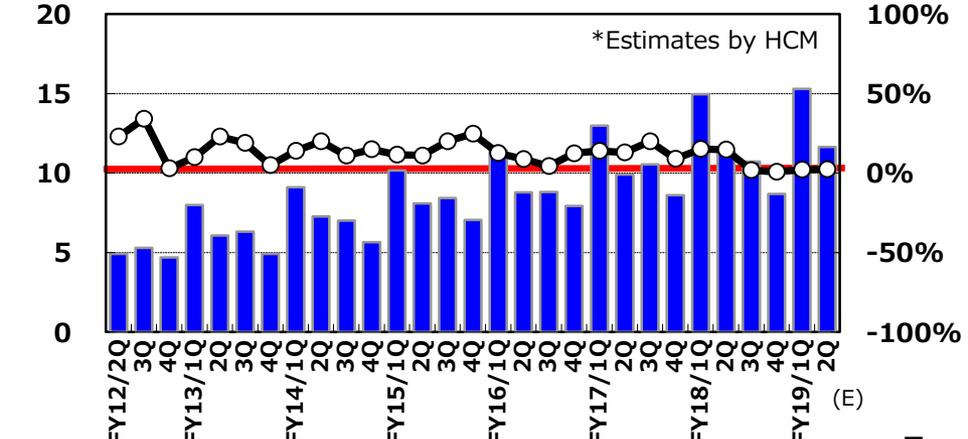
(E)

**Construction Spending in US (y-o-y)**



\* Bureau of Economic Census, US Census Bureau

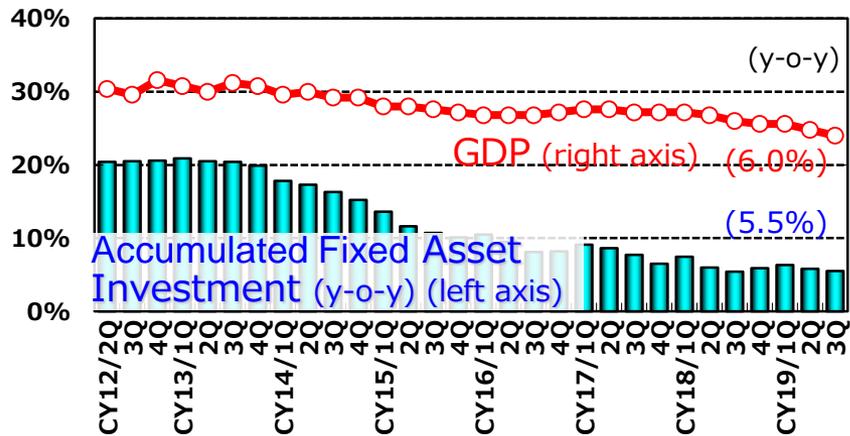
(K units) **Demand Trend for Mini Excavators**



(E)

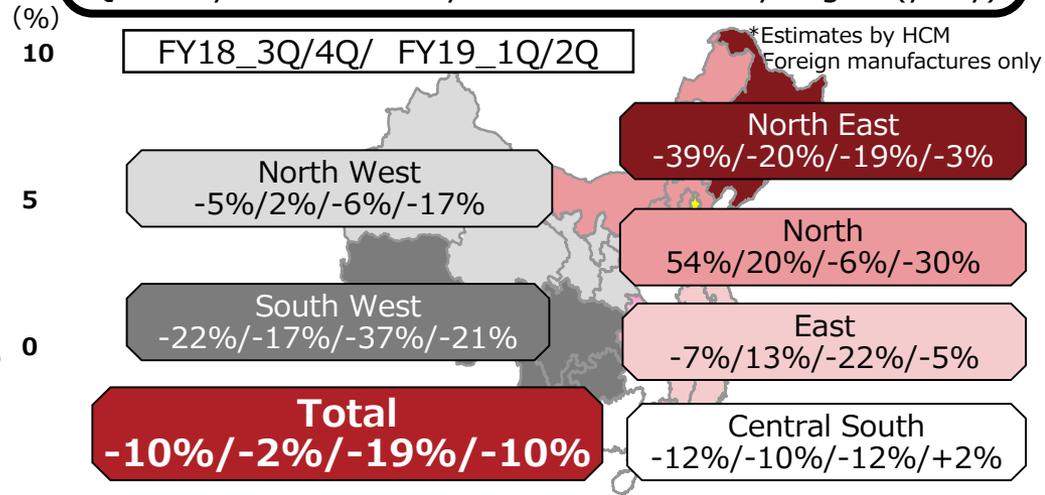
- The GDP growth rate was 6.0%.
- Demand for hydraulic excavators declined (-10% y-o-y). ※Foreign Manufactures only

## GDP and Fixed Asset Investment

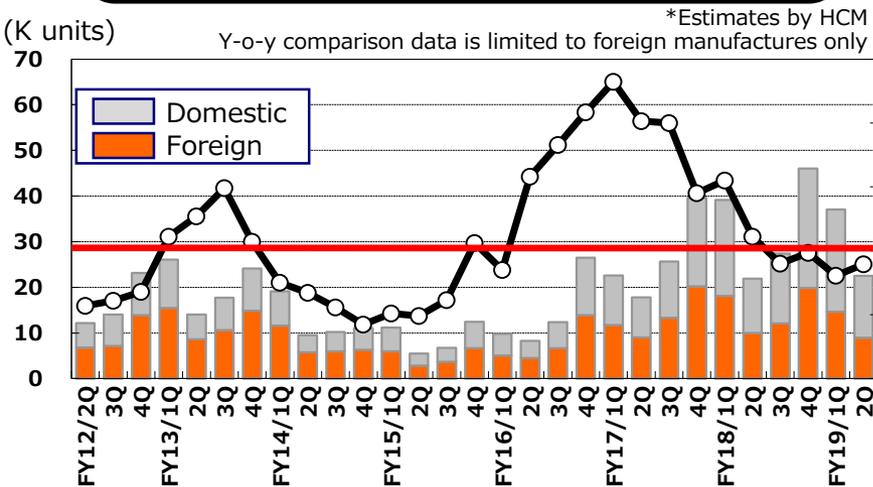


\* National Bureau of Statistics of China

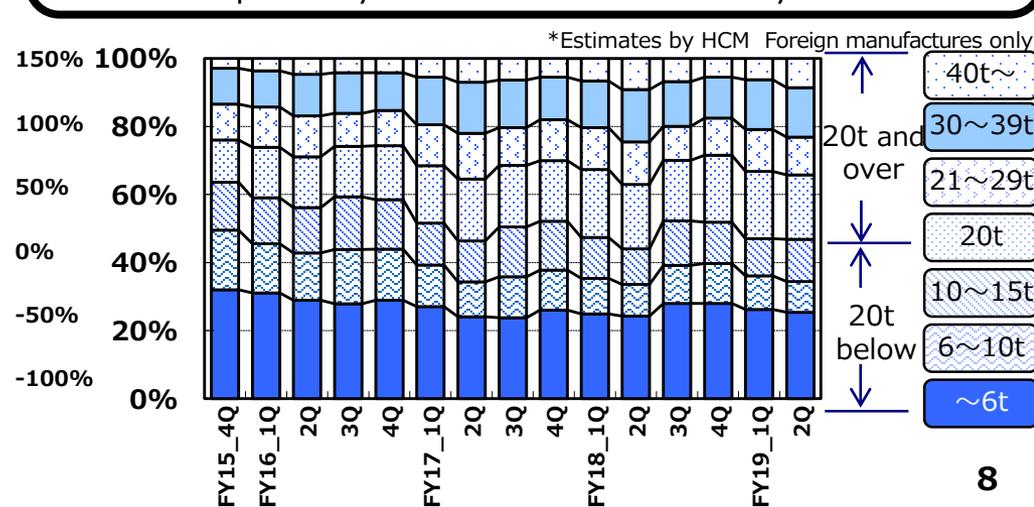
## Quarterly Demand for Hydraulic Excavators by Region (y-o-y)



