

Hitachi Construction Machinery Co., Ltd.

Financial Results for the Third Quarter
Ended December 31, 2017

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

Consolidated Financial Results for the third quarter Ended December 31, 2017 (IFRS)

January 29, 2018

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: February 9, 2018

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)

1. Consolidated results for the third quarter ended December 2017 (April 1, 2017 to December 31, 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	%
December 31, 2017	683,902	34.9	66,049	499.7	69,187	635.5	48,954	909.4	42,909	—	66,411	—
December 31, 2016	507,006	(7.7)	11,013	(27.7)	9,407	107.9	4,850	498.8	2,528	—	1,343	—

"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 2017 is as below.

December 31, 2017 ¥68,610 million YoY 740.1 %

December 31, 2016 ¥8,167 million YoY (33.5%)

	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, 2017	201.77	201.77
December 31, 2016	11.89	11.89

Note: Equity in earnings of affiliated companies is as below.

December 31, 2017 ¥2,863 million

December 31, 2016 ¥32 million

(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, 2017	1,108,430	506,026	448,059	40.4
March 31, 2017	1,010,497	450,430	399,619	39.5

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: None

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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	930,000	23.4	77,000	172.4	77,000	222.7	46,000	473.4	216.31

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 ¥77,000 million YoY 226.0%

*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 December 31, 2017 (including treasury shares)	
December 2017	215,115,038
March 2016	215,115,038
[2] Number of treasury shares at December 31, 2017	
December 2017	2,457,279
March 2016	2,454,022
[3] Average number of common shares outstanding during the nine month period ended December 31	
December 2017	212,659,540
December 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 and third quarters of the fiscal year ending March 31, 2018, the company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the March 2017 results. 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 of “Solution Linkage” utilizing ICT and IoT to offer solutions for customer’s 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 we acquired in the previous fiscal year. Additionally, we are working to secure profit by establishing 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 December 31, 2017) increased by 34.9% year on year to ¥683,902 million due to sales increase mainly in China and the consolidation of H-E Parts and Bradken, while we saw a 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 499.7% year on year to ¥66,049 million, operating income increased by 740.1% to ¥68,610 million, and net income attributable to owners of the parent was ¥42,909 million (¥2,528 million as of December 31, 2016) due to a decrease in the cost of sales and SGA, in addition to the contribution of the 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. 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. Newly launched “ConSite OIL” in October in Europe and Australia, is the first service in the industry to predict problems of engine or hydraulic equipment by remotely inspecting the condition of oil by an oil sensor of each machinery. 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 December 31, 2017) increased by 21.2% year on year to ¥614,522 million, and adjusted operating income increased by 487.5% to ¥64,705 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 equipment, and also provides maintenance and servicing for them.

Consolidated revenue of the solution business for this term (April 1, 2017 to December 31, 2017) was ¥69,565 million, and adjusted operating income was ¥1,344 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 ¥4,750 million based on purchase price allocation for H-E Parts and Bradken.

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 2017.

	December 2017 (A)	December 2016 (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	683,902	507,006	176,896	34.9%
Adjusted operating income*	66,049	11,013	55,036	499.7%
Operating income	68,610	8,167	60,443	740.1%
Income before income taxes	69,187	9,407	59,780	635.5%
Net income attributable to owners of the parent	42,909	2,528	40,381	–

(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 third quarter (April 1, 2017- December 31, 2017)		Previous consolidated cumulative third quarter (April 1, 2016- December 31, 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	103,269	15.1	54,639	10.8	48,630	89.0
Central and South America	11,658	1.7	3,373	0.7	8,285	245.6
The Americas	114,927	16.8	58,012	11.4	56,915	98.1
Europe	71,191	10.4	58,570	11.6	12,620	21.5
Russia-CIS	19,979	2.9	13,434	2.6	6,546	48.7
Africa	34,218	5.0	24,374	4.8	9,844	40.4
Middle East	11,795	1.7	14,630	2.9	Δ 2,835	Δ 19.4
Russia-CIS, Africa, and the Middle East	65,992	9.6	52,438	10.3	13,555	25.8
Asia	54,930	8.0	42,330	8.3	12,600	29.8
India	45,558	6.7	33,928	6.7	11,630	34.3
Oceania	110,643	16.2	63,439	12.5	47,204	74.4
Asia and Oceania	211,131	30.9	139,697	27.6	71,434	51.1
China	78,330	11.5	39,510	7.8	38,820	98.3
Sub-total	541,571	79.2	348,227	68.7	193,344	55.5
Japan	142,331	20.8	158,779	31.3	Δ 16,448	Δ 10.4
Total	683,902	100.0	507,006	100.0	176,896	34.9

(Rounded off to the nearest million)

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(2) Analysis of Financial Condition

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

(Note) During the second and third quarters of the fiscal year ending March 31, 2018, the company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the March 2017 results.

