Consolidated Financial Results for the Year Ended March 31, 2019 (IFRS)

April 24, 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, Executive Officer, President & CEO
Scheduled date of ordinary General Meeting of Shareholders: June 24, 2019
Scheduled date of commencement of payment of dividends: May 31, 2019
Scheduled date for submission of Securities Report: June 25, 2019
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 year ended March 2019 (April 1, 2018 to March 31, 2019)

(1) Consolidated results

	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	%
March 31, 2019	1,033,703	7.8	116,841	24.9	102,702	7.4	74,186	7.2	68,542	14.2	61,947	(8.5)
March 31, 2018	959,153	27.2	93,582	231.1	95,612	300.7	69,222	387.8	60,004	648.0	67,717	480.2

Notes: The percentages indicated show changes from the same period of the previous fiscal year.

Importance: "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 year ended March 2019 is as below.

March 31, 2019: ¥102,296million YoY 6.9 % March 31, 2018: ¥ 95,737 million YoY 305.3%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)	Profit on equity attributable to owners of the parent	Ratio of income before income taxes	Operating income to Revenue
	Yen	Yen	%	%	%
March 31, 2019	322.31	322.31	14.7	9.0	9.9
March 31, 2018	282.16	282.16	14.1	9.1	10.0

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

March 31, 2019: ¥4,716million March 31, 2018: ¥4,355million

"Net income attributable to owners of the Parent per share (basic)" and "Net income attributable to owners of the Parent per share (diluted)" are calculated based on "Net income attributable to owners of the parent".

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio	Equity per share attributable to owners of the parent
	Millions of yen	Millions of yen	Millions of yen	%	Yen
March 31, 2019	1,185,256	542,661	486,407	41.0	2,287.31
March 31, 2018	1,089,796	505,030	448,502	41.2	2,109.04

(3) Consolidated cash flows

	Net cash from operating activities	Net cash from investing activities	Net cash from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2019	(25,693)	(30,339)	43,928	67,347
March 31, 2018	84,528	(37,562)	(30,483)	81,929

2. Dividends status

	Cash dividends per share					Dividends paid (Total)	Dividend Payout Ratio (Consolidated)	Dividend attributable to owners of the parent (Consolidated)
	First Quarter	Second Quarter	Third Quarter	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
March 31, 2018	—	36.00	—	49.00	85.00	18,076	30.1	4.3
March 31, 2019	—	43.00	—	57.00	100.00	21,266	31.0	4.6
March 31, 2020 (Projection)	—	—	—	—	—		—	

Interim and year-end dividends for the fiscal year ending March 2020 are to be determined.

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

3. Consolidated earnings forecast for the full year ending March 2020 (April 1, 2019 to March 31, 2020)

	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, 2020	950,000	(8.1)	86,000	(26.4)	80,000	(22.1)	48,000	(29.9)	225.72

Notes: The percentages indicated show changes from the same period of the previous fiscal year.

Importance: "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 2020 is as below.
March 31, 2020: ¥82,000million YoY (19.8) %

*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)
March 2019 215,115,038
March 2018 215,115,038
[2] Number of treasury shares
March 2019 2,460,265
March 2018 2,457,970
[3] Average number of common shares outstanding during the fiscal year (shares)
March 2019 212,655,771
March 2018 212,659,005

(Reference) Non-consolidated Financial Results

1. Non-consolidated results for the year ended March 2019(April 1, 2018 to March 31, 2019)

(1) Non-consolidated results (Rounded off to the nearest million)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2019	545,949	14.4	23,064	(2.3)	57,703	11.9	50,503	9.1
March 31, 2018	477,221	33.6	23,607	―	51,569	271.5	46,287	169.0

Notes: The percentages indicated show changes from the same period of the previous fiscal year.

	Net income per share	Net income per share (Diluted)
	Yen	Yen
March 31, 2019	237.49	237.49
March 31, 2018	217.66	217.66

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2019	634,437	281,616	44.4	1,324.29
March 31, 2018	556,493	252,936	45.5	1,189.41

(Reference) Total equity at fiscal year-end March 2019: ¥281,616 million March 2018: ¥252,936 million

Note : Beginning from the fiscal year 2018, the company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ guidance No. 28 on February 16, 2018)". Following to this, it changed the presentation that deferred tax asset as "investments and other assets" and deferred tax liability as "non-current liabilities" and both change of classifications have been reflected to the previous fiscal year.

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, (1) Management Results’’ of the attachment for conditions serving as assumptions for results forecasts.

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

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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 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, and in the U.K. through Synergy Hire, which was established in January 2019.
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.

