

## Consolidated Financial Results for the Third Quarter Ended December 31, 2019 (IFRS)

January 29, 2020

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, President and Executive Officer

Scheduled date for submission of the Quarterly Securities Report: February 12, 2020

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 third quarter ended December (April 1, 2019 to December 31, 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	%
December 31, 2019	687,188	(7.5)	58,742	(31.0)	55,837	(29.2)	39,524	(31.8)	35,112	(31.6)	28,838	(34.3)
December 31, 2018	743,192	8.7	85,115	29.4	78,886	14.5	57,937	18.8	51,307	20.1	43,861	(33.8)

"Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Adjusted operating income" is Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring. "Operating income" for the third quarter ended December is as below.

December 31, 2019: ¥57,362million YoY (29.5) % December 31, 2018: ¥81,336million YoY 19.0%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
	Yen	Yen
December 31, 2019	165.11	165.11
December 31, 2018	241.27	241.27

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

December 31, 2019: ¥ 2,726million December 31, 2018: ¥3,048million

#### (2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio
	Millions of yen	Millions of yen	Millions of yen	%
December 31, 2019	1,208,602	545,727	489,979	40.5
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	—	43.00	—	57.00	100.00
March 31, 2020	—	36.00			
March 31, 2020 (Projection)				—	—

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 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)			
December	2019	215,115,038	
March	2019	215,115,038	
[2] Number of treasury shares			
December	2019	2,461,223	
March	2019	2,460,265	
[3] Average number of common shares outstanding during the fiscal year (shares)			
December	2019	212,654,406	
December	2018	212,656,054	

#### 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

1. Management Performance and Financial Conditions .....	2
(1) Management Results.....	2
(2) Analysis of Financial Condition .....	5
(3) Outlook for the Fiscal Year Ending March 2020 .....	7
2. Consolidated Financial Statements.....	8
(1) Consolidated Balance Sheets .....	8
(2) Consolidated Statements of Income and Comprehensive Income.....	9
Consolidated Statements of Income .....	9
Consolidated Statements of Comprehensive Income .....	10
(3) Consolidated Statements of Changes in Equity .....	11
(4) Consolidated Statements of Cash Flows.....	13
(5) Notes on Consolidated Financial Statements.....	14
Notes on the Preconditions for a Going Concern .....	14
Changes in Accounting Policies .....	14
Note on consolidated statements of income .....	15
Segment Information .....	17

## **1. Management Performance and Financial Conditions**

### **(1) Management Results**

The HCM Group has been promoting the management measures of “CONNECT TOGETHER 2019”, the three-year medium-term management plan that ends in the fiscal year under review. The Group has positioned ICT-based and IoT-based solutions that lead to customers' business challenges of improving safety, improving productivity, and reducing life-cycle costs (including fuel, maintenance, and repair costs) as Solution Linkage® and actively worked on them.

In the parts & services business, we are working to promote ConSite®. In particular, we are working to reduce the lifecycle costs of customers worldwide, starting in fiscal 2017 with the introduction of ConSite® OIL, which is the first in the construction machinery industry to remotely detect oil conditions using sensors and predict the failure of engines and hydraulic equipment. During this term we started providing the service to Southeast Asia and China followed by Europe, Japan, and Australia.

In the mining business, we are working with the Hitachi Group to expand sales of the rigid dump truck AC-3 series, which realizes advanced vehicle body stabilization control. We are also actively working to provide operation management systems for mining equipment that contributes to more efficient mining operations and to develop autonomous haulage system (AHS). We are working with White Haven in Australia to commercialize the mining business within the current fiscal year.

In addition, H-E Parts and Bradken, which are primarily engaged in mining equipment-related businesses acquired by HCM Group, are strengthening their solutions businesses, such as parts & services business for machinery. Starting the current term, Bradken began shipments of genuine bodies for dump trucks at Hitachi Construction Machinery Co., Ltd. as part of efforts to deepen collaboration within the Group.

In the rental business, we have invested in ACME in U.S. and established Synergy Hire in the U.K. We are also strengthening our business in China, and we will continue to expand our business in Asia & Oceania.

In this way, we have strengthened the value chain (parts & services, solutions business, rental, etc. other than new machine sales) in order to increase the revenue besides new machine sales.