(a) Assets

Current assets at the end of the third quarter amounted to ¥609,118 million, an increase of 14.9%, or ¥78,919 million, from the previous fiscal year-end. This was due mainly to an increase of ¥38,225 million in inventories, ¥17,131 million in cash and cash equivalents, and ¥15,741 million in trade receivables. Non-current assets amounted to ¥499,312 million, an increase of 4.0%, or ¥19,014 million, from the previous fiscal year-end. This was due mainly to an increase of ¥8,990 million in property, plants, and equipment, ¥7,208 million in trade receivables, and ¥2,033 million in other financial assets.

As a result, total assets increased 9.7%, or ¥97,933 million, from the previous fiscal year-end to ¥1,108,430 million.

(b) Liabilities

Current liabilities amounted to ¥377,295 million, a decrease of 5.8%, or ¥23,240 million, from the previous fiscal year-end. This was primarily due to a decrease of ¥59,104 million in bonds and borrowings, and ¥18,809 million in other financial liabilities despite an increase of ¥40,336 million in trade and other payables, and ¥7,704 million in other current liabilities. Non-current liabilities increased by 41.1%, or ¥65,577 million, from the previous fiscal year-end to ¥225,109 million. This was mainly due to an increase of ¥72,414 million in bonds and borrowings despite a decrease of ¥6,029 million in deferred tax liabilities.

As a result, total liabilities increased by 7.6%, or ¥42,337 million, from the previous fiscal year-end to ¥602,404 million.

(c) Equity

Total equity increased by 12.3%, or ¥55,596 million, from the previous fiscal year-end to ¥506,026 million.

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the third quarter totaled ¥82,586 million, an increase of ¥17,131 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 third quarter/nine months ended based on ¥48,954 million in net income, and included ¥23,774 million in depreciation, a ¥34,723 million increase of trade payables as cash inflow, a ¥2,660 million increase in trade receivables, a ¥8,617 million increase in lease receivables, a ¥33,110 million increase in inventories and, a ¥13,176 million in income tax paid as cash outflow.

As a result, net cash provided by operating activities for the third quarter/nine months ended totaled ¥47,333 million, a decrease of ¥17,519 million year on year.

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

Net cash used in investing activities for the third quarter/nine months ended amounted to ¥29,404 million, a decrease of ¥2,156 million year on year. This was mainly due to an outlay of ¥11,967 million for capital expenditure 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 provided by (used in) investing activities, amounted to an inflow of ¥17,929 million.

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

Net cash used in financing activities for the third quarter/nine months ended totaled ¥3,706 million, a decrease of ¥27,281 million year on year. This was due mainly to an outlay of ¥19,822 million in short-term debt and, ¥11,192 million in dividends paid (including dividends paid to non-controlling interests) despite proceeds of ¥30,972 million from long-term debt and bonds.

(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 October 25 due to a favorable sales forecast from higher global demand beyond our expectations. We now expect demand for hydraulic excavators to be 201,000 units, 7,000 units higher than the previous outlook announced on October 25.

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)

	Third quarter As of Dec. 31, 2017 (A)	Previous fiscal year-end As of Mar. 31, 2017 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	82,586	65,455	17,131
Trade receivables	200,201	184,460	15,741
Inventories	273,747	235,522	38,225
Other financial assets	32,205	31,817	388
Other current assets	20,379	12,868	7,511
Subtotal	609,118	530,122	78,996
Assets held for sale	-	77	(77)
Total current assets	609,118	530,199	78,919
Non-current assets			
Property, plant and equipment	301,133	292,143	8,990
Intangible assets	40,822	40,088	734
Goodwill	41,751	40,629	1,122
Investments accounted for using the equity method	24,527	23,126	1,401
Trade receivables	38,487	31,279	7,208
Deferred tax assets	18,693	22,508	(3,815)
Other financial assets	21,387	19,354	2,033
Other non-current assets	12,512	11,171	1,341
Total non-current assets	499,312	480,298	19,014
Total assets	1,108,430	1,010,497	97,933
Liabilities			
Current liabilities			
Trade and other payables	246,058	205,722	40,336
Bonds and borrowings	94,779	153,883	(59,104)
Income taxes payable	10,696	4,063	6,633
Other financial liabilities	10,887	29,696	(18,809)
Other current liabilities	14,875	7,171	7,704
Total current liabilities	377,295	400,535	(23,240)
Non-current liabilities			
Trade and other payables	19,420	21,604	(2,184)
Bonds and borrowings	167,232	94,818	72,414
Retirement and severance benefit	17,591	16,768	823
Deferred tax liabilities	11,285	17,314	(6,029)
Other financial liabilities	1,670	577	1,093
Other non-current liabilities	7,911	8,451	(540)
Total non-current liabilities	225,109	159,532	65,577
Total liabilities	602,404	560,067	42,337
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	81,991	82,553	(562)
Retained earnings	262,098	228,026	34,072
Accumulated other comprehensive income	25,459	10,518	14,941
Treasury stock, at cost	(3,066)	(3,055)	(11)
Total Equity attribute to owners of the parent	448,059	399,619	48,440
Non-controlling interests	57,967	50,811	7,156
Total equity	506,026	450,430	55,596
Total liabilities and equity	1,108,430	1,010,497	97,933