In Oceania, we decided to establish a new regional headquarters in April 2019 in order to strengthen its business in the region and further expand its construction machinery and mining machinery sales as well as its parts and service business.

In Europe, which has some of the strictest regulations in the world, with the prospect of a rise in demand for EV construction machinery, a new company, EAC, which was established with a German distributor for developing electric construction machinery and special application products, developed electric excavators in the 2t and 8t classes as concept models.

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 Hitachi Group’s strengths.

Additionally, as we announced in September 2018, we are working to restructure the main domestic bases to further strengthen our technical capabilities 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. As part of restructuring, on April 1, 2019 we implemented an absorption-type merger of KCM Corporation, which is a full subsidiary and takes part in the development and production of wheel loaders.

Also, at five factories in Ibaraki Prefecture, our energy consumption activities have been well appraised and we won the ECCJ Chairman Prize of the Energy Conservation Grand Prize for excellent energy conservation equipment for Fiscal 2018 (hosted by The Energy Conservation Center, Japan).

Consolidated revenue for this term (April 1, 2018 to March 31, 2019) increased by 7.8% year on year to ¥1,033,703 million due to increased sales of new machines mainly in Asia and Oceania, North America, and Europe, as well as increased sales of the value chain business mainly from parts & services.
Adjusted operating income increased by 24.9% year on year to ¥116,841 million, operating income increased by 6.9% to ¥102,296 million, and net income attributable to the owners of the parent increased by 14.2% to ¥68,542 million due to a decrease in the cost of sales, in addition to the contribution of the 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 March 31, 2019) increased in new machines in construction and mining, as well as increased sales of the value chain business mainly from parts & services. By region, it increased in Japan, Oceania, North America and Asia, and although it was affected by the foreign exchange rate of Euro and emerging countries, it increased by 8.2% year on year to ¥937,727 million.
Adjusted operating income increased by 21.8% to ¥110,992 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 March 31, 2019) increased by 4.5% year on year to ¥96,847 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 141.2% to ¥5,849 million.

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 March 2019.

(Millions of yen ; %)

	FY 2018 (April 1,2018- March 31, 2019) (A)	FY 2017 (April 1,2017- March 31, 2018) (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	1,033,703	959,153	74,550	7.8
Adjusted operating income*	116,841	93,582	23,259	24.9
Operating income	102,296	95,737	6,559	6.9
Income before income taxes	102,702	95,612	7,090	7.4
Net income attributable to owners of the parent	68,542	60,004	8,538	14.2

(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:

	FY2018 (April 1,2018- March 31, 2019)		FY2017 (April 1,2017- March 31, 2018)		Increase (Decrease)	
	Revenue (Millions of yen) (A)	Proportion (%)	Revenue (Millions of yen) (B)	Proportion (%)	(A)-(B) (Millions of yen)	(A)/(B)-1 (%)
North America	168,664	16.3	136,319	14.2	32,345	23.7
Central and South America	17,077	1.7	16,081	1.7	996	6.2
The Americas	185,741	18.0	152,400	15.9	33,341	21.9
Europe	111,643	10.8	104,184	10.9	7,460	7.2
Russia-CIS	34,394	3.3	27,363	2.9	7,030	25.7
Africa	43,793	4.2	44,831	4.7	(1,038)	(2.3)
Middle East	11,760	1.1	23,143	2.4	(11,383)	(49.2)
Russia-CIS, Africa, and the Middle East	89,947	8.7	95,337	9.9	(5,391)	(5.7)
Asia	88,487	8.6	75,418	7.9	13,069	17.3
India	67,930	6.6	65,077	6.8	2,853	4.4
Oceania	163,940	15.9	151,903	15.8	12,037	7.9
Asia and Oceania	320,357	31.0	292,398	30.5	27,959	9.6
China	119,940	11.6	121,614	12.7	(1,674)	(1.4)
Sub-total	827,628	80.1	765,933	79.9	61,695	8.1
Japan	206,075	19.9	193,220	20.1	12,855	6.7
Total	1,033,703	100.0	959,153	100.0	74,550	7.8

(Rounded off to the nearest million)

(2) Analysis of Financial Condition

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

(a) Assets

Current assets at the end of the fiscal year amounted to ¥ 673,888 million, an increase of 12.7%, or ¥ 76,059 million, from the previous fiscal year-end. This was due mainly to an increase of ¥ 18,635 million in trade receivables, and ¥ 69,221 million in inventories. Non-current assets amounted to ¥ 511,368 million, an increase of 3.9%, or ¥ 19,401 million, from the previous fiscal year-end. This was due mainly to an increase of ¥11,258 million in property, plant and equipment, ¥4,344 million in intangible assets and ¥ 3,079 million in investments accounted for using the equity method.