Although we promoted a variety of initiatives as described above, consolidated revenue during the third cumulative period (April 1, 2019 to December 31, 2019) decreased by 7.5% year on year to 687,188, due to the effects of a strong yen compared to the same term of the previous year, the effects of exchange rates, production decrease in Japan due to typhoon damage from some suppliers, a decrease in demand from small and medium-sized mining companies, and the impact of a slowdown in the construction machinery demand for hydraulic excavators in the markets of China, Asia, India, Oceania, the Middle East, and Africa, compared with the same period of the previous year.

As for profit items, due to the decrease in revenue and the impact of the appreciation of the yen against the U.S. dollar, adjusted operating income decreased by 31.0% to 58,742 million yen, operating income decreased by 29.5% to 57,362 million yen, and income attributable to the owners of the parent decreased by 31.6% to 35,112 million yen.

Business results by segment are described below.

#### **1. Construction machinery business**

Demand for hydraulic excavators during the term was lower than the previous fiscal year in China, Asia, India, Oceania, the Middle East, and Africa, reflecting a growing sense of uncertainty worldwide, although demand for hydraulic excavators remained solid in Japan and North America. Meanwhile, demand for mining equipment from major mining companies

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

that own large-scale mines has remained at the same level as the previous year, but demand from medium-sized mining companies has declined.

As a result, sales revenues during the term resulted decreased by 7.7% year on year to 618,277 million due to production impacts caused by typhoons, a decrease in sales of new machines due to a slowdown in some markets, and the appreciation of the yen although there was an increase in value chains, primarily for parts services.

Adjusted operating income decreased by 35.0% to ¥52,361 million, because of the appreciation of the yen.

## 2. Solution business

This segment is composed of Bradken, which mainly conducts component service business for after-sales sales of mining equipment and machinery, and H-E Parts, which provides service solutions, which were both consolidated in fiscal 2016.

In the cumulative period under review, sales of mining machinery were solid in Russian CIS, the United States, and other countries. Although sales increased on a local-currency basis, sales revenue decreased by 4.6% to 70,195 million yen, due to the impact of appreciation of the yen.

Adjusted operating income increased by 40.8% year on year to ¥6,381 million, up from the same term of the previous fiscal year, reflecting strong performance in the Australian business and the effects of structural reforms implemented by Bradken in 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 December 2019.  
(Millions of yen)

	Current consolidated cumulative third quarter (April 1,2019- December 31, 2019) (A)	Previous consolidated cumulative third quarter (April 1,2018- December 31, 2018) (B)	Change Increase (Decrease)	
			(A)-(B)	(%) (A)/(B)-1
Revenue	687,188	743,192	(56,004)	(7.5)
Adjusted operating income*	58,742	85,115	(26,373)	(31.0)
Operating income	57,362	81,336	(23,974)	(29.5)
Income before income taxes	55,837	78,886	(23,049)	(29.2)
Net income attributable to owners of the parent	35,112	51,307	(16,195)	(31.6)

(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.

(Millions of yen)

	Current consolidated cumulative third quarter (April 1,2019- December 31, 2019)		Previous consolidated cumulative third quarter (April 1,2018- December 31, 2018)		Increase (Decrease)	
	Revenue (A)	Proportion (%)	Revenue (B)	Proportion (%)	(A)-(B)	(A)/(B)-1 (%)
North America	130,039	18.9	124,207	16.7	5,832	4.7
Central and South America	10,155	1.5	13,032	1.8	(2,877)	(22.1)
The Americas	140,194	20.4	137,239	18.5	2,955	2.2
Europe	73,610	10.7	76,747	10.3	(3,136)	(4.1)
Russia-CIS	25,021	3.6	24,328	3.3	692	2.8
Africa	28,348	4.1	29,762	4.0	(1,414)	(4.8)
Middle East	4,880	0.7	8,994	1.2	(4,114)	(45.7)
Russia-CIS, Africa, and the Middle East	58,249	8.5	63,084	8.5	(4,836)	(7.7)
Asia	64,086	9.3	62,523	8.4	1,563	2.5
India	38,569	5.6	49,696	6.7	(11,127)	(22.4)
Oceania	108,398	15.8	125,974	17.0	(17,576)	(14.0)
Asia and Oceania	211,053	30.7	238,193	32.0	(27,140)	(11.4)
China	58,672	8.5	82,383	11.1	(23,711)	(28.8)
Sub-total	541,778	78.8	597,646	80.4	(55,868)	(9.3)
Japan	145,410	21.2	145,546	19.6	(136)	(0.1)
Total	687,188	100.0	743,192	100.0	(56,004)	(7.5)

(Rounded off to the nearest million)

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

## **(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 ¥ 645,235 million, a decrease of 4.3%, or ¥ 28,653 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥ 48,525 million in trade receivables and Contract assets. Non-current assets amounted to ¥ 563,367 million, an increase of 10.2%, or ¥ 51,999 million, from the previous fiscal year-end. This was due mainly to an increase of ¥58,528 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 ¥ 23,346 million, from the previous fiscal year-end to ¥ 1,208,602 million.