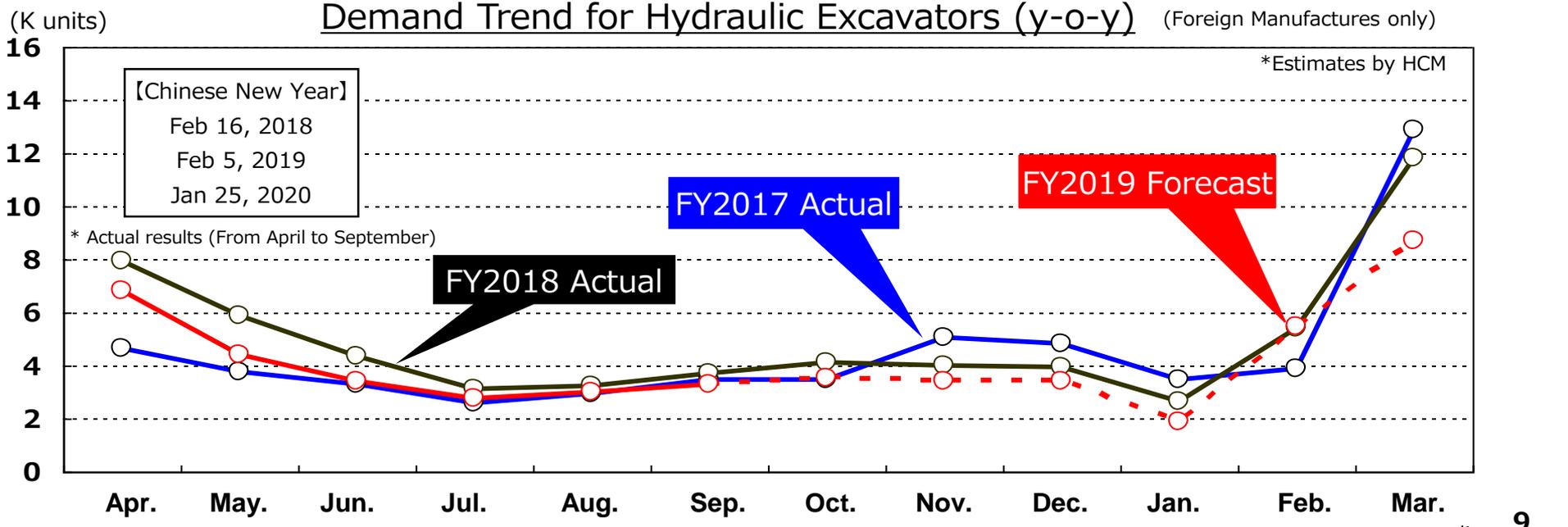
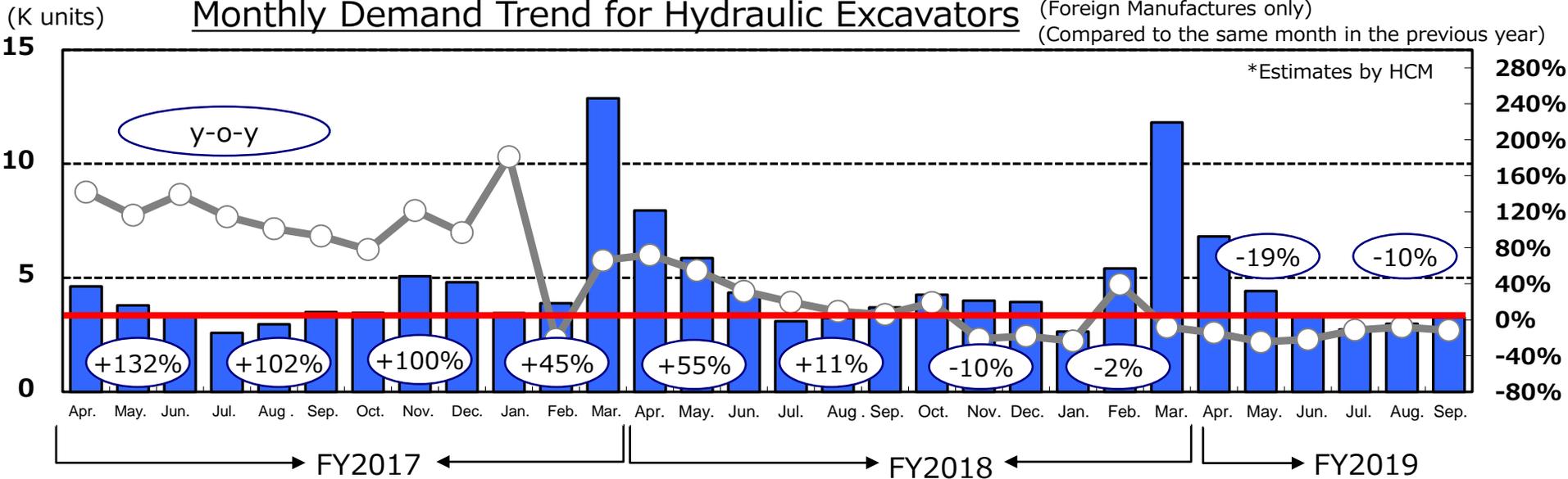
## Demand Trend for Hydraulic Excavators



## Demand Composition by Class for Mini Excavators and Hydraulic Excavators

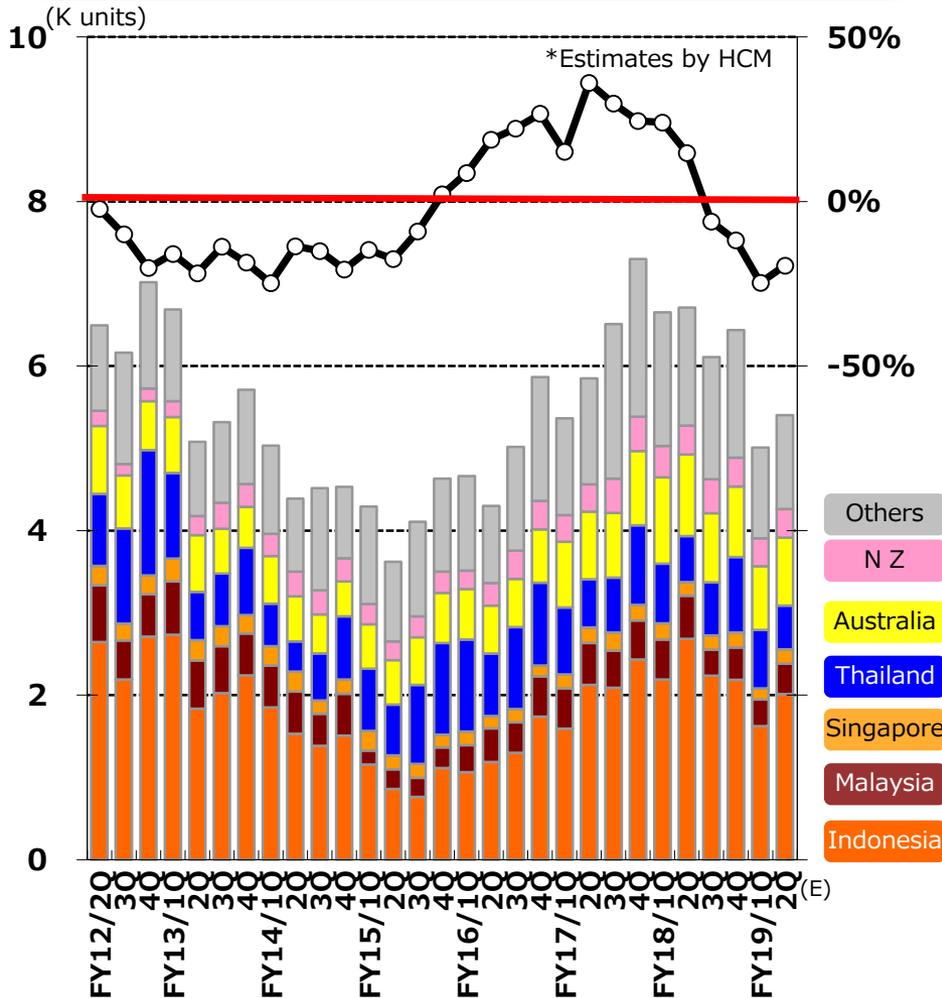


# <(Supplementary Information) China>

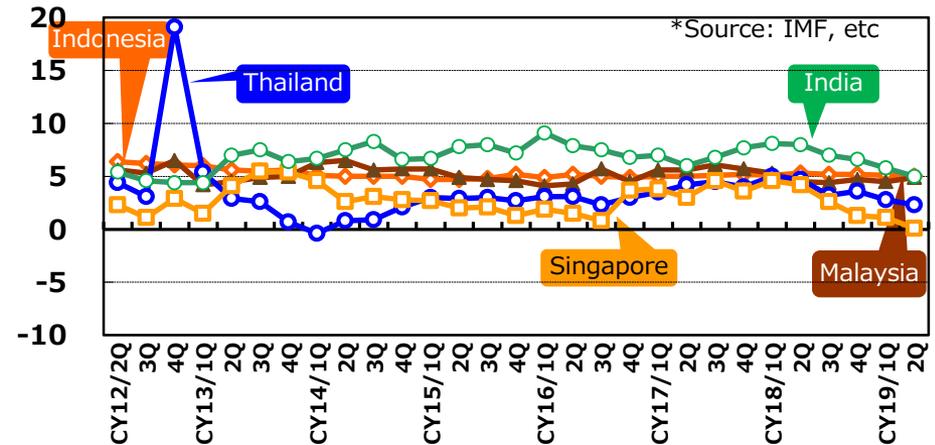


- Demand for hydraulic excavators decreased overall in the Asia Pacific region (-19% y-o-y).
- Demand for hydraulic excavators decreased in India (-29% y-o-y).

