

Financial Information

Management's Discussion and Analysis

Business Performance

The HCM Group is implementing the management measures laid out in CONNECT TOGETHER 2019, our mid-term management plan launched in FY2017. We are also working to develop and supply Solution Linkage services, a name we have given to solutions that use ICT and IoT to improve safety, improve productivity, and reduce life cycle costs, each of which are challenges facing our customers.

Furthermore, as part of our ongoing efforts to deepen the value chain and boost earnings outside of new machinery sales, we are working to reinforce the parts and service business in terms of after-sales services for machinery and mining facilities offered by H-E Parts and Bradken, which we acquired in the previous year. At the same time, we are working to strengthen our global support system as well as reinforce our management structure and raise efficiencies by increasing market share and lowering costs.

With respect to construction machinery, demand for hydraulic excavators during the fiscal year under review exceeded that of last year in every region, except the Middle East. The HCM Group is working to reinforce its parts and service business as well as boost earnings by expanding its parts supply system and rolling out ConSite service solutions globally that provide comprehensive support to customers and their machines. As for ConSite, we added ConSite OIL, the construction machinery industry's first breakdown prediction tool for engines and hydraulic equipment that uses sensors to monitor oil condition remotely, to the menu, and launched services in Europe in October 2017. In Japan, as a response to i-Construction advocated by the Ministry of Land, Infrastructure, Transport and Tourism, we are promoting the spread of ICT-powered work through training sessions at our ICT Demonstration Site opened in Hitachinaka City, Ibaraki Prefecture, and by providing solutions to make work processes more efficient.

For mining machinery, demand greatly outpaced the previous year amid growing investments by mining companies. The HCM Group is working to increase sales of its AC-3 Series of rigid dump trucks that feature an advanced stability control system developed with the power of the Hitachi Group. We are also delivering solutions to raise the efficiency of mining operations, including fleet management systems for mining machinery and the development of an autonomous haulage technology. Additionally, we are making efforts to build a more advanced customer support system and boost sales revenue of parts and services.

As for the solutions business, it comprises H-E Parts, which provides service solutions, and Bradken, which engages in the after-sales parts service business for mining facilities and equipment. Both of these companies became consolidated subsidiaries last fiscal year. Consolidated revenue for FY2017 (prior to

inter-segment adjustments) was ¥92,638 million and adjusted operating income was ¥2,425 million, owing to strong sales revenue from mining equipment in Australia and South America. Adjusted operating income is after deducting the 5,402 million yen in amortization due to the purchase price allocation (PPA) of H-E Parts and Bradken.

Consolidated revenue for the fiscal year 2017 (April 1, 2017 – March 31, 2018) was ¥959,153 million, up 27.2% year on year. This robust growth is the result of rising sales of construction machinery particularly in China along with an increase in sales revenue from the consolidation of H-E Parts and Bradken, which offset the impacts of Sumitomo Heavy Industries Construction Cranes Co., Ltd. becoming an affiliate under the equity method in the previous year.

As for each profit item, adjusted operating income rose 231.1% to ¥93,582 million, thanks to the reduced cost of sales ratio and SG&A ratio coupled with an increase in sales of parts and services and contributions from the solutions business. Operating income was up 305.3% year on year to ¥95,737 million and net income attributable to owners of the parent rose 648% to ¥60,004 million.

Principles Regarding Appropriation of Earnings and Dividends for the Year under Review and the Fiscal Year Ending March 31, 2019

The HCM Group will maintain and strengthen its financial structure and work to bolster its internal reserves while considering implementation plans for upfront investments, including investments for technology development and facilities based on medium- and long- term business strategies. At the same time, HCM will pay dividends of surplus linked to its consolidated business results twice annually, comprising interim and year-end dividends, with a target payout ratio of around 30% or higher.

With the aim of enabling the execution of a flexible capital policy, Hitachi Construction Machinery will acquire treasury shares in consideration of necessity, financial conditions, and stock price movement.

With regard to the FY2017 year-end dividend, at the Meeting of the Board of Directors held on May 21, 2018, a resolution was approved for cash dividends per share of ¥49 with the record date of March 31, 2018. As a result, cash dividends for the entire FY2017 amounted to ¥85 per share. Dividends for FY2018 are to be determined.

Consolidated Balance Sheets

(unit: millions of yen)