#### **(b) Liabilities**

Current liabilities amounted to ¥ 410,621 million, a decrease of 12.7%, or ¥ 60,002 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥69,422 million in Trade and other payables though an increase of ¥14,145 million in Lease liabilities due to adoption of IFRS 16 from the beginning of the fiscal year 2019. Non-current liabilities increased by 46.7%, or ¥80,282 million, from the previous fiscal year-end to ¥ 252,254 million. This was mainly due to an increase of ¥ 47,815 million in lease liabilities due to adoption of IFRS 16 from the beginning of the fiscal year 2019 and ¥ 39,000 million in Bonds and borrowings.

As a result, total liabilities increased by 3.2%, or ¥ 20,280 million, from the previous fiscal year-end to ¥ 662,875 million.

#### **(c) Equity**

Total equity increased by 0.6%, or ¥ 3,066 million, from the previous fiscal year-end to ¥ 545,727 million.

## **[2] Analysis of the Status of Consolidated Cash Flows**

Cash and cash equivalents at the end of third quarter totaled ¥ 63,704 million, a decrease of ¥ 3,643 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

### **(Net cash provided by operating activities)**

Net cash provided by operating activities for the third quarter based on ¥ 39,524 million in net income, and included ¥ 29,703 million in depreciation, a ¥ 43,418 million decrease in trade receivables and contract assets, a ¥ 33,441 million decrease in trade payables, a ¥ 23,452 million increase in inventories, and a ¥28,289 million income tax paid as cash outflow.

As a result, net cash provided by operating activities for the third quarter totaled to an inflow of ¥ 20,455 million, an increase inflow of ¥ 69,616 million year on year.

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

Net cash used in investing activities for the third quarter amounted to ¥ 28,546 million, an increase of ¥ 8,698 million year on year. This was mainly due to an outlay of ¥ 25,356 million for capital expenditure and so forth.

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 ¥ 8,091 million.

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

Net cash provided by financing activities for the third quarter amounted to ¥ 5,423 million. This was due mainly to an increase of ¥ 27,714 million in short-term debt though a decrease of ¥ 25,098 million in dividends paid (including dividends paid to non-controlling interests).

As a result, cash for financing activities for the third quarter produced a decreased inflow of ¥44,263 million year on year.



### **(3) Outlook for the Fiscal Year Ending March 2020**

Demand for construction machinery during the current term, it remained firm in Japan and North America, however, demand for construction machinery in Asia, India, Oceania, and other regions was lower than expected. This trend is expected to continue throughout the fiscal year. Consequently, for the full fiscal year ending March 31, 2020, the Company revised down its forecast for construction machinery demand from the previous forecast 217,000 units (a 8% decrease year on year) to 212,000 units (a 10% decrease year on year), for a downward revision of about 5,000 units.

Meanwhile, as for mining machinery, it is expected to continue to be invested by major mining companies that own large-scale mines. In particular, demand and delivery of dump trucks with a load weight of more than 150 tons and hydraulic excavators with an operating mass of more than 300 tons for major mines are expected to continue at the same level as the previous year. In the solutions business, we expect the operations of machinery and equipment to remain at a high level due to the smooth production of resources by our main customers' mining companies.

Under the above-mentioned circumstances, the Group will expand its value chain, centered on parts services, strengthen its mining business, and strengthen its competitiveness by offering a variety of solutions to customers' issues. Through these efforts, the Group will continue to reduce costs. In addition, we will continue to work to improve management efficiency in order to further optimize our inventory assets.