Demand Trend for Hydraulic Excavators in Asia & Oceania

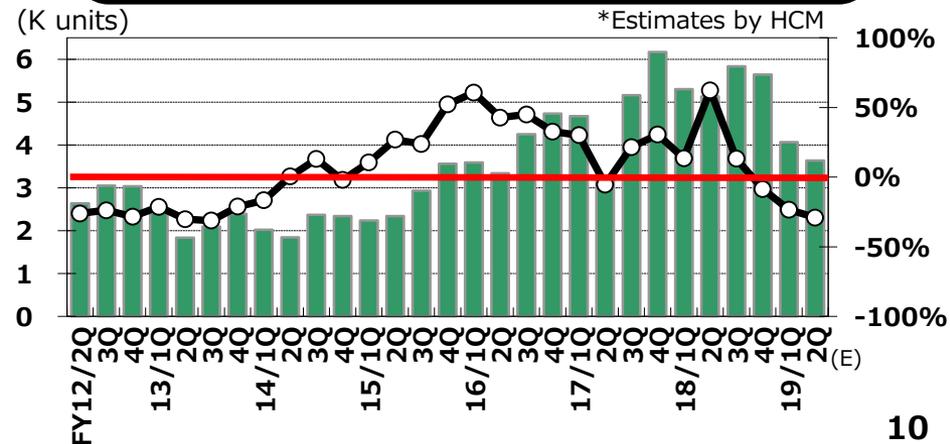


GDP Growth Rate in Major Countries (y-o-y)



\* Calculation criteria for GDP growth rate in India was revised in CY2013 2Q

Demand Trend for Hydraulic Excavators in India

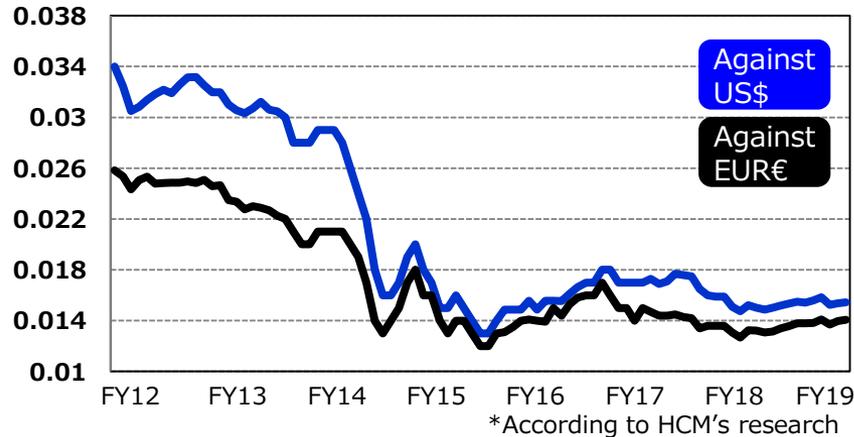


# <Russia and the Middle East>

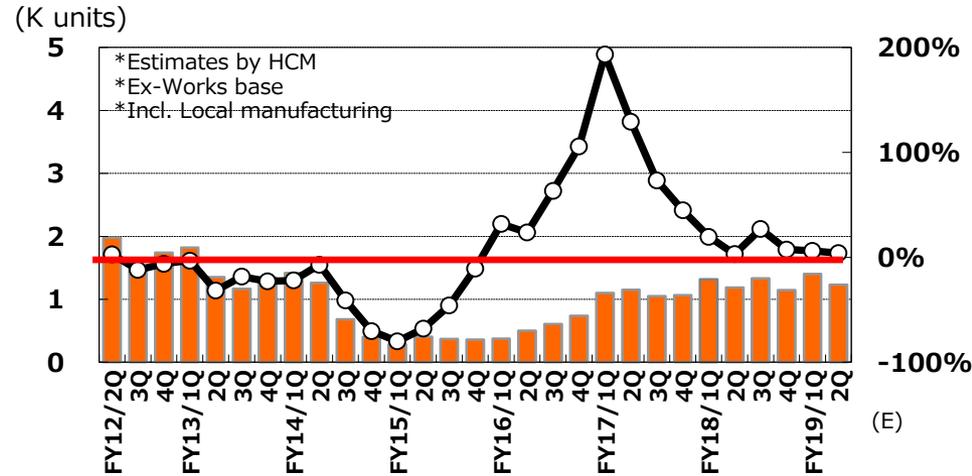
Second Quarter  
(from July to September 2019)

- Demand for hydraulic excavators slightly increased (4% y-o-y) in Russia.
- In the Middle East, demand for hydraulic excavators continued to decrease in Turkey, while demand for hydraulic excavators in the gulf region turned to increase.

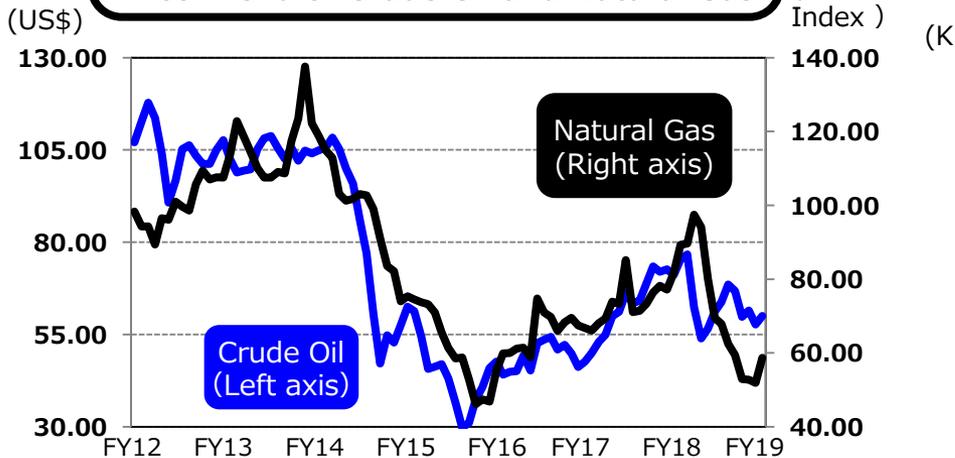
Foreign Exchange Rate of the Ruble



Demand Trend for Hydraulic Excavators in Russia



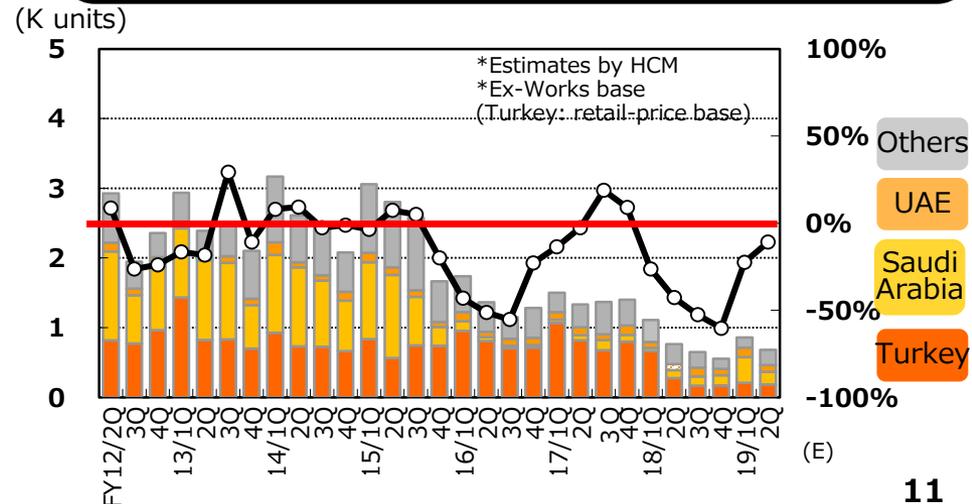
Price Trend of Crude Oil and Natural Gas



\*Created by HCM, sourced from World Bank

\*Natural Gas Index (2010=100)

Demand Trend for Hydraulic Excavators in the Middle East

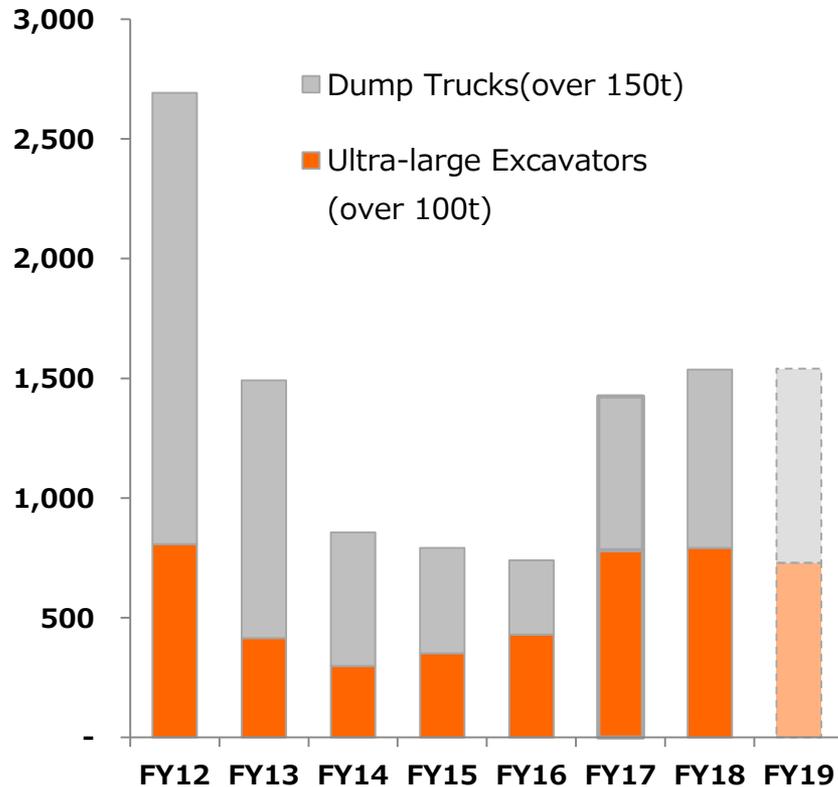


- Demand for mining machinery in FY2019 is expected to be almost flat without significantly rising or falling.
- Demand for ultra-large hydraulic excavators (operating weight 100t-250t) for medium and small sized mining sites and contractors is expected to decrease, while the sentiment for ultra-large hydraulic excavators (over 300t) and dump trucks (payload over 150t) for major mining companies is bullish.

