Consolidated Financial Results for the First Quarter Ended June 30, 2019 (IFRS)

July 25, 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 for submission of the Quarterly Securities Report: August 8, 2019
Scheduled date of commencement of payment of dividends: ―
Supplementary materials to the financial statements have been prepared: Yes
Presentation will be held to explain the financial statements: Yes (for institutional investors, analysts and journalists)

(Rounded off to the nearest million)

1. Consolidated results for the first quarter ended June (April 1, 2019 to June 30, 2019)

(1) Consolidated results

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

	Revenue		Adjusted Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2019	234,696	(2.3)	22,902	(17.0)	21,626	(13.6)	15,538	(15.1)	13,646	(13.1)	3,683	(74.5)
June 30, 2018	240,211	13.6	27,586	108.8	25,026	81.0	18,295	104.3	15,711	120.9	14,438	17.5

"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 first quarter ended June is as below.

June 30, 2019: ¥23,674 million　YoY　(7.9) %　　June 30, 2018: ¥25,717 million　YoY　92.4%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
	Yen	Yen
June 30, 2019	64.17	64.17
June 30, 2018	73.88	73.88

References: Share of profits (losses) of investments accounted for using the equity method
June 30, 2019: ¥713million　　June 30, 2018: ¥350million

(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	%
June 30, 2019	1,209,205	531,142	475,180	39.3
March 31, 2019	1,185,256	542,661	486,407	41.0

2. Dividends status

	Cash dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2019	－	43.0	－	57.0	100.0
March 31, 2020	－				
March 31, 2020 (Projection)		－	－	－	－

Interim and year-end dividends for the fiscal year ending March 2020 are to be determined.
Note: Changes involving the dividend states for the fiscal year ending March 2020: None

(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)

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

	Revenue		Adjusted Operating income		Income before income taxes		Net income attributable to owners of the parent		Net income attributable to owners of the parent per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
March 31, 2020	950,000	(8.1)	86,000	(26.4)	80,000	(22.1)	48,000	(29.9)	225.72

Notes: Changes in consolidated earnings forecast: None

"Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Adjusted operating income" is Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring. Cumulated "Operating income" for projected consolidated result ending March 2019 is as below.

March 31, 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)

June	2019	215,115,038
March	2019	215,115,038

[2] Number of treasury shares

June	2019	2,460,511
March	2019	2,460,265

[3] Average number of common shares outstanding during the fiscal year (shares)

June	2019	212,654,664
June	2018	212,656,834

Indication of audit procedure implementation status

This earnings report is exempt from audit procedure.

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

Any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially. Please refer to ‘‘1. Management Performance and Financial Conditions, (3) Outlook for the Fiscal Year Ending March 2020’’ of the attachment for conditions serving as assumptions for results forecasts.

Index of the Attachment

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

1. Management Performance and Financial Conditions

(1) Management Results

The HCM Group launched a new medium-term management plan, “CONNECT TOGETHER 2019,” in April 2017 and the current fiscal year ending March 2020 is the final year of the plan. We are promoting the development of “Solution Linkage” utilizing ICT and IoT to offer solutions to customers’ challenges surrounding safety, productivity, and decrease in lifecycle costs.

We are also enhancing the parts & service business for mining machines and facilities provided by H-E Parts and Bradken. Followed by investment into ACME in U.S, and establishment of Synergy Hire in the U.K., we are enhancing the rental business in China, and further trying to expand the overseas rental market to Asia & Oceania. Thus, we are expanding the value chain (parts & services, solution business, rental, etc. other than new machine sales) to expand the sources of revenue besides new machine sales in addition to the existing business.

We have 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.

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 mining operations by taking advantage of the Hitachi Group’s strengths. We are promoting this AHS jointly with Whitehaven Coal in Australia aiming to commercialize it during this fiscal year.