(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, 2017 (A)	Third quarter Nine months ended Dec. 31, 2016 (B)	(A)/(B)×100 (%)
Revenue	683,902	507,006	135
Cost of sales	(496,158)	(390,704)	127
Gross profit	187,744	116,302	161
Selling, general and administrative expenses	(121,695)	(105,289)	116
Adjusted operating income	66,049	11,013	600
Other income	5,346	2,923	183
Other expenses	(2,785)	(5,769)	48
Operating income	68,610	8,167	840
Financial income	2,319	3,900	59
Financial expenses	(4,605)	(2,692)	171
Share of profits of investments accounted for using the equity method	2,863	32	8,947
Income before income taxes	69,187	9,407	735
Income taxes	(20,233)	(4,557)	444
Net income	48,954	4,850	1,009
Net income attributable to			
Owners of the parent	42,909	2,528	1,697
Non-controlling interests	6,045	2,322	260
Total net income	48,954	4,850	1,009
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	201.77	11.89	1,697
Net income per share (Diluted) (yen)	201.77	11.89	1,697

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2017 (A)	Third quarter Nine months ended Dec. 31, 2016 (B)	(A)/(B)×100 (%)
Net income	48,954	4,850	1,009
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	1,850	1,903	97
Remeasurements of defined benefit obligations	2	(13)	-
Other comprehensive income of equity method associates	7	1	700
Items that can be reclassified into net income			
Foreign currency translation adjustments	16,081	(2,900)	-
Cash flow hedges	(266)	(441)	60
Other comprehensive income of equity method associates	(217)	(2,057)	11
Other comprehensive income, net of taxes	17,457	(3,507)	-
Comprehensive income	66,411	1,343	4,945
Comprehensive income attributable to			
Owners of the parent	57,991	447	12,973
Non-controlling interests	8,420	896	940

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity

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			42,909			
Other comprehensive income				68	1,857	(263)
Comprehensive income	-	-	42,909	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	262,098	(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		-		42,909	6,045	48,954
Other comprehensive income	13,420	15,082		15,082	2,375	17,457
Comprehensive income	13,420	15,082	-	57,991	8,420	66,411
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	17,211	25,459	(3,066)	448,059	57,967	506,026

Third quarter nine months ended Dec. 31, 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			2,528			
Other comprehensive income				(12)	1,895	(441)
Comprehensive income	-	-	2,528	(12)	1,895	(441)
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(2,978)			
Gains/losses on change in equity		(553)				
Transfer to retained earnings			(6)		6	
Expiration of subscription rights		(267)	267			
Transaction with owners	-	(820)	(2,717)	-	6	-
Balance at end of period	81,577	83,275	222,532	(4,012)	6,561	(364)

(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	9,884	10,621	(3,051)	395,963	60,853	456,816
Net income		-		2,528	2,322	4,850
Other comprehensive income	(3,523)	(2,081)		(2,081)	(1,426)	(3,507)
Comprehensive income	(3,523)	(2,081)	-	447	896	1,343
Acquisition of treasury stock		-	(4)	(4)		(4)
Sale of treasury stock		-		-		-
Dividends to stockholders of the Company		-		(2,978)	(7,208)	(10,186)
Gains/losses on change in equity		-		(553)	1,461	908
Transfer to retained earnings		6		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	-	6	(4)	(3,535)	(5,747)	(9,282)
Balance at end of period	6,361	8,546	(3,055)	392,875	56,002	448,877