Item	Previous fiscal year (reference) As of March 31, 2017	Current fiscal year As of March 31, 2018
Assets		
Current assets	530,199	597,829
Cash and cash equivalents	65,455	81,929
Trade receivables	184,460	219,599
Inventories	235,522	255,623
Income taxes receivable	4,191	1,894
Other financial assets	27,626	28,029
Other current assets	12,868	10,342
Subtotal	530,122	597,416
Assets held for sale	77	413
Non-current assets	482,009	491,967
Property, plant and equipment	297,843	299,987
Intangible assets	40,088	37,748
Goodwill	36,640	35,016
Investments accounted for using the equity method	23,126	29,549
Trade receivables	31,279	41,392
Deferred tax assets	22,508	17,463
Other financial assets	19,354	20,148
Other non-current assets	11,171	10,664
Total assets	1,012,208	1,089,796
Liabilities		
Current liabilities	400,535	366,422
Trade and other payables	205,722	268,230
Bonds and borrowings	153,883	69,892
Income tax payables	4,063	11,000
Other financial liabilities	29,696	11,584
Other current liabilities	7,171	5,716
Non-current liabilities	161,243	218,344
Trade and other payables	21,604	18,839
Bonds and borrowings	94,818	160,773
Retirement and severance benefits	16,768	17,341
Deferred tax liabilities	19,025	11,314
Other financial liabilities	577	2,354
Other non-current liabilities	8,451	7,723
Total liabilities	561,778	584,766
Equity		
Equity attributable to owners of the parent	399,619	448,502
Common stock	81,577	81,577
Capital surplus	82,553	81,991
Retained earnings	228,026	279,201
Accumulated other comprehensive income	10,518	8,802
Treasury stock, at cost	△ 3,055	△ 3,069
Non-controlling interests	50,811	56,528
Total equity	450,430	505,030
Total liabilities and equity	1,012,208	1,089,796

* During the fiscal year ended 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.

Consolidated Statements of Income

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2016 to March 31, 2017	Current fiscal year From April 1, 2017 to March 31, 2018
Revenue	753,947	959,153
Cost of sales	△ 583,021	△ 695,316
Gross profit	170,926	263,837
Selling, general and administrative expenses	△ 142,661	△ 170,255
Adjusted operating income	28,265	93,582
Other income	4,768	6,658
Other expenses	△ 9,411	△ 4,503
Operating income	23,622	95,737
Financial income	4,008	2,910
Financial expenses	△ 3,460	△ 7,390
Share of profits (losses) of investments accounted for using the equity method	△ 311	4,355
Income before income taxes	23,859	95,612
Income taxes	△ 9,669	△ 26,390
Net income	14,190	69,222
Net income attributable to		
Owners of the parent	8,022	60,004
Non-controlling interests	6,168	9,218
Total net income	14,190	69,222
Net income attributable to owners of the Parent per share (basic) (yen)	37.72	282.16
Net income attributable to owners of the Parent per share (diluted) (yen)	37.72	282.16

Consolidated Statements of Comprehensive Income

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2016 to March 31, 2017	Current fiscal year From April 1, 2017 to March 31, 2018
Net income	14,190	69,222
Other comprehensive income		
Items that cannot be reclassified into net income		
Net gains and losses from financial assets measured at fair value through OCI	2,916	1,444
Remeasurements of defined benefit obligations	3,142	△ 378
Other comprehensive income of equity method associates	1	7
Items that can be reclassified into net income		
Foreign currency translation adjustments	△ 8,284	△ 2,425
Cash flow hedges	△ 88	160
Other comprehensive income of equity method associates	△ 206	△ 313
Other comprehensive income, net of taxes	△ 2,519	△ 1,505
Comprehensive income	11,671	67,717
Comprehensive income attributable to owners of the parent	7,876	58,437
Non-controlling interests	3,795	9,280

Consolidated Statements of Changes in Equity

Current Fiscal Year (From April 1, 2017 to March 31, 2018)

(unit: millions of yen)

Item	Equity attributable to owners of the Company					
	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 year	81,577	82,553	228,026	△ 949	7,571	△ 14
Net income			60,004			
Other comprehensive income				△ 283	1,451	163
Comprehensive income for the year	—	—	60,004	△ 283	1,451	163
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			△ 9,357			
Changes in ownership interests in subsidiaries without a loss of control		△ 64				
Change in the scope of consolidation						
Transfer to retained earnings			30		△ 30	
Expiration of subscription rights		△ 498	498			
Transactions with owners	—	△ 562	△ 8,829	—	△ 30	—
Balance at end of year	81,577	81,991	279,201	△ 1,232	8,992	149

Item	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of year	3,910	10,518	△ 3,055	399,619	50,811	450,430
Net income		—		60,004	9,218	69,222
Other comprehensive income	△ 2,898	△ 1,567		△ 1,567	62	△ 1,505
Comprehensive income	△ 2,898	△ 1,567	—	58,437	9,280	67,717
Acquisition of treasury stock		—	△ 14	△ 14		△ 14
Sale of treasury stock		—		—		—
Increase/decrease by share exchange		—		△ 9,357	△ 3,999	△ 13,356
Changes in ownership interests in subsidiaries without a loss of control	△ 119	△ 119		△ 183	419	236
Change in the scope of consolidation		—		—	17	17
Transfer to retained earnings		△ 30		—		—
Other increase/decrease		—		—		—
Transactions with owners	△ 119	△ 149	△ 14	△ 9,554	△ 3,563	△ 13,117
Balance at end of year	893	8,802	△ 3,069	448,502	56,528	505,030