Based on the situation described above and the actual results for the third quarter consolidation period, the consolidated earnings forecast for FY2019 for the HCM Group (from April 1, 2019 to March 31, 2020) has remained unchanged from that originally announced on April 24, 2019. As for the exchange rates for January 2020 and beyond, which are the basis for this forecast, we have left to use the lowest limit of our forecast range of 100 yen to the U.S. dollar, 110 yen to the euro, 14.5 yen to the yuan, and 70 yen to the Australian dollar unchanged.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	Third quarter As of Dec. 31, 2019 (A)	Previous fiscal year-end As of Mar. 31, 2019 (B)	(A)-(B)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	63,704	67,347	(3,643)
Trade receivables	185,363	236,164	(50,801)
Contract assets	4,346	2,070	2,276
Inventories	343,364	324,844	18,520
Other financial assets	30,113	27,071	3,042
Other current assets	16,355	14,110	2,245
Subtotal	643,245	671,606	(28,361)
Assets held for sale	1,990	2,282	(292)
Total current assets	645,235	673,888	(28,653)
Non-current assets			
Property, plant and equipment	316,526	311,245	5,281
Right-of-use-asset	58,528	-	58,528
Intangible assets	39,990	42,092	(2,102)
Goodwill	33,510	34,564	(1,054)
Investments accounted for using the equity method	33,420	32,628	792
Trade receivables	36,383	44,357	(7,974)
Deferred tax assets	18,256	19,145	(889)
Other financial assets	18,712	17,279	1,433
Other non-current assets	8,042	10,058	(2,016)
Total non-current assets	563,367	511,368	51,999
<b>Total assets</b>	<b>1,208,602</b>	<b>1,185,256</b>	<b>23,346</b>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	181,645	251,067	(69,422)
Lease liabilities	14,145	-	14,145
Contract liabilities	8,690	8,503	187
Bonds and borrowings	184,039	185,641	(1,602)
Income taxes payable	6,362	12,012	(5,650)
Other financial liabilities	12,219	10,165	2,054
Other current liabilities	3,521	3,235	286
Subtotal	410,621	470,623	(60,002)
Liabilities held for sale	-	-	-
Total current liabilities	410,621	470,623	(60,002)
Non-current liabilities			
Trade and other payables	5,955	16,203	(10,248)
Lease liabilities	47,815	-	47,815
Contract liabilities	2,321	2,314	7
Bonds and borrowings	158,167	119,167	39,000
Retirement and severance benefit	18,505	17,958	547
Deferred tax liabilities	8,012	8,726	(714)
Other financial liabilities	3,033	1,158	1,875
Other non-current liabilities	8,446	6,446	2,000
Total non-current liabilities	252,254	171,972	80,282
<b>Total liabilities</b>	<b>662,875</b>	<b>642,595</b>	<b>20,280</b>
<b>Equity</b>			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	80,436	81,991	(1,555)
Retained earnings	342,232	328,344	13,888
Accumulated other comprehensive income	(11,186)	(2,428)	(8,758)
Treasury stock, at cost	(3,080)	(3,077)	(3)
Total Equity attribute to owners of the parent	489,979	486,407	3,572
Non-controlling interests	55,748	56,254	(506)
<b>Total equity</b>	<b>545,727</b>	<b>542,661</b>	<b>3,066</b>
<b>Total liabilities and equity</b>	<b>1,208,602</b>	<b>1,185,256</b>	<b>23,346</b>

## (2) Consolidated Statements of Income and Comprehensive Income

### Consolidated cumulative quarter

### Consolidated Statements of Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2019 (A)	Third quarter Nine months ended Dec. 31, 2018 (B)	(A)/(B)×100 (%)
Revenue	687,188	743,192	92
Cost of sales	(496,505)	(525,283)	95
Gross profit	190,683	217,909	88
Selling, general and administrative expenses	(131,941)	(132,794)	99
Adjusted operating income	58,742	85,115	69
Other income	7,115	3,494	204
Other expenses	(8,495)	(7,273)	117
Operating income	57,362	81,336	71
Financial income	1,641	3,191	51
Financial expenses	(5,892)	(8,689)	68
Share of profits of investments accounted for using the equity method	2,726	3,048	89
Income before income taxes	55,837	78,886	71
Income taxes	(16,313)	(20,949)	78
Net income	39,524	57,937	68
Net income attributable to			
Owners of the parent	35,112	51,307	68
Non-controlling interests	4,412	6,630	67
Total net income	39,524	57,937	68
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	165.11	241.27	68
Net income per share (Diluted) (yen)	165.11	241.27	68

(Rounded off to the nearest million)