As a result, total assets increased 8.8%, or ¥ 95,460 million, from the previous fiscal year-end to ¥ 1,185,256million.

(b) Liabilities

Current liabilities amounted to ¥ 470,623 million, an increase of 28.4%, or ¥ 104,201 million, from the previous fiscal year-end. This was primarily due to an increase of ¥ 115,749 million in bonds and borrowings. Non-current liabilities decreased by 21.2%, or ¥46,372 million, from the previous fiscal year-end to ¥ 171,972 million. This was mainly due to a decrease of ¥ 41,606 million in bonds and borrowings.

As a result, total liabilities increased by 9.9%, or ¥ 57,829million, from the previous fiscal year-end to ¥ 642,595 million.

(c) Equity

Total equity increased by 7.5%, or ¥ 37,631 million, from the previous fiscal year-end to ¥ 542,661 million.

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the fiscal year totaled ¥ 67,347 million, a decrease of ¥ 14,582 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 used by operating activities in the consolidated fiscal year based on ¥ 74,186 million in net income, and included ¥ 36,954 million in depreciation, a ¥ 19,101 million increase in trade receivables, and a ¥ 76,497 million increase in inventories as cash outflow.

As a result, net cash used by operating activities during the fiscal year totaled ¥ 25,693 million, a decrease of ¥ 110,221 million year on year.

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

Net cash used in investing activities during the fiscal year amounted to ¥ 30,339 million, a decrease of ¥ 7,223 million year on year. This was mainly due to an outlay of ¥ 26,231 million for capital expenditure and outlay of ¥ 8,536 million for acquisition of intangible assets.

As a result, free cash flows, the sum of net cash provided by operating activities and net cash used in investing activities, amounted to an outflow of ¥ 56,032 million.

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

Net cash provided in financing activities during the fiscal year amounted ¥ 43,928 million, an increase of ¥ 74,411 million year on year. This was due mainly to an increase of ¥ 67,386 million in short-term debt, an increase of ¥ 7,431 million in bonds and borrowings though an outlay of ¥24,495 million in dividends paid (including dividends paid to non-controlling interests).

(Reference) The following table describes HCM's cash flow indicator indices:

	March 2019	March 2018	March 2017
Equity attributable to owners of the parent ratio (%)	41.0	41.2	39.5
Equity attributable to owners of the parent ratio on a market price basis (%)	52.7	80.1	58.3
Interest-bearing debt to operating cash flow ratio (%)	(11.9)	2.7	2.7
Interest coverage ratio (times)	(4.8)	16.6	24.9

Notes:

Equity attributable to owners of the parent ratio: Equity attributable to owners of the parent/total assets

Equity attributable to owners of the parent ratio on a market price basis: Share market price/total assets

Interest-bearing debt to operating cash flow ratio: Interest-bearing debt/cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/interest paid

1. Indices are calculated using consolidated figures.
2. The share market price is calculated by multiplying the closing price at the end of the period by the number of outstanding shares at the end of the period (after excluding treasury stock).
3. Cash flows from operating activities reflect cash flows from operating activities as detailed in the Consolidated Statements of Cash Flows. Interest-bearing debt reflects al debt for which the Company is paying interest as detailed in the Consolidated Balance Sheets. Interest payments reflect interest paid as detailed in the Consolidated Statements of Cash Flows.

(3) Outlook for the Fiscal Year Ending March 2020

The company believes that there will be a slight decrease in global hydraulic excavator demand in FY2019 (from April 1, 2018 to March 31, 2020) compared to that in FY2018, expecting growth mainly in Japan and the Middle East, and a downward trend in China, Western Europe, and Asia, etc.
As for mining machinery, continuous increased demand in ultra-large dump trucks and excavators is expected, led by an expected firmness in capital spending from mining companies that own large mines. With regards to the solution business, the company expects higher machine/facility utilization resulting from increased mineral production.

Under the above-mentioned circumstances, we will improve competitiveness by offering solutions to our customers through enhancement of the mining business and value chain centering on parts and services. Additionally, we are continuously reducing the cost of sales, trying to reach proper inventory levels and increase operational efficiency. In accordance with concerns such as the economic conflict between US and China, as well as Brexit, we have set the consolidated earnings forecast for FY2019 for the HCM group (from April 1, 2019 to March 31, 2020) as below.

With respect to the assumptions of this fiscal year forecast, we assume demand will decrease slightly compared with the previous fiscal year, and we expect the foreign exchange rate (our lowest estimation range) to be: ¥100 for one US dollar, ¥110 for one euro, ¥15.0 for one Chinese yuan, and ¥77 for one Australian dollar.