Consolidated revenue for this term (April 1, 2019 to June 30, 2019) decreased by 2.3% year on year to ¥234,696 million due to the effects of appreciation of JPY, although we made several efforts to implement the above-mentioned measures and increased sales both in the construction machinery business and solution business while partial markets turned towards a decreasing trend. Adjusted operating income decreased by 17.0% year on year to ¥22,902 million, operating income decreased by 7.9% to ¥23,674 million, and net income attributable to the owners of the parent decreased by 13.1% to ¥13,646 million due to the effect of forex and decrease in sales.

Business results by segment are described below.

1. Construction machinery business
Demand for hydraulic excavators decreased year on year in China, Asia & Oceania, India, Middle East, South America, etc. As for mining machinery, demand stayed at a high level, equivalent to the previous fiscal year, by the increased CAPEX of mining companies.

Consolidated revenue of the construction machinery business for this term (April 1, 2019 to June 30, 2019) increased in new machines and value chain business mainly from parts & services. However, due to the effect of forex, it decreased by 2.4% year on year to ¥211,271 million. Adjusted operating income decreased by 21.5% to ¥20,736 million due to effect of forex, etc.

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, 2019 to June 30, 2019) decreased by 0.3% year on year to ¥24,024 million due to effect of forex, although there were steady contributions to its revenue from solutions for mining machines in the Americas, Russia-CIS, etc. Adjusted operating income increased by 83.2% to ¥2,166 million due to the effects of structural reform that we conducted until the previous fiscal year.

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 June 2019.

(Millions of yen)

	Current consolidated cumulative first quarter (April 1,2019- June 30, 2019) (A)	Previous consolidated cumulative first quarter (April 1,2018- June 30, 2018) (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	234,696	240,211	(5,515)	(2.3)
Adjusted operating income*	22,902	27,586	(4,684)	(17.0)
Operating income	23,674	25,717	(2,043)	(7.9)
Income before income taxes	21,626	25,026	(3,400)	(13.6)
Net income attributable to owners of the parent	13,646	15,711	(2,065)	(13.1)

(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 first quarter (April 1,2019- June 30, 2019)		Previous consolidated cumulative first quarter (April 1,2018- June 30, 2018)		Increase (Decrease)	
	Revenue (Millions of yen) (A)	Proportion (%)	Revenue (Millions of yen) (B)	Proportion (%)	Change (Millions of yen) (A)-(B)	% Change (%) (A)/(B)-1
North America	47,135	20.1	38,316	16.0	8,819	23.0
Central and South America	3,750	1.6	4,769	2.0	(1,019)	(21.4)
The Americas	50,885	21.7	43,085	17.9	7,800	18.1
Europe	28,231	12.0	28,621	11.9	(390)	(1.4)
Russia-CIS	10,060	4.3	6,196	2.6	3,864	62.4
Africa	8,314	3.5	9,437	3.9	(1,123)	(11.9)
Middle East	1,714	0.7	4,443	1.8	(2,729)	(61.4)
Russia-CIS, Africa, and the Middle East	20,088	8.6	20,076	8.4	12	0.1
Asia	16,742	7.1	18,210	7.6	(1,468)	(8.1)
India	13,424	5.7	16,593	6.9	(3,169)	(19.1)
Oceania	37,975	16.2	41,980	17.5	(4,005)	(9.5)
Asia and Oceania	68,141	29.0	76,783	32.0	(8,642)	(11.3)
China	26,475	11.3	32,194	13.4	(5,719)	(17.8)
Sub-total	193,820	82.6	200,759	83.6	(6,939)	(3.5)
Japan	40,876	17.4	39,452	16.4	1,424	3.6
Total	234,696	100.0	240,211	100.0	(5,515)	(2.3)

(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 ¥ 661,392 million, a decrease of 1.9%, or ¥ 12,496 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥ 17,318 million in trade receivables. Non-current assets amounted to ¥ 547,813 million, an increase of 7.1%, or ¥ 36,445 million, from the previous fiscal year-end. This was due mainly to an increase of ¥53,430 million in right-of-use-assets due to adoption of IFRS 16 from the beginning of the fiscal year 2019.

As a result, total assets increased 2.0%, or ¥ 23,949 million, from the previous fiscal year-end to ¥ 1,209,205million.