## Ultra-large Hydraulic Excavators (over 100t), Dump Trucks (over 150t)

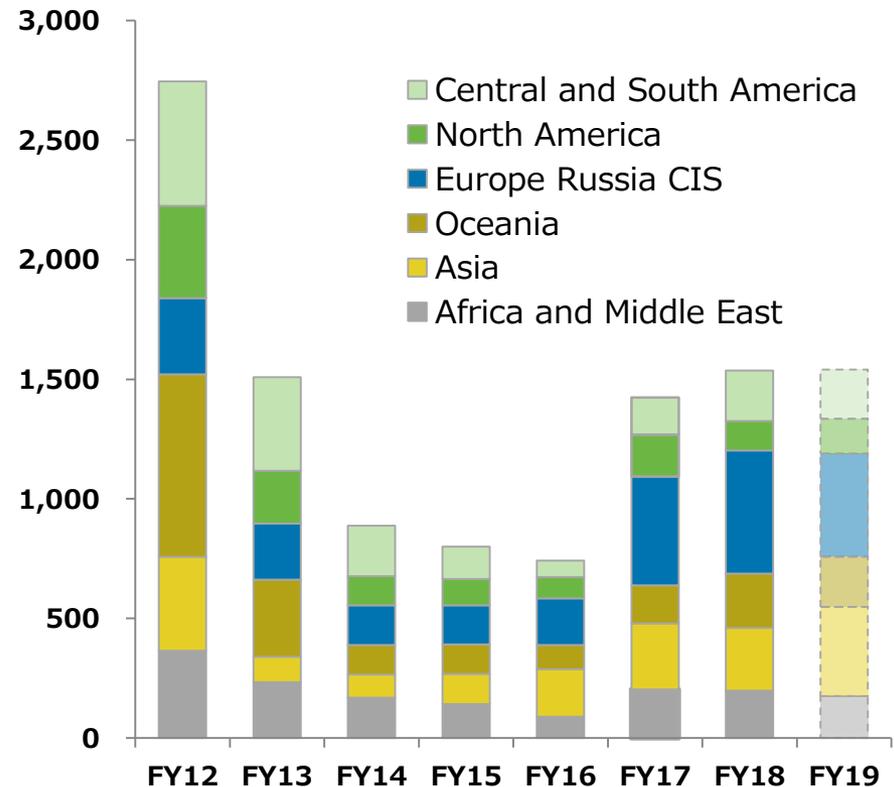
(Units)

Demand by product

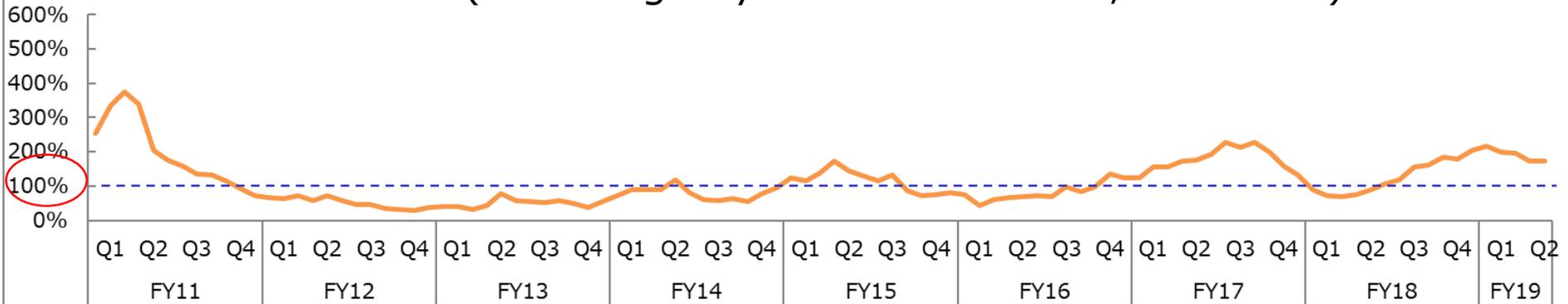


(Units)

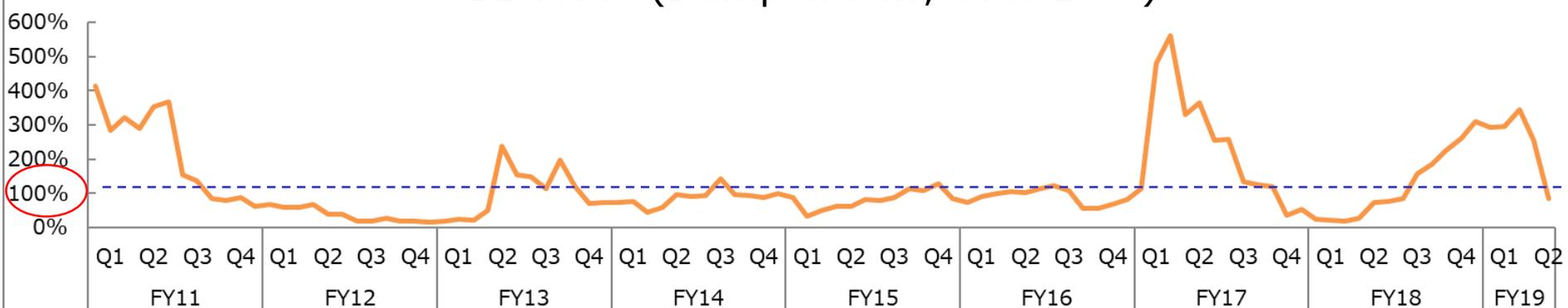
Demand by region



## BB Ratio (Ultra-large Hydraulic Excavators, over 100t)



## BB Ratio (Dump Trucks, over 150t)



⇒ **BB Ratio of dump trucks declined temporarily, because an ongoing major contract didn't decide by second quarter. We expect the ratio to improve in second half of the year**

※ Book-to-Bill(BB)Ratio = Bookings (Orders received)/Billings (Value of shipment)  
Non-consolidated basis (average of 6 months)

# 《Topic》 Bradken Begins Shipment of Genuine Dump Bodies for Rigid Dump Trucks of the Hitachi Construction Machinery Group

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- Some deliveries started in September. Cooperation of genuine parts will expand from the second half of the year.
- Increasing the load capacity of rigid dump trucks by lightweight dump bodies contributes to addressing the customer issue of “improving productivity.”
- The first genuine parts appeared by collaboration with Hitachi Construction Machinery’s development & quality assurance know-how and Bradken’s production techniques. We will strengthen consolidated business through our further cooperation.



EH5000AC-3 Rigid Dump Truck



Dump body manufactured at Bradken’s Ipswich factory, in Australia. Weight reduced by 10%. (Delivery started in September 2019.)



# 《Topic》 Expand ConSite®'s service market and menus

## 24-hour-a-day oil-monitoring service “ConSite® OIL”

Launched in Southeast Asian markets in September, and in China in October

- Provision of advanced services in Asia, following Europe, Japan, and Australia
- Contribution to raising the operation rate by avoiding defects and failures in customer machinery

## Global Expansion of Parts sales system “ConSite® Parts Web Shop”

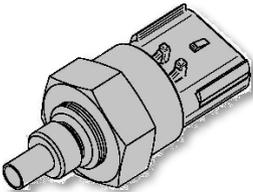
Advance release in Japan in September, and deployed throughout the world in October

- The main feature is automatic recommendation whereby, if users select a particular part on the web screen, they can view the recommended parts to be replaced at the same time.
- Increasing opportunities to provide customers with genuine parts service will strengthen the parts and service business.

### “ConSite® OIL”

Strengthen to detect failure prognostic

- OIL sensor
- IoT & Analysis techniques
- AI utilization

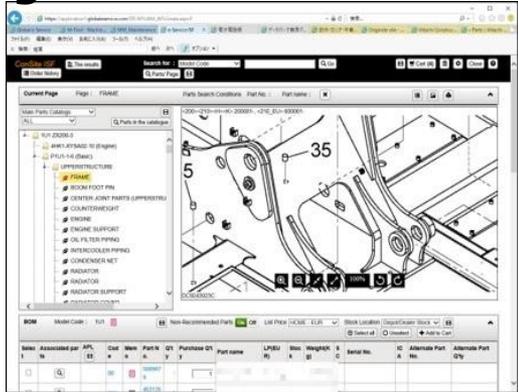


“ConSite® OIL” sensor



### “ConSite® Parts Web Shop”

Strengthen Electronic Commerce



Screen image from “ConSite® Parts Web Shop”

We have chosen to align our activities with 10 of the 17 SDG's. Topics in this explanatory material are shown together with their corresponding SDG icon.



## **2. Business Results for the Second Quarter ended September 30, 2019**

(April 1-September 30,2019)

Tetsuo Katsurayama

Senior Vice President, Executive Officer, CFO

Revenue decreased by 2% and adjusted operating income decreased by 16% compared to the previous year due to the negative exchange impact of appreciation of the Japanese yen.

(billions of yen)

		FY2019 1Q-2Q		FY2018 1Q-2Q		change
Revenue		480.6		490.4		-2%
Adjusted operating income *1		9.4%	45.0	10.9%	53.4	-16%
Operating income		9.0%	43.3	10.3%	50.5	-14%
Income before income taxes		8.6%	41.1	9.9%	48.7	-16%
Net income attributable to owners of the parent		5.2%	25.2	6.2%	30.2	-17%
EBIT *2		9.0%	43.4	10.2%	49.9	-13%
FX rate	Rate (YEN/US\$)	108.6		110.3		-1.8
	Rate (YEN/EURO)	121.4		129.9		-8.4
	Rate (YEN/RMB)	15.8		16.8		-1.1
	Rate (YEN/AU\$)	75.2		82.0		-6.8
Cash dividend per share (yen) *3		36		43		-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": 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.