With respect to the assumptions of this fiscal year forecast, as for demand we assumed it will be a slight decrease compared with the previous fiscal year, and for our assumed foreign exchange rate, which we expect the lowest in our estimation range, is ¥100 for one US dollar, ¥110 for one euro, ¥15.0 for one Chinese yuan, and ¥77 for one Australian dollar.

Consolidated Earnings Forecast for the Full Year Ending March 31, 2020
(from April 1, 2019 to March 31, 2020)

	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)
Forecast	¥Millions 950,000	¥Millions 86,000	¥Millions 82,000	¥Millions 80,000	¥Millions 48,000	Yen 225.72
Change	(83,703)	(30,841)	(20,296)	(22,702)	(20,542)	
% Change	(8.1)	(26.4)	(19.8)	(22.1)	(29.9)	
(Reference) FY2018	¥Millions 1,033,703	¥Millions 116,841	¥Millions 102,296	¥Millions 102,702	¥Millions 68,542	Yen 322.31

(Rounded off to the nearest million)

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.

(4) Business Risks

The Group carries out its operations in regions throughout the world and executes its business in a variety of fields such as production, sales, finance, etc. Accordingly, the Group's business activities are subject to the effects of a wide range of factors such as market conditions, exchange rates and finance. The Group has identified the following risks as its primary risks based on information available as of March 31, 2019.

(1) Market conditions

Under the Group's business activities, demand is heavily affected by public investment such as infrastructure development and private investment including the development of natural resources, real estates, etc. Consequently, we have a risk of decline in revenue due to low factory utilization or price decline by severe competition, resulting from significant demand decrease by sudden economic fluctuation in each region.

(2) Foreign currency exchange rate fluctuations

Since the sales of the Group derived from outside Japan account for 80% in the fiscal year under review, the risk of exchange rate fluctuations has increased. Appreciation of the Japanese yen against major currencies such as the US dollar, European euro, and other currencies of emerging countries would have a significant adverse impact on the Group's operational results. The Group strives to alleviate the effect of such fluctuations by enlarging the portion of local production, increasing parts import by international procurement, and having forward exchange contracts and conducting other hedging activities. However, there is no guarantee that our operational results are not adversely affected in the case that rates fluctuate beyond our projected range.

(3) Fluctuation in financial markets

The Group is currently working on improvement of the efficiency of its assets to reduce its interest-bearing debt; however, its aggregate short- and long-term interest-bearing debts were ¥304,808 million in total as of March 31, 2019. Although the Group has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase the interest expenses, thereby adversely affecting the Group's operational results. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of the Group's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may deteriorate the Group's operational results and financial condition.

(4) Procurement and production

Since the Group's costs for parts and materials account for a large portion of manufacturing costs, their procurement is exposed to fluctuations in commodity prices in the market for materials. Price increases in commodities including steel may increase the manufacturing costs. Shortage of parts and materials causes difficulty in timely procurement and manufacture, and it may lower the Group's production efficiency. In an effort to reduce any adverse effect on its business as a result of an increase in material costs, the Group plans to reduce other costs via VEC (value engineering for customers) activities, and appropriately pass on the increase in material costs to the product prices. However, if the increases in material prices were to exceed the Group's expectations or a prolonged shortage of materials and parts were to occur, there is a risk that the Group's operational results may be adversely affected.

(5) Credit management

The Group's main products, construction machinery, are sold via sales financing, such as installment sales, finance leasing, etc. A specialized department for financing engages in credit management. Since many customers utilize sales financing, despite receivables are not concentrated overwhelmingly in certain customers, there is a risk for the occurrence of bad debt due to the deterioration of customers' financial condition may adversely affect the Group's revenue.

(6) Public laws and tax practices

The Group's business operations are required to comply with increasingly stringent political measures, official restrictions, tax practices, laws and regulations, etc. For example, in the numerous countries in which the Group operates, we are required to comply with restrictions or regulations such as authorizations for business operations and investments, as well as limitations and rules regarding imports and exports, and laws and regulations regarding patents, intellectual properties, consumers, the environment and recycling, conditions of employment, taxation, etc. If such existing regulations were to be amended or tightened, the Group may be required to incur increased costs and pay larger amounts of tax. There is a risk that such additional compliance costs may adversely affect the Group's revenue.

(7) Environmental regulations (climate changes, etc.)