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2019 (A)	Third quarter Nine months ended Dec. 31, 2018 (B)	(A)/(B)×100 (%)
Net income	39,524	57,937	68
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	576	(2,077)	-
Remeasurements of defined benefit obligations	(243)	77	-
Other comprehensive income of equity method associates	7	8	88
Items that can be reclassified into net income			
Foreign currency translation adjustments	(10,395)	(12,239)	85
Cash flow hedges	(92)	225	-
Other comprehensive income of equity method associates	(539)	(70)	770
Other comprehensive income, net of taxes	(10,686)	(14,076)	76
Comprehensive income	28,838	43,861	66
Comprehensive income attributable to			
Owners of the parent	26,353	39,074	67
Non-controlling interests	2,485	4,787	52

(Rounded off to the nearest million)

**(3) Consolidated Statements of Changes in Equity**  
**Consolidated cumulative quarter**  
**Third quarter nine months ended Dec. 31, 2019**

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	81,991	328,344	(2,330)	7,118	213
Cummulative impact of change in accounting policy			(1,447)			
Balance at beginning of period reflected change in accounting policy	81,577	81,991	326,897	(2,330)	7,118	213
Net income			35,112			
Other comprehensive income				(242)	582	(92)
Comprehensive income	-	-	35,112	(242)	582	(92)
Acquisition of treasury stock						
Dividends to stockholders of the Company			(19,776)			
Gains/losses on change in equity						
Transfer to retained earnings			(1)	3	(2)	
Change in liabilities for written put options over non-controlling interests		(1,555)				
Transaction with owners	-	(1,555)	(19,777)	3	(2)	-
Balance at end of period	81,577	80,436	342,232	(2,569)	7,698	121

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661
Cummulative impact of change in accounting policy			-	(1,447)	(39)	(1,486)
Balance at beginning of period reflected change in accounting policy	(7,429)	(2,428)	(3,077)	484,960	56,215	541,175
Net income		-		35,112	4,412	39,524
Other comprehensive income	(9,007)	(8,759)		(8,759)	(1,927)	(10,686)
Comprehensive income	(9,007)	(8,759)	-	26,353	2,485	28,838
Acquisition of treasury stock			(3)	(3)		(3)
Dividends to stockholders of the Company				(19,776)	(3,035)	(22,811)
Gains/losses on change in equity				-		-
Transfer to retained earnings		1		-		-
Change in liabilities for written put options over non-controlling interests				(1,555)	83	(1,472)
Transaction with owners	-	1	(3)	(21,334)	(2,952)	(24,286)
Balance at end of period	(16,436)	(11,186)	(3,080)	489,979	55,748	545,727

**Consolidated cumulative quarter**  
**Third quarter nine months ended Dec. 31, 2018**

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	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			51,307			
Other comprehensive income				96	(2,075)	225
Comprehensive income	-	-	51,307	96	(2,075)	225
Acquisition of treasury stock						
Dividends to stockholders of the Company			(19,564)			
Gains/losses on change in equity						
Transfer to retained earnings			122		(122)	
Change in liabilities for written put options over non-controlling interests						
Transaction with owners	-	-	(19,442)	-	(122)	-
Balance at end of period	81,577	81,991	311,098	(1,136)	6,795	374

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	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				51,307	6,630	57,937
Other comprehensive income	(10,479)	(12,233)		(12,233)	(1,843)	(14,076)
Comprehensive income	(10,479)	(12,233)	-	39,074	4,787	43,861
Acquisition of treasury stock			(8)	(8)		(8)
Dividends to stockholders of the Company				(19,564)	(2,186)	(21,750)
Gains/losses on change in equity						
Transfer to retained earnings		(122)				
Change in liabilities for written put options over non-controlling interests						
Transaction with owners	-	(122)	(8)	(19,572)	(2,186)	(21,758)
Balance at end of period	(9,586)	(3,553)	(3,077)	468,036	59,129	527,165