# Revenue by geographic region (consolidated)

Revenue decreased compared to the previous year due to the negative exchange impact of appreciation of the Japanese yen despite increased revenue in Japan, Asia, Europe, Russia-CIS and N. America compared to the previous year.

(billions of yen)

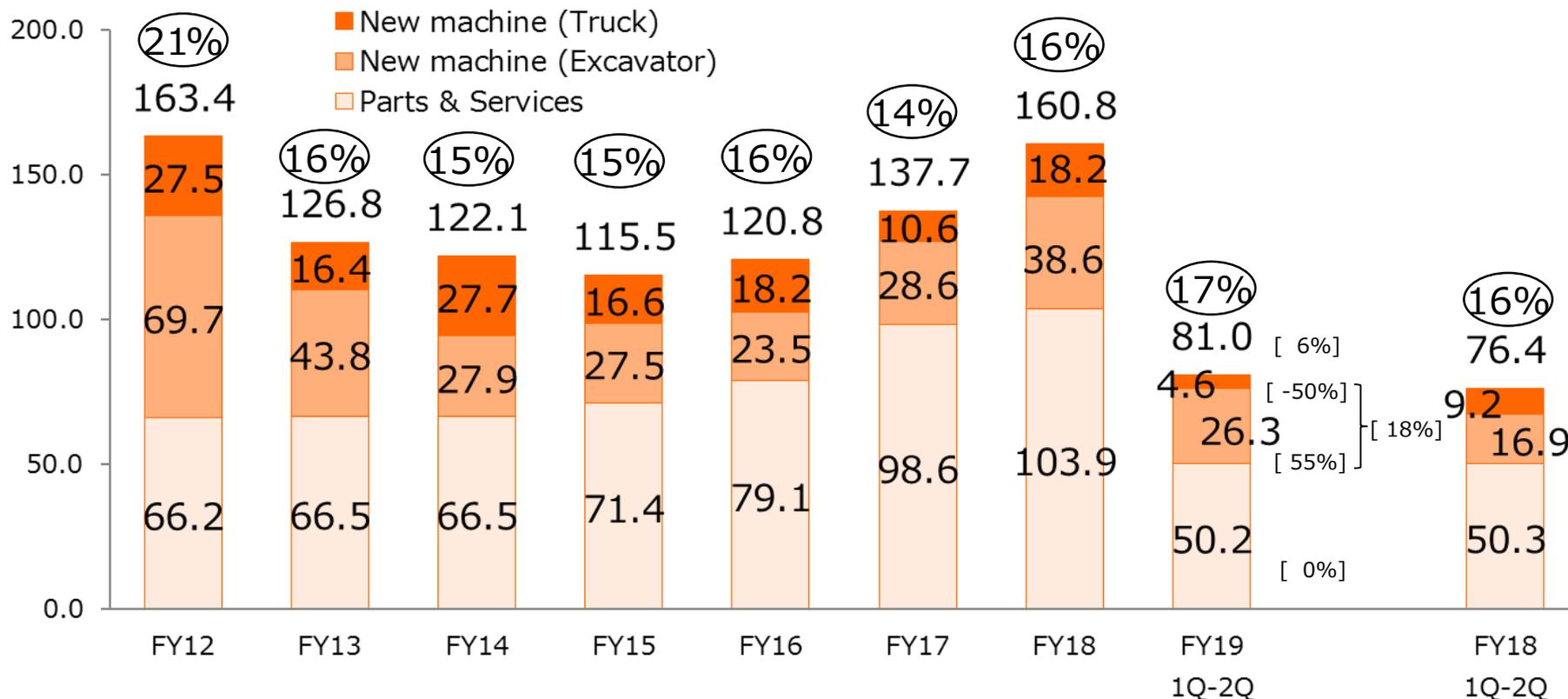
	FY2019		FY2018		change	
	1Q-2Q		1Q-2Q		amount	%
Japan	99.9	21%	89.7	18%	10.2	11%
Asia	40.9	9%	39.6	8%	1.3	3%
India	24.6	5%	31.9	7%	-7.3	-23%
Oceania	76.3	16%	88.9	18%	-12.6	-14%
Europe	55.8	12%	53.3	11%	2.5	5%
N.America	92.1	19%	79.3	16%	12.8	16%
L.America	7.2	2%	8.3	2%	-1.1	-13%
Russia-CIS	18.0	4%	15.0	3%	3.0	20%
M.East	3.9	1%	7.9	2%	-4.1	-51%
Africa	18.8	4%	19.6	4%	-0.8	-4%
China	43.1	9%	56.9	12%	-13.8	-24%
Total	480.6	100%	490.4	100%	-9.9	-2%
Overseas ratio	79%		82%			

■ Revenue of mining in FY2019 2Q increased by 6% to 81.0 billion yen year on year.  
 ■ In particular, revenue of new mining machinery increased by 18% year on year.

(billions of yen)

(%) shows sales ratio against total company sales

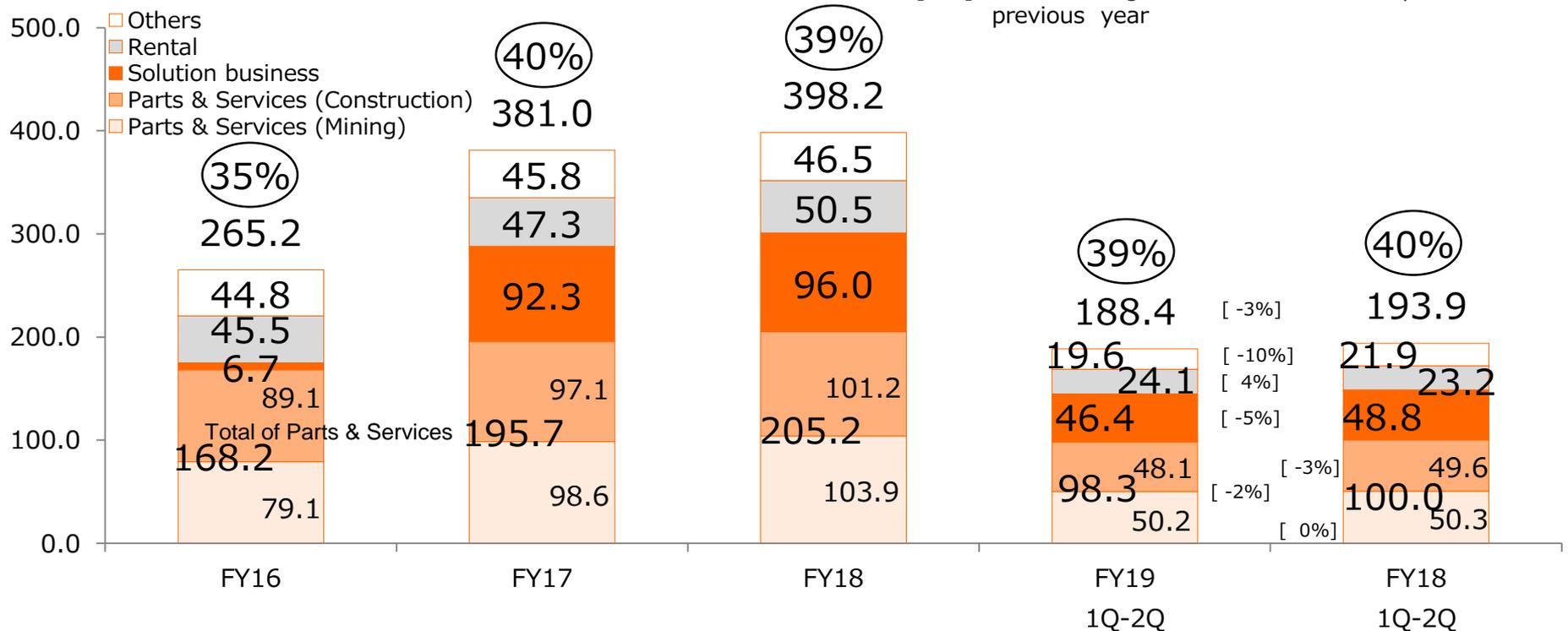
[ % ] shows changed ratio from the same period of previous year



Revenue of the value chain business in the FY2019 2Q decreased by 3% to 188.4 billion yen year on year due to the impact of the strong exchange rate of the yen, -8.9 billion yen.