(b) Liabilities

Current liabilities amounted to ¥ 471,132 million, an increase of 0.1%, or ¥ 509 million, from the previous fiscal year-end. Non-current liabilities increased by 20.3%, or ¥34,959 million, from the previous fiscal year-end to ¥ 206,931 million. This was mainly due to an increase of ¥ 45,709 million in lease liabilities due to adoption of IFRS 16 from the beginning of the fiscal year 2019.

As a result, total liabilities increased by 5.5%, or ¥ 35,468million, from the previous fiscal year-end to ¥ 678,063 million.

(c) Equity

Total equity decreased by 2.1%, or ¥ 11,519 million, from the previous fiscal year-end to ¥ 531,142 million.

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of the fiscal year totaled ¥ 56,485 million, a decrease of ¥ 10,862 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

(Net cash used in operating activities)

Net cash used in operating activities for the first quarter based on ¥ 15,538 million in net income, and included ¥ 9,753 million in depreciation, a ¥ 6,315 million decrease in trade receivables, a ¥ 8,287 million decrease in trade payables, a ¥ 20,850 million increase in inventories, and a ¥13,349 million income tax paid as cash outflow.

As a result, net cash used in operating activities for the first quarter totaled to an outflow of ¥ 16,324 million, an decrease outflow of ¥ 10,473 million year on year.

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

Net cash used in investing activities for the first quarter amounted to ¥ 11,004 million, an increase of ¥ 6,213 million year on year. This was mainly due to an outlay of ¥ 9,258 million for capital expenditure.

As a result, free cash flows, the sum of net cash used in operating activities and net cash used in investing activities, amounted to an outflow of ¥ 27,328 million.

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

Net cash provided by financing activities for the first quarter amounted to ¥ 18,025 million, a decrease of ¥ 13,672 million year on year. This was due mainly to an increase of ¥ 63,637 million in short-term debt, a decrease of ¥ 30,615 million in bonds and borrowings and an outlay of ¥12,125 million in dividends paid (including dividends paid to non-controlling interests).

(3) Outlook for the Fiscal Year Ending March 2020

Although demand for hydraulic excavators during the current first quarter decreased year on year because of slowdown in the Chinese market and the effect of elections in Asian countries, we believe as of today that there will be a slight decrease in global hydraulic excavator demand in FY2019 (from April 1, 2019 to March 31, 2020) compared to that in FY2018, as we originally assumed in the April announcement. On the other hand, as for mining machinery, especially ultra-large-sized machines, continuous high-level demand in ultra-large dump trucks (over 150 t) and excavators (over 300 t) 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 to stay at a high level of machine/facility utilization resulting from steady 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 as early as possible and increase operational efficiency. The consolidated earnings forecast for FY2019 for the HCM Group (from April 1, 2019 to March 31, 2020) has remained unchanged as we originally announced on April 24, 2019.