Consolidated Statements of Cash Flow

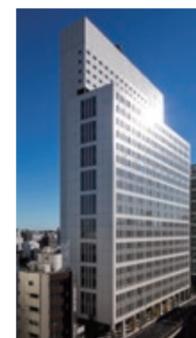
(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2016 to March 31, 2017	Current fiscal year From April 1, 2017 to March 31, 2018
Net income	14,190	69,222
Depreciation	30,680	32,306
Amortization of Intangible assets	3,284	5,526
Impairment losses	3,883	549
Gains on business restructuring	△ 933	—
Income tax expense	9,669	26,390
Share of profits of investments accounted for using the equity method	311	△ 4,355
Gain (loss) on sales of property, plant and equipment	△ 51	△ 574
Financial income	△ 4,008	△ 2,910
Financial expenses	3,460	7,390
(Increase) decrease in accounts and trade receivables	△ 1,482	△ 27,497
(Increase) decrease in lease receivables	△ 4,754	△ 14,257
(Increase) decrease in inventories	28,974	△ 24,664
Increase (decrease) in accounts and notes payables	20,580	53,337
Increase (decrease) in provisions and retirement benefit obligations	2,704	△ 248
Other	△ 3,152	△ 17,667
Subtotal	103,355	102,548
Interest received	2,573	2,548
Dividends received	593	1,179
Interest paid	△ 3,534	△ 5,089
Income tax paid	△ 15,026	△ 16,658
Net cash provided by operating activities	87,961	84,528
Capital expenditures	△ 13,999	△ 16,887
Proceeds from sale of property, plant and equipment	1,998	4,603
Acquisition of intangible assets	△ 3,304	△ 4,464
Acquisition of investments in securities and other financial assets (including investments in associates)	△ 56,070	△ 21,416
Sales of investments in securities and other financial assets (including investments in associates)	△ 3,807	469
(Increase) decrease in short-term loan receivables, net	63	116
Collection of long-term loan receivables	172	88
Other	337	△ 71
Net cash provided by (used in) investing activities	△ 74,610	△ 37,562
Increase (decrease) in short-term borrowings, net	24,232	△ 33,864
Proceeds from long-term borrowings and bonds	39,143	90,386
Payments on long-term borrowings and bonds	△ 69,883	△ 70,844
Payments on lease payables	△ 5,556	△ 4,700
Dividends paid to owners of the parent	△ 3,005	△ 9,361
Dividends paid to non-controlling interests	△ 7,862	△ 2,103
Purchase of shares of consolidated subsidiaries from non-controlling interests	△ 2,882	—
Other	△ 4	3
Net cash provided by (used in) financing activities	△ 25,817	△ 30,483
Effect of exchange rate changes on cash and cash equivalents	△ 1,189	△ 9
Net increase (decrease) in cash and cash equivalents	△ 13,655	16,474
Cash and cash equivalents at beginning of year	79,110	65,455
Cash and cash equivalents at end of year	65,455	81,929

Company Information

Company Profile (As of March 31, 2018)

Company Name	Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha)
Paid in Capital	81,576 million yen
Head Office	16-1 Higashiueno 2-choume, Taito-ku, Tokyo, 110-0015, Japan
Establishment	October 1, 1970
President	Kotaro Hirano
Employees	23,925 (Consolidated) 4,072 (Non-consolidated)
Major Operations	Manufacturing, sales, rental and service of construction machinery, transportation machinery, environmental related products and other machines and devices
URL	https://www.hitachim.com/global/



Investor Information (As of March 31, 2018)

Stock Exchange of Listing	First Section of the Tokyo Stock Exchange (#6305)*
Accounting Auditor	Ernst & Young ShinNihon LLC
Stock Transfer Agent	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shares Authorized	700,000,000
Number of Shares Issued	215,115,038
Number of Shareholders	25,069
Annual Meeting	The annual meeting of shareholders is usually held before the end of June in Tokyo.

Composition of Shareholders



Major Shareholders (Top 10 Largest Shareholders)

Shareholder	Number of shares held	Ownership ratio (%) (Third decimal place rounded off)
Hitachi, Ltd.	108,057,610	50.81
The Master Trust Bank of Japan, Ltd. (trust account)	22,855,800	10.75
Japan Trustee Services Bank, Ltd. (trust account)	10,690,800	5.03
Japan Trustee Services Bank, Ltd. (trust account 9)	4,750,900	2.23
Trust & Custody Services Bank, Ltd. (securities investment trust account)	2,908,400	1.37
STATE STREET BANK WEST CLIENT - TREATY (Standing proxy: Clearing and Settlement Department, Mizuho Bank, Ltd.)	1,967,774	0.93
Japan Trustee Services Bank, Ltd. (trust account 5)	1,786,500	0.84
Japan Trustee Services Bank, Ltd. (trust account 7)	1,723,300	0.81
JP Morgan Chase Bank 385151 (standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	1,430,707	0.67
BNYM Goldman Sachs Japan (standing proxy: MUFG Bank)	1,329,200	0.63

*1 Hitachi Construction Machinery holds 2,457,970 shares of treasury stock, but these have been excluded from the list of major shareholders above.
*2 Ownership ratio is calculated without the 2,457,970 shares of treasury stock.