The Group's products are required to respond to social problems such as climate change (reduction of CO_2, etc.) and environmental burdens (exhaust gas and noise). To this end, the Group expends a significant share of its management resources, such as research and development expenses and securement of human resources, investment in its service and sales structure, to comply with stringent environmental and related regulations. There is a risk that such additional investment costs may adversely affect the Group's management financially.

(8) Product liability

While the Group is making efforts to sustain and improve the quality and reliability of its operations and products based on stringent standards established internally by the Group, it may face product liability claims or become exposed to other liabilities if unexpected defects in its products result in accidents. If the costs of addressing such claims or other liabilities are not covered by the Group's existing insurance policies, we may be required to bear the cost thereto, which may decrease its revenue.

(9) Alliances and collaborative relationships

The Group has entered into various alliances and collaborative relationships with distributors, suppliers, and other companies in its industry to reinforce its international competitiveness. Through such arrangements, we are working to improve and extend its product development, production, sales, and service capabilities. The Group's failure to attain the expected results or the termination of such alliances or collaborative relationships may adversely affect the operational results.

(10) Information security, intellectual property, and other matters

The Group may obtain confidential information concerning its customers and individuals in the normal course of its business, and also holds confidential business and technological information. We maintain such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, or loss, the Group employs appropriate safety measures, including reasonable technological safety measures and establishment of rules to handle confidential information and information management capabilities. If a leak of confidential information occurred, there is a risk that the reputation of the Group may be damaged and customers may lose confidence in the Group. In addition, there is also a risk that our intellectual property may be infringed upon by a third party, or a third party may claim that the Group is liable for infringing on such third party's intellectual property rights.

(11) Impact of natural and man-made disasters
The Group conducts its business operations on a global scale and maintains business facilities for development, production, supply, and other business activities in many countries. There is a risk of occurrence of natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, or condemnation and interference by third parties in regions in which the Group operates. These natural and anthropogenic disasters may cause damage to its facilities from which recovery cannot be made in short term and disrupt operations, procurement of materials and parts or their production, and sales and services. There is a risk that such delays or disruptions may adversely affect our operational results.

2. Our Fundamental Position Concerning Selection of Accounting Standards Policy

The HCM Group has been actively promoting global business development and aims to further increase its corporate value by building a management foundation that can accelerate management visualization and management enhancement as well as governance reinforcement. As part of these efforts and for the purpose of improving the international comparability of financial statements in the capital markets by introducing IFRS, which is a global standard, and unifying the accounting methods within the Group, HCM voluntarily adopts the International Financial Reporting Standards (IFRS) from the presentation of the consolidated financial statements in its annual securities report for the fiscal year ended March 31, 2015.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Current fiscal year-end As of Mar. 31, 2019 (A)	Previous fiscal year-end As of Mar. 31, 2018 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	67,347	81,929	(14,582)
Trade receivables	238,234	219,599	18,635
Inventories	324,844	255,623	69,221
Income taxes receivable	1,167	1,894	(727)
Other financial assets	25,904	28,029	(2,125)
Other current assets	14,110	10,342	3,768
Subtotal	671,606	597,416	74,190
Assets held for sale	2,282	413	1,869
Total current assets	673,888	597,829	76,059
Non-current assets			
Property, plant and equipment	311,245	299,987	11,258
Intangible assets	42,092	37,748	4,344
Goodwill	34,564	35,016	(452)
Investments accounted for using the equity method	32,628	29,549	3,079
Trade receivables	44,357	41,392	2,965
Deferred tax assets	19,145	17,463	1,682
Other financial assets	17,279	20,148	(2,869)
Other non-current assets	10,058	10,664	(606)
Total non-current assets	511,368	491,967	19,401
Total assets	1,185,256	1,089,796	95,460
Liabilities			
Current liabilities			
Trade and other payables	259,570	268,230	(8,660)
Bonds and borrowings	185,641	69,892	115,749
Income taxes payable	12,012	11,000	1,012
Other financial liabilities	10,165	11,584	(1,419)
Other current liabilities	3,235	5,716	(2,481)
Total current liabilities	470,623	366,422	104,201
Non-current liabilities			
Trade and other payables	16,203	18,839	(2,636)
Bonds and borrowings	119,167	160,773	(41,606)
Retirement and severance benefit	17,958	17,341	617
Deferred tax liabilities	8,726	11,314	(2,588)
Other financial liabilities	1,158	2,354	(1,196)
Other non-current liabilities	8,760	7,723	1,037
Total non-current liabilities	171,972	218,344	(46,372)
Total liabilities	642,595	584,766	57,829
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	81,991	81,991	-
Retained earnings	328,344	279,201	49,143
Accumulated other comprehensive income	(2,428)	8,802	(11,230)
Treasury stock, at cost	(3,077)	(3,069)	(8)
Total Equity attribute to owners of the parent	486,407	448,502	37,905
Non-controlling interests	56,254	56,528	(274)
Total equity	542,661	505,030	37,631
Total liabilities and equity	1,185,256	1,089,796	95,460