With respect to the assumptions of this fiscal year's forecast, we assume demand will decrease slightly compared with the previous fiscal year as we originally assumed, and we expect the foreign exchange rate (our lowest estimation range) to be ¥100 to one US dollar, ¥110 to one euro, ¥15.0 to one Chinese yuan, and ¥77 to one Australian dollar, and it is unchanged as we originally announced on April 24, 2019.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	First quarter As of Jun. 30, 2019 (A)	Previous fiscal year-end As of Mar. 31, 2019 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	56,485	67,347	(10,862)
Trade receivables	218,846	236,164	(17,318)
Contract assets	2,786	2,070	716
Inventories	337,549	324,844	12,705
Other financial assets	25,035	27,071	(2,036)
Other current assets	17,426	14,110	3,316
Subtotal	658,127	671,606	(13,479)
Assets held for sale	3,265	2,282	983
Total current assets	661,392	673,888	(12,496)
Non-current assets			
Right-of-use-asset	53,430	-	53,430
Property, plant and equipment	298,772	311,245	(12,473)
Intangible assets	42,253	42,092	161
Goodwill	33,277	34,564	(1,287)
Investments accounted for using the equity method	29,528	32,628	(3,100)
Trade receivables	45,143	44,357	786
Deferred tax assets	19,018	19,145	(127)
Other financial assets	18,006	17,279	727
Other non-current assets	8,386	10,058	(1,672)
Total non-current assets	547,813	511,368	36,445
Total assets	1,209,205	1,185,256	23,949
Liabilities			
Current liabilities			
Lease liabilities	13,001	-	13,001
Trade and other payables	211,816	251,067	(39,251)
Contract liabilities	8,059	8,503	(444)
Bonds and borrowings	215,489	185,641	29,848
Income taxes payable	5,850	12,012	(6,162)
Other financial liabilities	12,876	10,165	2,711
Other current liabilities	3,587	3,235	352
Subtotal	470,678	470,623	55
Liabilities held for sale	454	-	454
Total current liabilities	471,132	470,623	509
Non-current liabilities			
Lease liabilities	45,709	-	45,709
Trade and other payables	4,576	16,203	(11,627)
Contract liabilities	2,419	2,314	105
Bonds and borrowings	117,837	119,167	(1,330)
Retirement and severance benefit	17,885	17,958	(73)
Deferred tax liabilities	7,993	8,726	(733)
Other financial liabilities	3,158	1,158	2,000
Other non-current liabilities	7,354	6,446	908
Total non-current liabilities	206,931	171,972	34,959
Total liabilities	678,063	642,595	35,468
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	80,511	81,991	-
Retained earnings	328,271	328,344	(73)
Accumulated other comprehensive income	(12,101)	(2,428)	(9,673)
Treasury stock, at cost	(3,078)	(3,077)	(1)
Total Equity attribute to owners of the parent	475,180	486,407	(11,227)
Non-controlling interests	55,962	56,254	(292)
Total equity	531,142	542,661	(11,519)
Total liabilities and equity	1,209,205	1,185,256	23,949

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated cumulative quarter

Consolidated Statements of Income

(Millions of yen)

	First quarter Three months ended Jun. 30, 2019 (A)	First quarter Three months ended Jun. 30, 2018 (B)	(A)/(B)×100 (%)
Revenue	234,696	240,211	98
Cost of sales	(167,782)	(169,996)	99
Gross profit	66,914	70,215	95
Selling, general and administrative expenses	(44,012)	(42,629)	103
Adjusted operating income	22,902	27,586	83
Other income	1,532	1,663	92
Other expenses	(760)	(3,532)	22
Operating income	23,674	25,717	92
Financial income	632	1,688	37
Financial expenses	(3,393)	(2,729)	124
Share of profits of investments accounted for using the equity method	713	350	204
Income before income taxes	21,626	25,026	86
Income taxes	(6,088)	(6,731)	90
Net income	15,538	18,295	85

Net income attributable to			
Owners of the parent	13,646	15,711	87
Non-controlling interests	1,892	2,584	73
Total net income	15,538	18,295	85

EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	64.17	73.88	87
Net income per share (Diluted) (yen)	64.17	73.88	87

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	First quarter Three months ended Jun. 30, 2019 (A)	First quarter Three months ended Jun. 30, 2018 (B)	(A)/(B)×100 (%)
Net income	15,538	18,295	85
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	304	(90)	-
Remeasurements of defined benefit obligations	-	(46)	-
Other comprehensive income of equity method associates	1	-	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	(12,665)	(2,884)	439
Cash flow hedges	539	32	1,684
Other comprehensive income of equity method associates	(34)	(869)	4
Other comprehensive income, net of taxes	(11,855)	(3,857)	307
Comprehensive income	3,683	14,438	26
Comprehensive income attributable to			
Owners of the parent	3,972	12,278	32
Non-controlling interests	(289)	2,160	-

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
First quarter three months ended Jun. 30, 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	328,344	(2,330)	7,118	213
Cumulative effects of changes in accounting			(1,447)			
Restated balance	81,577	81,991	326,897	(2,330)	7,118	213
Net income			13,646			
Other comprehensive income				1	304	539
Comprehensive income	-	-	13,646	1	304	539
Acquisition of treasury stock						
Dividends to stockholders of the Company			(12,121)			
Gains/losses on change in equity			(150)			
Transfer to retained earnings			(1)	3	(2)	
Change in liabilities for written put options over non-controlling interests		(1,480)	0			
Transaction with owners	-	(1,480)	(12,272)	3	(2)	-
Balance at end of period	81,577	80,511	328,271	(2,326)	7,420	752