(billions of yen)

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



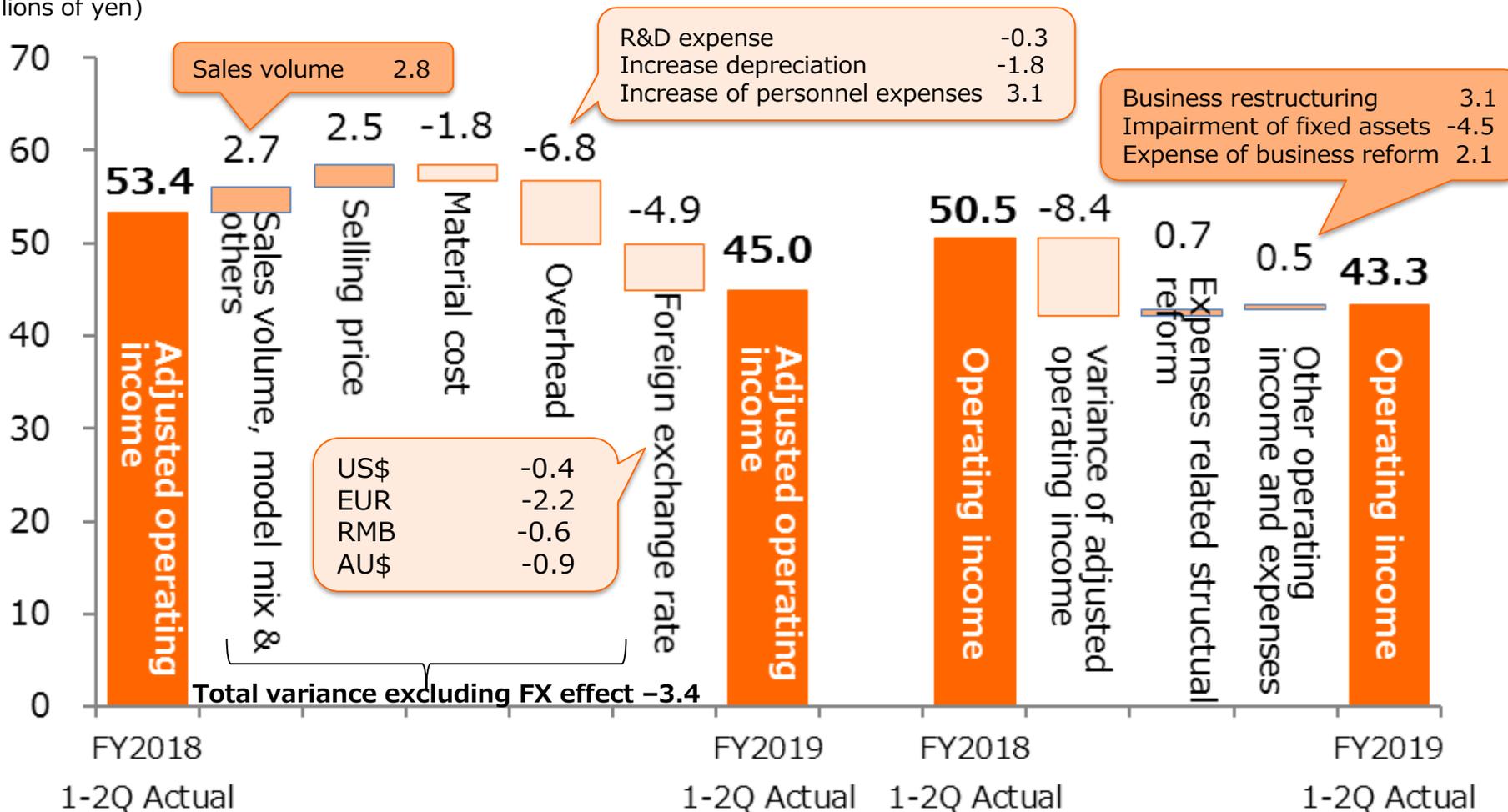
(\*1) Value chain: Total of Parts & services, Solution business, Rental etc. other than new machine sales.

(\*2) Solution business: The business segment primarily intends to provide development, production, distribution of parts and service solutions for mining facilities and equipment after the sales made that are not included in the construction machinery business segment.

# Comparison of consolidated income

Adjusted operating income decreased by 8.4 billion yen year on year due to the impact of increased material costs, strong exchange rate of the yen, and increased overheads despite the increased sales volume and model mix and improved selling price.

(billions of yen)



# Consolidated statement of income

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- Operating income decreased by 14% or 7.2 billion yen to 43.3 billion yen year on year.
- Net income attributable to owners of the parent decreased by 17% or 5.0 billion yen to 25.2 billion yen year on year.

(billions of yen)

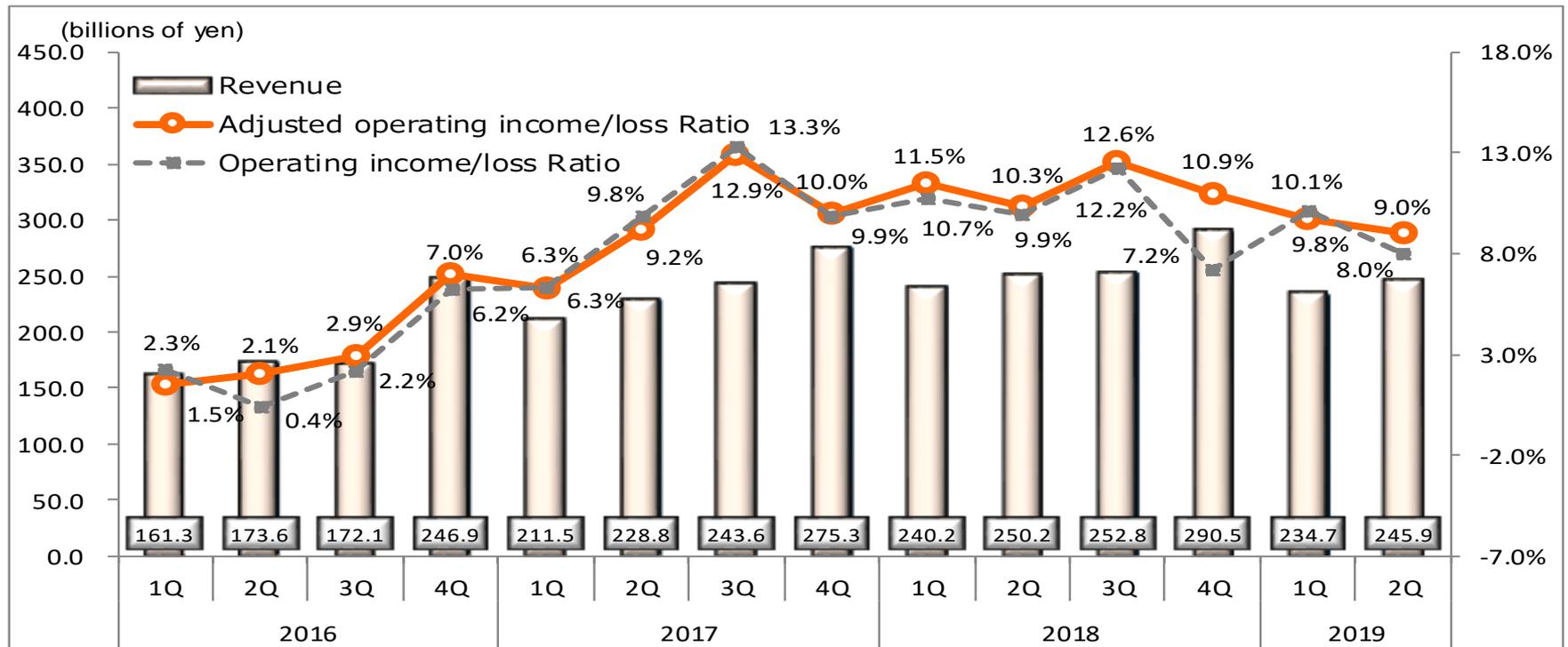
	FY2019		FY2018		change	
		1Q-2Q		1Q-2Q	amount	%
Revenue		480.6		490.4	-9.9	-2%
Cost of Sales	(72.2%)	347.0	(71.4%)	350.2	-3.2	-1%
SGA expenses	(18.4%)	88.6	(17.7%)	86.8	1.8	2%
Adjusted operating income *1	(9.4%)	45.0	(10.9%)	53.4	-8.4	-16%
Other Income/expenses		-1.7		-2.9	1.2	-42%
Operating income	(9.0%)	43.3	(10.3%)	50.5	-7.2	-14%
Financial income/expenses		-4.2		-3.5	-0.7	19%
Share of profits of investments accounted for using the equity method		2.0		1.7	0.3	17%
Income before income taxes	(8.6%)	41.1	(9.9%)	48.7	-7.6	-16%
Income taxes		12.7		13.8	-1.1	-8%
Net income	(5.9%)	28.4	(7.1%)	34.9	-6.4	-18%
Net income attributable to owners of the parent	(5.2%)	25.2	(6.2%)	30.2	-5.0	-17%

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

# Summary of quarterly consolidated revenue and operating income/loss (ratio)

(billions of yen)

	2016				2017				2018				2019	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Revenue	161.3	173.6	172.1	246.9	211.5	228.8	243.6	275.3	240.2	250.2	252.8	290.5	234.7	245.9
Adjusted operating income/loss	2.4	3.6	5.0	17.3	13.2	21.0	31.5	27.5	27.6	25.8	31.8	31.7	22.9	22.1
Operating income/loss	3.7	0.7	3.8	15.5	13.4	22.5	32.4	27.1	25.7	24.8	30.8	21.0	23.7	19.6



FX rate	2016				2017				2018				2019	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Rate (YEN/US\$)	108.1	102.4	109.3	113.6	111.1	111.0	113.0	108.3	109.1	111.5	112.9	110.2	109.9	107.4
Rate (YEN/EURO)	122.0	114.3	117.8	121.1	122.2	130.4	133.0	133.2	130.1	129.6	128.8	125.2	123.5	119.3
Rate (YEN/RMB)	16.5	15.4	16.0	16.6	16.2	16.6	17.1	17.1	17.1	16.4	16.3	16.3	16.1	15.3
Rate (YEN/AU\$)	80.6	77.6	81.9	86.2	83.4	87.6	86.8	85.3	82.6	81.5	81.1	78.5	76.9	73.6

# Consolidated statement of financial position

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Although lease assets increased by 36.5 billion yen from the previous year end due to the impact of adoption IFRS 16, total assets increased by 9.6 billion yen year on year by decreasing cash and accounts receivables.