(2) Consolidated Statements of Income

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2019 (A)	Previous fiscal year For the year ended Mar. 31, 2018 (B)	(A)/(B)×100 (%)
Revenue	1,033,703	959,153	108
Cost of sales	(735,507)	(695,316)	106
Gross profit	298,196	263,837	113
Selling, general and administrative expenses	(181,355)	(170,255)	107
Adjusted operating income	116,841	93,582	125
Other income	5,369	6,658	81
Other expenses	(19,914)	(4,503)	442
Operating income	102,296	95,737	107
Financial income	3,781	2,910	130
Financial expenses	(8,091)	(7,390)	109
Share of profits of investments accounted for using the equity method	4,716	4,355	108
Income before income taxes	102,702	95,612	107
Income taxes	(28,516)	(26,390)	108
Net income	74,186	69,222	107

Net income attributable to			
Owners of the parent	68,542	60,004	114
Non-controlling interests	5,644	9,218	61
Total net income	74,186	69,222	107

EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	322.31	282.16	114
Net income per share (Diluted) (yen)	322.31	282.16	114

(Rounded off to the nearest million)

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2019 (A)	Previous fiscal year For the year ended Mar. 31, 2018 (B)	(A)/(B)×100 (%)
Net income	74,186	69,222	107
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	(1,743)	1,444	-
Remeasurements of defined benefit obligations	(1,077)	(378)	285
Other comprehensive income of equity method associates	7	7	100
Items that can be reclassified into net income			
Foreign currency translation adjustments	(8,988)	(2,425)	371
Cash flow hedges	64	160	40
Other comprehensive income of equity method associates	(502)	(313)	160
Other comprehensive income, net of taxes	(12,239)	(1,505)	813
Comprehensive income	61,947	67,717	91
Comprehensive income attributable to			
Owners of the parent	57,445	58,437	98
Non-controlling interests	4,502	9,280	49

(Rounded off to the nearest million)

(4) Consolidated Statements of Changes in Equity
Year ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	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
Cumulative effects of changes in accounting			32			
Restated balance	81,577	81,991	279,233	(1,232)	8,992	149
Net income			68,542			
Other comprehensive income				(1,098)	(1,741)	64
Comprehensive income	-	-	68,542	(1,098)	(1,741)	64
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(19,564)			
Changes in ownership interests in subsidiaries without a loss of control						
Change in the scope of consolidation						
Transfer to retained earnings			133		(133)	
Expiration of subscription rights						
Transaction with owners	-	-	(19,431)	-	(133)	-
Balance at end of period	81,577	81,991	328,344	(2,330)	7,118	213

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	893	8,802	(3,069)	448,502	56,528	505,030
Cumulative effects of changes in accounting				32		32
Restated balance	893	8,802	(3,069)	448,534	56,528	505,062
Net income		-		68,542	5,644	74,186
Other comprehensive income	(8,322)	(11,097)		(11,097)	(1,142)	(12,239)
Comprehensive income	(8,322)	(11,097)	-	57,445	4,502	61,947
Acquisition of treasury stock		-	(8)	(8)		(8)
Sale of treasury stock		-		-		-
Dividends to stockholders of the Company		-		(19,564)	(4,795)	(24,359)
Changes in ownership interests in subsidiaries without a loss of control		-		-		-
Change in the scope of consolidation		-		-	19	19
Transfer to retained earnings		(133)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	-	(133)	(8)	(19,572)	(4,776)	(24,348)
Balance at end of period	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661

Year ended March 31, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	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			60,004			
Other comprehensive income				(283)	1,451	163
Comprehensive income	-	-	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			
Transaction with owners	-	(562)	(8,829)	-	(30)	-
Balance at end of period	81,577	81,991	279,201	(1,232)	8,992	149

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	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		-	0	0		0
Dividends to stockholders of the Company		-		(9,357)	(3,999)	(13,356)
Changes in ownership interests in subsidiaries without a loss of control	(119)	(119)		(183)	419	236
Changes in the scope of consolidation		-		-	17	17
Transfer to retained earnings		(30)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	(119)	(149)	(14)	(9,554)	(3,563)	(13,117)
Balance at end of period	893	8,802	(3,069)	448,502	56,528	505,030