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total		
Balance at beginning of period	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661
Cumulative effects of changes in accounting				(1,447)	(39)	(1,486)
Restated balance	(7,429)	(2,428)	(3,077)	484,960	56,215	541,175
Net income				13,646	1,892	15,538
Other comprehensive income	(10,518)	(9,674)		(9,674)	(2,181)	(11,855)
Comprehensive income	(10,518)	(9,674)	-	3,972	(289)	3,683
Acquisition of treasury stock		-	(1)	(1)		(1)
Dividends to stockholders of the Company		-		(12,121)		(12,121)
Gains/losses on change in equity				(150)		(150)
Transfer to retained earnings		1		-		-
Change in liabilities for written put options over non-controlling interests		-		(1,480)	36	(1,444)
Transaction with owners	-	1	(1)	(13,752)	36	(13,716)
Balance at end of period	(17,947)	(12,101)	(3,078)	475,180	55,962	531,142

Consolidated cumulative quarter
First quarter three months ended Jun. 30, 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	81,991	279,201	(1,232)	8,992	149
Cummulative impact of change in accounting policy			32			
Balance at beginning of period reflected change in accounting policy	81,577	81,991	279,233	(1,232)	8,992	149
Net income			15,711			
Other comprehensive income				(28)	(90)	32
Comprehensive income	-	-	15,711	(28)	(90)	32
Acquisition of treasury stock						
Dividends to stockholders of the Company			(10,420)			
Gains/losses on change in equity						
Transfer to retained earnings			(55)		55	
Change in liabilities for written put options over non-controlling interests						
Transaction with owners	-	-	(10,475)	-	55	-
Balance at end of period	81,577	81,991	284,469	(1,260)	8,957	181

(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
Cummulative impact of change in accounting policy		-		32		32
Balance at beginning of period reflected change in accounting policy	893	8,802	(3,069)	448,534	56,528	505,062
Net income		-		15,711	2,584	18,295
Other comprehensive income	(3,347)	(3,433)		(3,433)	(424)	(3,857)
Comprehensive income	(3,347)	(3,433)	-	12,278	2,160	14,438
Acquisition of treasury stock		-	(2)	(2)		(2)
Dividends to stockholders of the Company		-		(10,420)	(87)	(10,507)
Gains/losses on change in equity		-		-		-
Transfer to retained earnings		55		-		-
Change in liabilities for written put options over non-controlling interests		-		-		-
Transaction with owners	-	55	(2)	(10,422)	(87)	(10,509)
Balance at end of period	(2,454)	5,424	(3,071)	450,390	58,601	508,991

(4) Consolidated Statements of Cash Flows
Consolidated cumulative quarter

(Millions of yen)