(4) Consolidated Statements of Cash Flows
Consolidated cumulative quarter

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2017	Third quarter Nine months ended Dec. 31, 2016
Net income	48,954	4,850
Depreciation	23,774	22,862
Amortization of intangible asset	4,340	2,388
Impairment losses	417	3,126
Income tax expense	20,233	4,557
Equity in net earnings of associates	(2,863)	(32)
(Gain) loss on sales of property, plant and equipment	(493)	20
Financial income	(2,319)	(3,900)
Financial expense	4,605	2,692
(Increase) decrease in trade receivables	(2,660)	31,465
(Increase) decrease in lease receivables	(8,617)	1,240
(Increase) decrease in inventories	(33,110)	(3,512)
Increase (decrease) in trade payables	34,723	20,384
Increase (decrease) in retirement and severance benefit	224	(475)
Other	(25,581)	(9,183)
Subtotal	61,627	76,482
Interest received	1,751	1,957
Dividends received	1,144	549
Interest paid	(4,013)	(2,878)
Income tax paid	(13,176)	(11,258)
Net cash provided by operating activities	47,333	64,852
Capital expenditures	(11,967)	(11,035)
Proceeds from sale of property, plant and equipment	4,430	986
Acquisition of intangible assets	(3,197)	(2,416)
Acquisition of investments in securities and other financial assets (including investments in associates)	(17,625)	(19,306)
Sales of investments in securities and other financial assets (including investments in associates)	427	-
(Increase) decrease in short-term loan receivables, net	(1,445)	(284)
Collection of long-term loan receivables	30	157
Other	(57)	338
Net cash provided by (used in) investing activities	(29,404)	(31,560)
Increase (decrease) in short-term debt, net	(19,822)	8,656
Proceeds from long-term debt and bond	89,931	14,664
Payments on long-term debt	(58,959)	(37,525)
Payments on lease payables	(3,670)	(4,343)
Dividends paid to owners of the parent	(9,363)	(2,999)
Dividends paid to non-controlling interests	(1,829)	(7,864)
Purchase of shares of consolidated subsidiaries from non-controlling interests	-	(1,572)
Other	6	(4)
Net cash provided by (used in) financing activities	(3,706)	(30,987)
Effect of exchange rate changes on cash and cash equivalents	2,908	162
Net increase (decrease) in cash and cash equivalents	17,131	2,467
Cash and cash equivalents at beginning of period	65,455	79,110
Cash and cash equivalents resulting from transfer to assets held for sale	-	(195)
Cash and cash equivalents at end of period	82,586	81,382

(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 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.

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 third quarter/nine months ended December 31, 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 third quarter/nine months ended December 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	64,705	1,344	66,049	-	66,049
Operating income	66,916	1,694	68,610	-	68,610
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	1,694	71,473	(2,286)	69,187

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

(Business Combination)

For the third quarter/nine months ended December 31, 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 although 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 revised numbers as of March 2017 retroactively which are disclosed as comparative information. The goodwill on the acquisition date was decreased by ¥6,511 million as the main component of the revision from the provisional amount. 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 liabilities, and so forth.

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

Allocation of the acquisition cost to the acquired assets and liabilities from the acquisition of Bradken Limited was partly completed.

On March 20, 2017, Bradken Limited became a consolidated subsidiary of the Group through the acquisition of voting shares by the company. The company partly completed the allocation of the acquisition cost in the third quarter/nine months ended December 31, 2017 although 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 Bradken Limited and fair value of assets acquired and liabilities assumed are as follows.

(Millions of yen)

Category	Total amount
Cash and cash equivalents	3,572
Trade receivables	8,349
Inventories	17,593
Property, plants, and equipment	30,488
Intangible assets	19,870
Deferred tax assets	4,803
Others	4,255
Total assets	88,930
Trade and other payables	13,729
Bonds and borrowings	31,427
Retirement and severance benefit	1,220
Other liabilities	8,721
Total liabilities	55,097
Consideration paid (cash)	58,614
Goodwill (non-deductible for tax expense)	24,781

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

As the company partly completed the allocation of acquisition cost in the third quarter ended December 31, 2017, the company revised numbers as of March 2017 retroactively that were disclosed as comparative information. The goodwill on the acquisition date was decreased by ¥9,941 million as the main component of the revision from the provisional amount. This was due to a ¥2,457 million increase in inventories, a ¥14,970 million increase in intangible assets, and a ¥7,486 million increase in deferred tax liabilities, and so forth.