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2019 (A)	Previous fiscal year For the year ended Mar. 31, 2018 (B)
Net income	74,186	69,222
Depreciation	32,343	32,306
Amortization of intangible asset	4,611	5,526
Impairment losses	2,143	549
Income tax expense	28,516	26,390
Equity in net earnings of associates	(4,716)	(4,355)
(Gain) loss on sales of property, plant and equipment	(458)	(574)
Financial income	(3,781)	(2,910)
Financial expense	8,091	7,390
(Increase) decrease in trade receivables	(19,101)	(27,497)
(Increase) decrease in lease receivables	(7,115)	(14,257)
(Increase) decrease in inventories	(76,497)	(24,664)
Increase (decrease) in trade payables	(18,583)	53,337
Increase (decrease) in retirement and severance benefit	(587)	(248)
Other	(11,995)	(17,667)
Subtotal	7,057	102,548
Interest received	2,525	2,548
Dividends received	1,800	1,179
Interest paid	(5,357)	(5,089)
Income tax paid	(31,718)	(16,658)
Net cash provided by operating activities	(25,693)	84,528
Capital expenditures	(26,231)	(16,887)
Proceeds from sale of property, plant and equipment	5,251	4,603
Acquisition of intangible assets	(8,536)	(4,464)
Acquisition of investments in securities and other financial assets (including investments in associates)	(1,315)	(21,416)
Sales of investments in securities and other financial assets (including investments in associates)	318	469
Collection of long-term loan receivables	47	88
Other	127	45
Net cash provided by (used in) investing activities	(30,339)	(37,562)
Increase (decrease) in short-term debt, net	67,386	(33,864)
Proceeds from long-term debt and bond	36,197	90,386
Payments on long-term debt	(28,766)	(70,844)
Payments on lease payables	(6,388)	(4,700)
Dividends paid to owners of the parent	(19,562)	(9,361)
Dividends paid to non-controlling interests	(4,933)	(2,103)
Other	(6)	3
Net cash provided by (used in) financing activities	43,928	(30,483)
Effect of exchange rate changes on cash and cash equivalents	(2,478)	(9)
Net increase (decrease) in cash and cash equivalents	(14,582)	16,474
Cash and cash equivalents at beginning of period	81,929	65,455
Cash and cash equivalents at end of period	67,347	81,929

(6)Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There are no relevant items.

(Important matters for compiling consolidated financial statements)

1. Scope of consolidation

Numbers of consolidated subsidiaries: 80

(1) Main consolidated subsidiaries

1) Hitachi Construction Machinery Japan Co., Ltd.
2) Hitachi Construction Machinery Tierra Co., Ltd.
3) Hitachi Construction Machinery Camino Co., Ltd.
4) Hitachi Construction Machinery (China) Co., Ltd.
5) Hitachi Construction Machinery (Shanghai) Co., Ltd.
6) Tata Hitachi Construction Machinery Company Private Limited.
7) Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
8) P.T. Hitachi Construction Machinery Indonesia
9) Hitachi Construction Machinery (Europe) N.V.
10) Hitachi Construction Machinery Holding U.S.A. Corporation
11) Hitachi Construction Truck Manufacturing Ltd.
12) H-E Parts International LLC
13) Bradken Pty Limited

(2) Number of companies included in consolidation during the fiscal year ended March 31, 2019: 3

1) Increase by newly established: 2
Synergy Hire Limited and 1 other
2) Increase by Merger:1
Delmar Bay Holdings Pty Ltd

(3) Number of companies excluded from consolidation during the fiscal year ended March 31, 2019: 7

1) Decrease by liquidation
Serviplem,S.A. and 5 other
2) Decrease by share transfer
Niigata Material Co., Ltd.

2. Application of the equity method

Numbers of affiliates accounted for by the equity method: 24

(1) Main affiliates subject to the equity method

1) Deere-Hitachi Construction Machinery Corp.
2) KOKEN BORING MACHINE CO., LTD.
3) P.T. Hexa Finance Indonesia
4) HTC Leasing Company Limited
5) Sumitomo Heavy Industries Construction Cranes Co., Ltd.

(2) Number of companies including equity-method affiliates during the fiscal year ended March 31, 2019: 3

1) Increase by newly invested: 3

(3) Number of affiliates not accounted for by the equity method: 3

3. Date of settlement of accounts for consolidated subsidiaries

Below is a list of the consolidation subsidiaries that settle their accounts on a date different from the rest of the consolidated group.

1) Hitachi Construction Machinery Holding U.S.A. Corporation
2) Hitachi Construction Machinery (China) Co., Ltd.
3) Hitachi Construction Machinery (Shanghai) Co., Ltd.

Others: 18

To create the consolidated financial statement, which is made by provisional account settlement as of March 31, the company uses the financial statements of these subsidiaries.