(billions of yen)

	(A) FY19-2Q	(B) Mar '2019	(C) FY18-2Q	(A)-(B) change		(D) FY19-2Q	(E) Mar '2019	(F) FY18-2Q	(D)-(E) change
Cash and cash equivalents	58.3	67.3	63.0	-9.1	Trade and other payables	210.1	278.1	256.7	-68.0
Trade receivables	218.7	238.2	214.1	-19.6	Bonds and borrowings	341.0	304.8	289.6	36.2
Inventories	328.3	324.8	303.0	3.5	Total liabilities	664.5	642.6	599.3	21.9
Total current assets	646.9	673.9	629.3	-27.0	(Equity attributable to owners of the parent ratio)	(40.0%)	(41.0%)	(41.5%)	(-1.1%)
Total non-current assets	547.9	511.4	495.2	36.5	Total equity	530.3	542.7	525.3	-12.3
Total assets	1,194.8	1,185.3	1,124.6	9.6	Total liabilities and equity	1,194.8	1,185.3	1,124.6	9.6
Trade receivables incl. non-current	261.2	282.6	254.2	-21.4					
Inventories by products									
Unit	93.2	89.3	79.5	3.9	Interest-bearing debt	341.0	304.8	289.6	36.2
Parts	104.9	102.2	100.2	2.7	Cash and Cash equivalents	58.3	67.3	63.0	-9.1
Raw materials, WIP and etc	130.3	133.3	123.3	-3.1	Net interest-bearing debt	282.7	237.5	226.6	45.2
Total inventories	328.3	324.8	303.0	3.5					
On hand days(divided by net sales)				(Days)	Net D/E Ratio	0.59	0.49	0.49	0.10
Trade receivables	93	100	92	-7					
Inventories	117	115	110	2					
Trade payables	45	57	54	-12					
Net working capital	163	155	144	8					

Net cash provided by (used in) operating activities improved by 37.0 billion yen compared to the previous year despite a negative 9.7 billion yen.

(billions of yen)

	FY2019		FY2018		change	
	1Q-2Q		1Q-2Q			
Net income		28.4		34.9		-6.4
Depreciation and amortization	50.0	21.6	52.7	17.9	-2.7	3.7
(Increase)decrease in trade/lease receivables		7.2		6.0		1.3
(Increase)decrease in inventories		-17.6		-47.7		30.1
Increase(decrease) in trade payables	-34.4	-24.1	-76.0	-34.2	41.5	10.1
Others, net		-25.3		-23.5		-1.8
Net cash provided by (used in) operating activities		-9.7		-46.8		37.0
Cash flow margin for operating activities		-2.0%		-9.5%		7.5%
Net cash provided by (used in) investing activities		-19.5		-11.3		-8.2
Free cash flows		-29.2		-58.0		28.8
Net cash provided by (used in) financing activities		22.8		40.4		-17.6

# Summary of consolidated earnings forecast

HITACHI

Reliable solutions

The FY2019 consolidated statement of income forecast remains unchanged from the previous forecast, considering the uncertain prospects of the economic conditions and foreign exchanges.

(billions of yen)

	FY2019 Forecast	FY2018 Actual	change	
			amount	%
Revenue	950.0	1,033.7	-83.7	-8%
Adjusted operating income	(9.1%) 86.0	(11.3%) 116.8	(-2.3%) -30.8	-26%
Operating income	(8.6%) 82.0	(9.9%) 102.3	(-1.3%) -20.3	-20%
Income before income taxes	(8.4%) 80.0	(9.9%) 102.7	(-1.5%) -22.7	-22%
Net income attributable to owners of the parent	(5.1%) 48.0	(6.6%) 68.5	(-1.6%) -20.5	-30%
EBIT	83.5	105.6	-22.1	

Currency	1Q-2Q	3Q-4Q	Total	FY2018 Actual	change
	Actual	Forecast	Forecast		
Rate (YEN/US\$)	108.6	100.0	104.1	111.0	-6.9
Rate (YEN/EURO)	121.4	110.0	115.5	127.9	-12.4
Rate (YEN/RMB)	15.8	14.5	15.1	16.6	-1.5
Rate (YEN/AU\$)	75.2	70.0	72.7	80.9	-8.3
Cash dividend per share (yen) *1	to be determined			100	-

For FX sensitivity, please refer to appendix 1.

\*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.

# Consolidated revenue forecast by geographic region

HCM forecasts a decrease in FY2019 total revenue by 83.7 billion yen compared to the previous year due to the 66.0 billion yen of negative impact of foreign exchange.

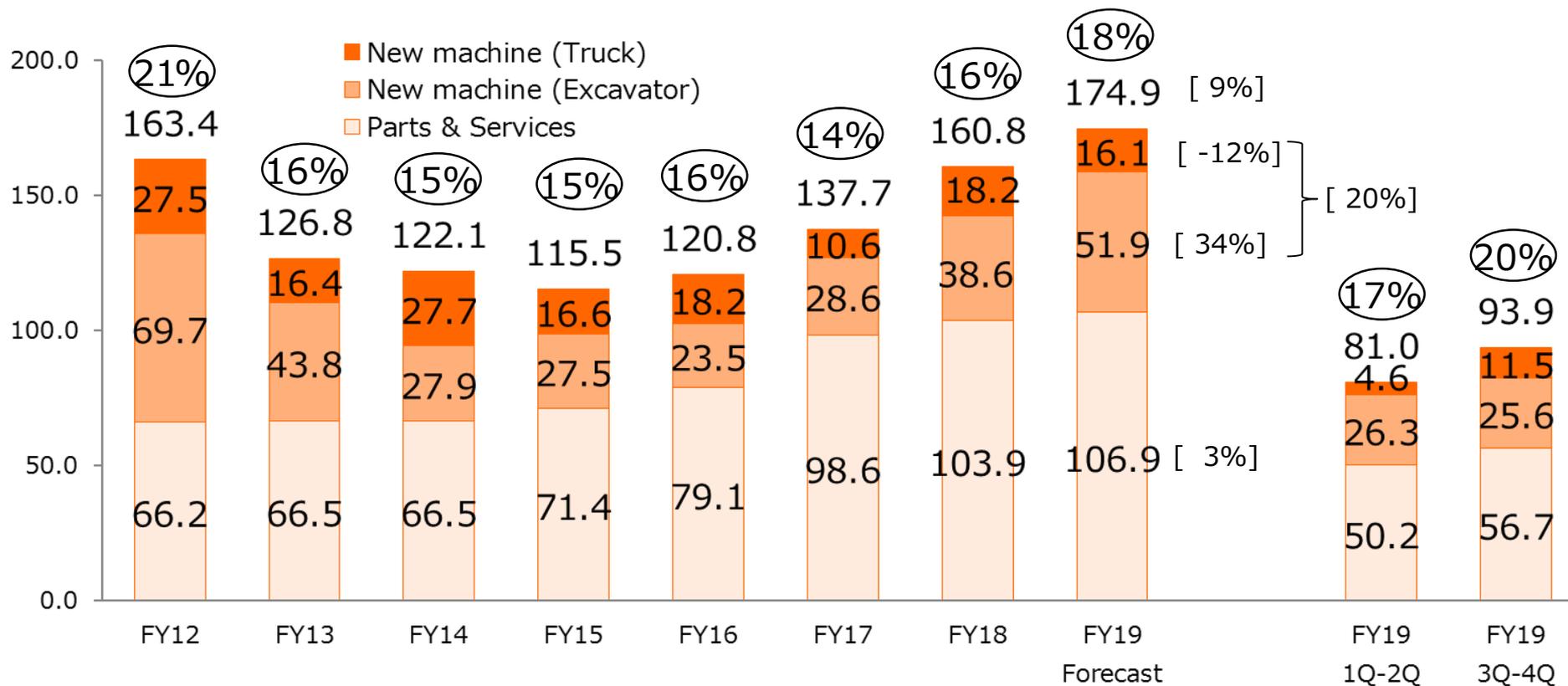
(billions of yen)

	FY2019 Forecast		FY2018 Actual		change	
	amount	%	amount	%	amount	%
Japan	211.7	22%	206.1	20%	5.6	3%
Asia	86.3	9%	88.5	9%	-2.2	-2%
India	61.6	6%	67.9	7%	-6.4	-9%
Oceania	148.9	16%	163.9	16%	-15.0	-9%
Europe	90.8	10%	111.6	11%	-20.9	-19%
N.America	165.4	17%	168.7	16%	-3.3	-2%
L.America	14.3	2%	17.1	2%	-2.8	-16%
Russia-CIS	32.6	3%	34.4	3%	-1.8	-5%
M.East	11.8	1%	11.8	1%	0.0	0%
Africa	33.1	3%	43.8	4%	-10.7	-25%
China	93.7	10%	119.9	12%	-26.3	-22%
Total	950.0	100%	1,033.7	100%	-83.7	-8%
Overseas ratio	78%		80%			

HCM forecasts an increase in FY2019 mining revenue by 9% to 174.9 billion yen year on year despite the expected strong appreciation of the yen.