	First quarter Three months ended Jun. 30, 2019	First quarter Three months ended Jun. 30, 2018
Net income	15,538	18,295
Depreciation	9,753	7,828
Amortization of intangible asset	957	1,101
Impairment losses	-	1,224
Income tax expense	6,088	6,731
Equity in net earnings of associates	(713)	(350)
(Gain) loss on sales of property, plant and equipment	(169)	(155)
Financial income	(632)	(1,688)
Financial expense	3,393	2,729
(Increase) decrease in trade receivables and contract assets	6,315	13,657
(Increase) decrease in lease receivables	132	(922)
(Increase) decrease in inventories	(20,850)	(27,999)
Increase (decrease) in trade payables	(8,287)	(14,955)
Increase (decrease) in retirement and severance benefit	66	(235)
Other	(16,853)	(18,493)
Subtotal	(5,262)	(13,232)
Interest received	511	629
Dividends received	3,221	750
Interest paid	(1,445)	(1,191)
Income tax paid	(13,349)	(13,753)
Net cash provided by (used in) operating activities	(16,324)	(26,797)
Capital expenditures	(9,258)	(4,996)
Proceeds from sale of property, plant and equipment	251	2,755
Acquisition of intangible assets	(2,324)	(1,349)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	347	-
(Increase) decrease in short-term loan receivables, net	(16)	(1,199)
Collection of long-term loan receivables	3	3
Other	(7)	(5)
Net cash provided by (used in) investing activities	(11,004)	(4,791)
Increase (decrease) in short-term debt, net	63,637	39,715
Proceeds from long-term debt and bond	5,324	5,244
Payments on long-term debt	(35,939)	(1,395)
Payments on lease payables	(2,892)	(1,444)
Dividends paid to owners of the parent	(12,125)	(10,421)
Dividends paid to non-controlling interests	-	-
Other	20	(2)
Net cash provided by (used in) financing activities	18,025	31,697
Effect of exchange rate changes on cash and cash equivalents	(1,555)	(948)
Net increase (decrease) in cash and cash equivalents	(10,858)	(839)
Cash and cash equivalents at beginning of period	67,347	81,929
Increase (decrease) in cash and cash equivalents associated with transfer to assets held for sale	(4)	
Cash and cash equivalents at end of period	56,485	81,090

(5)Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There are no relevant items.

(Changes in Accounting Policies)

Beginning from fiscal year 2019, the group has adopted IFRS 16 “Leases.” IFRS 16 is the standard that sets out the principle of recognition, measurement, presentation, and disclosure for leases, and is accounted by the single accounting model that the lessee recognizes all lease contracts in the consolidated statement of financial position.

In applying IFRS 16, the group applied the standard retrospectively in accordance with a transitional measure and recognized the cumulative effect of applying the standard as an adjustment to the opening balance of retained earnings of this fiscal year.

Leases of the group are mainly leasehold contracts for premises and rental construction machinery, and the effects on the beginning balance of the statement of financial position for this fiscal year are as follows: ¥40,333 million increase in assets due to mainly recognizing right-of-use assets, ¥41,819 million increase in liabilities due to mainly recognizing lease liabilities, and ¥1,486 million decrease in equity due to an adjustment of the beginning balance of retained earnings and non-controlling interests. And the effect on the quarterly consolidated statements of income is immaterial. As to the consolidated statements of cash flows, payments of operating leases was included in net cash provided by operating activities; however, due to the application of IFRS 16, adjustments related to depreciation of right-of-use assets are included in net cash provided by operating activities, and payments of lease liabilities are included in net cash provided by financing activities. As a result, net cash provided by operating activities increased and net cash provided by financing activities decreased compared to the case where previous accounting standard is applied.

(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 services, production, and distribution parts that are not included in the Construction Machinery Business Segment.

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

For the first quarter three months ended Jun. 30, 2019

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	211,269	23,427	234,696	-	234,696
Intersegment transactions	2	597	599	(599)	-
Total revenues	211,271	24,024	235,295	(599)	234,696
Adjusted operating income	20,736	2,166	22,902	-	22,902
Operating income (loss)	21,448	2,226	23,674	-	23,674
Financial income	-	-	-	632	632
Financial expenses	-	-	-	(3,393)	(3,393)
Share of profits (losses) of investments accounted for using the equity method	713	-	713	-	713
Income (loss) before income taxes	22,161	2,226	24,387	(2,761)	21,626

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

For the first quarter three months ended Jun. 30, 2018

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	216,225	23,986	240,211	-	240,211
Intersegment transactions	233	117	350	(350)	-
Total revenues	216,458	24,103	240,561	(350)	240,211
Adjusted operating income	26,404	1,182	27,586	-	27,586
Operating income (loss)	26,774	(1,057)	25,717	-	25,717
Financial income	-	-	-	1,688	1,688
Financial expenses	-	-	-	(2,729)	(2,729)
Share of profits (losses) of investments accounted for using the equity method	350	-	350	-	350
Income (loss) before income taxes	27,124	(1,057)	26,067	(1,041)	25,026

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