(Segment Information)

1. Reportable 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 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.

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

For the year ended March 31, 2019

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	937,727	95,976	1,033,703	-	1,033,703
Intersegment transactions	-	871	871	(871)	-
Total revenues	937,727	96,847	1,034,574	(871)	1,033,703
Adjusted operating income	110,992	5,849	116,841	-	116,841
Operating income	101,702	594	102,296	-	102,296
Financial income	-	-	-	3,781	3,781
Financial expenses	-	-	-	(8,091)	(8,091)
Share of profits (losses) of investments accounted for using the equity method	4,716	-	4,716	-	4,716
Income before income taxes	106,418	594	107,012	(4,310)	102,702
Segment assets	1,053,931	139,410	1,193,341	(8,085)	1,185,256
Segment liabilities	584,628	66,052	650,680	(8,085)	642,595
Other items:					
Depreciation and amortization	(31,506)	(5,448)	(36,954)	-	(36,954)
Impairment losses	(111)	(2,032)	(2,143)	-	(2,143)
Business structure reform expenses	(1,819)	(3,092)	(4,911)	-	(4,911)
Investments accounted for using the equity method	32,628	-	32,628	-	32,628

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

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

For the year ended March 31, 2018

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	866,866	92,287	959,153	-	959,153
Intersegment transactions	-	351	351	(351)	-
Total revenues	866,866	92,638	959,504	(351)	959,153
Adjusted operating income	91,157	2,425	93,582	-	93,582
Operating income	93,509	2,228	95,737	-	95,737
Financial income	-	-	-	-	2,910
Financial expenses	-	-	-	-	(7,390)
Share of profits (losses) of investments accounted for using the equity method	4,355	-	4,355	-	4,355
Income before income taxes	97,864	2,228	100,092	(4,480)	95,612
Segment assets	978,981	110,945	1,089,926	(130)	1,089,796
Segment liabilities	530,554	61,955	592,509	(7,743)	584,766
Other items:					
Depreciation and amortization	(31,800)	(6,032)	(37,832)	-	(37,832)
Impairment losses	(549)	-	(549)	-	(549)
Business structure reform expenses	(59)	(1,326)	(1,385)	-	(1,385)
Investments accounted for using the equity method	29,549	-	29,549	-	29,549

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

2. Information on products and services

The following tables show revenue from outside customers by product and service for the year ended March 31, 2019 and 2018.

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2018
Mining machinery	160,762	137,740
Construction machinery and others	872,941	821,413
Total	1,033,703	959,153

(Note on consolidated statements of income)

The main components of other income for the years ended March 31, 2019 and 2018 are as follows:

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2018
Gain on sales of property, plants, and equipment	529	623
Subsidy income	522	453
Other	4,318	5,582
Total	5,369	6,658

The main components of other expenses for the years ended March 31, 2019 and 2018 are as follows:

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2018
Loss on sales of property, plants, and equipment	71	49
Loss on disposal of property, plants, and equipment	776	514
Impairment of property, plants, and equipment	2,143	549
Business structure improvement expenses (*1)	4,911	1,385
Other(*2)	12,013	2,006
Total	19,914	4,503

Note (*1): Loss on business structure improvement expenses
Business structure improvement expenses recognized for the year ended March 31, 2019 and the year ended March 31, 2018 include a special severance payment and so forth.

Note (*2): Other
“Other” recognized for the year ended March 31, 2019 includes a provision in the amount of ¥ 8,781 million for concerns of collectability VAT receivables which was overpaid by subsidiary in China in previous periods.

(Earnings per share)

A calculation of the basic and diluted earnings per share (attributable to owners of the parent) for the years ended March 31, 2019 and 2018 are as follows:

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2018
Net income attributable to owners of the parent	68,542	60,004
Net income attributable to owners of the Parent (diluted)	68,542	60,004

(Number of shares)

	For the year ended March 31, 2019	For the year ended March 31, 2018
Weighted average number of common shares outstanding	212,655,771	212,659,005
Dilutive effect of stock options	-	-
Weighted average number of common shares outstanding - diluted	212,655,771	212,659,005

(Yen)

	For the year ended March 31, 2019	For the year ended March 31, 2018
Net income attributable to owners of the parent per share (basic)	322.31	282.16
Net income attributable to owners of the parent per share (diluted)	322.31	282.16

	For the year ended March 31, 2019	For the year ended March 31, 2018
Summary of dilutive shares not included the calculation of diluted earnings per share (attributed to owners of the parent) due to no dilutive effect	-	-

(Important subsequent events)

There are no relevant items.

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