(billions of yen)

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

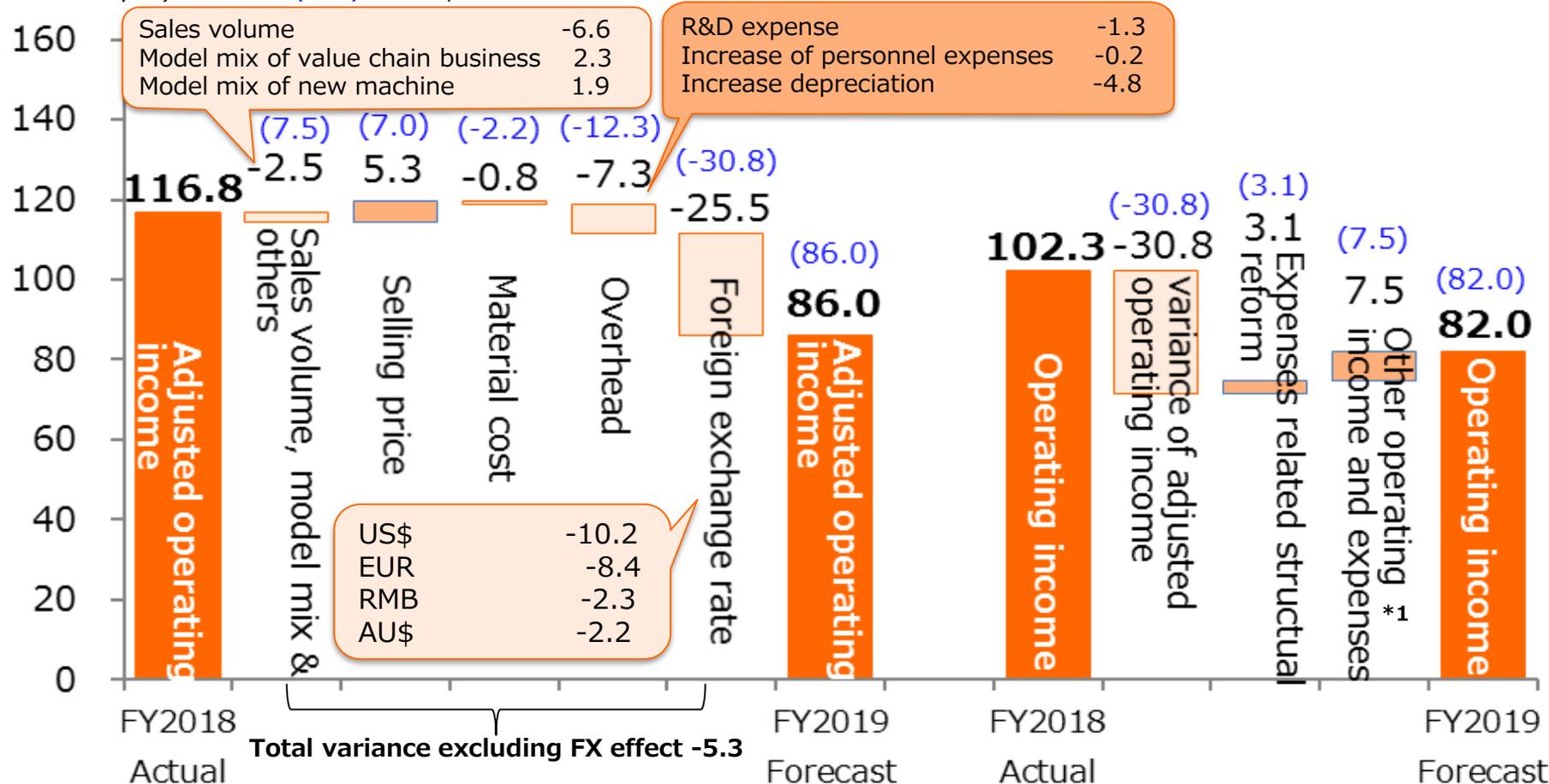




# Comparison of consolidated income forecast

Adjusted operating income for FY2019 remains unchanged from the previous forecast due to improvement in selling price, despite the negative impact of yen appreciation and the impact of decrease in profit due to decrease in sales volume and increase in overhead costs.

(billions of yen) note : ( ) shows previous forecast as of Jul. 2019



\*1 Other operating income and expenses :FY18 includes 8.8 billion yen of provision to the duplicated payment of value added tax in China.

The forecast exchange rate for FY2019 was set based on the lower limit of the forecasted fluctuation range for each currency, considering the uncertain prospects of the global Economy, etc. This time, the forecast exchange rate of the Chinese yuan and Australian dollar was rationally changed.

FX rate and FX sensitivity

(billions of yen)

Currency	FX rate				FX sensitivity (3Q-4Q)		
	FY19			FY18 Actual	Condition	Revenue	Adjusted operating income
	1Q-2Q Actual	3Q-4Q Forecast	Total Forecast				
US\$	108.6	100.0	104.1	111.0	Impact by 1 yen depreciation	1.1	0.9
EURO	121.4	110.0	115.5	127.9	Impact by 1 yen depreciation	0.3	0.4
RMB	15.8	14.5	15.1	16.6	Impact by 0.1 yen depreciation	0.3	0.1
AU\$	75.2	70.0	72.7	80.9	Impact by 1 yen depreciation	1.0	0.1

# <Appendix2> Detail of mining revenue

(billions of yen)

		FY18 Actual			FY19 Forecast			Change		
		1-2Q	3-4Q	Year	1-2Q	3-4Q	Year	1-2Q	3-4Q	Year
America	Excavator	6.4	8.1	14.6	6.7	10.8	17.6	0.3	2.7	3.0
	Dump Truck	3.4	3.6	7.0	2.2	2.5	4.8	-1.2	-1.1	-2.3
	Total	9.8	11.8	21.6	9.0	13.4	22.3	-0.9	1.6	0.7
Europe, Africa and Middle East	Excavator	11.7	13.0	24.8	11.8	14.1	25.9	0.1	1.1	1.2
	Dump Truck	6.8	10.2	17.0	6.1	6.7	12.8	-0.7	-3.5	-4.2
	Total	18.6	23.2	41.8	18.0	20.8	38.7	-0.6	-2.4	-3.0
Asia & Oceania	Excavator	29.1	34.7	63.8	40.1	39.8	79.9	11.0	5.1	16.1
	Dump Truck	18.0	13.5	31.5	12.7	19.5	32.2	-5.3	6.0	0.7
	Total	47.1	48.1	95.3	52.8	59.3	112.1	5.7	11.1	16.8
China	Excavator	0.5	0.4	1.0	0.4	0.3	0.7	-0.1	-0.1	-0.2
	Dump Truck	0.0	0.1	0.1	0.0	0.1	0.1	0.0	-0.0	-0.0
	Total	0.6	0.5	1.1	0.4	0.4	0.9	-0.1	-0.1	-0.2
Japan	Excavator	0.3	0.7	1.0	0.8	0.1	0.9	0.5	-0.6	-0.1
	Dump Truck	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.0
	Total	0.3	0.7	1.0	0.8	0.1	0.9	0.5	-0.6	-0.1
Total	Excavator	48.2	56.9	105.1	59.9	65.1	125.0	11.8	8.2	20.0
	Dump Truck	28.3	27.4	55.7	21.1	28.8	49.9	-7.2	1.4	-5.8
	Total	76.4	84.3	160.8	81.0	93.9	174.9	4.6	9.6	14.1

The amortizations of PPA are included in the adjusted operating income of the solution business. The amount of 0.5 billion yen is included in the second quarter of 2019, and in the 1.1-billion-yen forecast for FY2019.

(billions of yen)

<Actual> FY2019 1Q-2Q	Reportable segment		Adjustments *1	Total
	Construction Machinery Business	Solution Business		
Revenue	434.2	47.5	-1.1	480.6
Adjusted operating income	9.4% 40.9	8.7% 4.1	-	9.4% 45.0

(billions of yen)

<Forecast> FY2019	Reportable segment		Adjustments *1	Total
	Construction Machinery Business	Solution Business		
Revenue	860.9	89.1	0.0	950.0
Adjusted operating income	8.9% 76.8	10.3% 9.2	-	9.1% 86.0

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

# <Appendix4> Actual and forecast of consolidated capital expenditures, depreciation, and R&D expenses

HCM forecasts high levels of capital expenditure for FY2019 due to the restructuring of domestic plants and the improvement & expansion of sales offices to strengthen value chains.

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

	FY2016	FY2017	FY2018	FY2019 1Q-2Q	FY2019 3Q-4Q	FY2019
	Actual	Actual	Actual	Actual	Forecast	Forecast
Capital Expenditure	14.1	18.7	30.4	19.7	52.1	71.8
Assets held for operating lease	16.5	23.1	27.2	16.8	18.7	35.5
Total	30.7	41.8	57.6	36.6	70.8	107.3

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

	FY2016	FY2017	FY2018	FY2019 1Q-2Q	FY2019 3Q-4Q	FY2019
	Actual	Actual	Actual	Actual	Forecast	Forecast
Capital Expenditure	22.4	27.5	26.8	16.6	15.8	32.4
Assets held for operating lease	11.5	10.3	10.1	5.0	7.3	12.3
Total	34.0	37.8	37.0	21.6	23.2	44.8

## 3.R&D expenses (billion of yen )

	FY2016	FY2017	FY2018	FY2019 1Q-2Q	FY2019 3Q-4Q	FY2019
	Actual	Actual	Actual	Actual	Forecast	Forecast
Total of consolidation	19.3	24.6	24.8	12.4	13.7	26.1

### [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

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