#### (4) Consolidated Statements of Cash Flows

##### Consolidated cumulative quarter

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2019	Third quarter Nine months ended Dec. 31, 2018
Net income	39,524	57,937
Depreciation	29,703	23,914
Amortization of intangible asset	3,448	3,471
Impairment losses	5,995	1,769
Gains on business restructuring	(3,105)	-
Income tax expense	16,313	20,949
Equity in net earnings of associates	(2,726)	(3,048)
(Gain) loss on sales of property, plant and equipment	(387)	(298)
Financial income	(1,641)	(3,191)
Financial expense	5,892	8,689
(Increase) decrease in trade receivables and contract assets	43,418	9,860
(Increase) decrease in lease receivables	7,444	(1,869)
(Increase) decrease in inventories	(23,452)	(78,907)
Increase (decrease) in trade payables	(33,441)	(27,689)
Increase (decrease) in retirement and severance benefit	378	276
Other	(38,718)	(33,635)
<b>Subtotal</b>	<b>48,645</b>	<b>(21,772)</b>
Interest received	1,385	1,839
Dividends received	3,318	1,758
Interest paid	(4,604)	(3,734)
Income tax paid	(28,289)	(27,252)
<b>Net cash provided by (used in) operating activities</b>	<b>20,455</b>	<b>(49,161)</b>
Capital expenditures	(25,356)	(18,128)
Proceeds from sale of property, plant and equipment	909	5,058
Acquisition of intangible assets	(5,627)	(6,101)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	-	(1,003)
Sales of investments in securities and other financial assets (including investments in associates)	1,620	301
(Increase) decrease in short-term loan receivables, net	(16)	167
Collection of long-term loan receivables	20	23
Other	(96)	(165)
<b>Net cash provided by (used in) investing activities</b>	<b>(28,546)</b>	<b>(19,848)</b>
Increase (decrease) in short-term debt, net	27,714	67,925
Proceeds from long-term debt and bond	57,517	34,370
Payments on long-term debt	(45,937)	(24,238)
Payments on lease payables	(8,791)	(4,822)
Dividends paid to owners of the parent	(19,770)	(19,562)
Dividends paid to non-controlling interests	(5,328)	(3,979)
Other	18	(8)
<b>Net cash provided by (used in) financing activities</b>	<b>5,423</b>	<b>49,686</b>
Effect of exchange rate changes on cash and cash equivalents	(975)	(2,904)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,643)</b>	<b>(22,227)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>67,347</b>	<b>81,929</b>
<b>Cash and cash equivalents at end of period</b>	<b>63,704</b>	<b>59,702</b>

## **(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.

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



(Note on consolidated statements of income)

The main components of other incomes are as follows:

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2019	Third quarter Nine months ended Dec. 31, 2018
Gain on sales of property, plants, and equipment	417	358
Subsidy income	567	498
Gain on business restructuring (note )	3,105	-
Other	3,026	2,638
Total	7,115	3,494

(Note) Gain on business restructuring

Gain on business restructuring for the year ended December 31, 2019 is mainly recognized for sales of the Company's portion of shares of stock in Hitachi Construction Machinery Operators Training Center Co., Ltd., a consolidated subsidiary of the Group.

The main components of other expenses are as follows:

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2019	Third quarter Nine months ended Dec. 31, 2018
Loss on sales of property, plants, and equipment	30	60
Loss on disposal of property, plants, and equipment	451	561
Impairment losses (*1)	5,995	1,769
Business structure reform expenses (*2)	100	2,831
Other	1,919	2,052
Total	8,495	7,273

Note (\*1): Impairment losses

Impairment losses recognized for the year ended December 31, 2019 that mainly include a portion of the North American region's assets of H-E Parts to the amount of ¥5,684 million belong to the Solution Business Segment because of the decrease in estimated profit due to the change in the business environment.

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

Note (\*2): Business structure reform expenses

Business structure improvement expenses recognized for the year ended December 31, 2019 and for the year ended December 31, 2018 include a special severance payment and so forth.

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

(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 third quarter nine months ended Dec. 31, 2019

(Millions of yen)

	Reportable segment			Adjustments (*1,2)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	618,272	68,916	687,188	-	687,188
Intersegment transactions	5	1,279	1,284	(1,284)	-
Total revenues	618,277	70,195	688,472	(1,284)	687,188
Adjusted operating income	52,361	6,381	58,742	-	58,742
Operating income (loss)	56,751	611	57,362	-	57,362
Financial income	-	-	-	1,641	1,641
Financial expenses	-	-	-	(5,892)	(5,892)
Share of profits (losses) of investments accounted for using the equity method	2,726	-	2,726	-	2,726
Income (loss) before income taxes	59,477	611	60,088	(4,251)	55,837

(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.

Note (\*2): Intersegment transactions are recorded at the same prices used in arm's length transactions.

For the third quarter nine months ended Dec. 31, 2018

(Millions of yen)

	Reportable segment			Adjustments (*1,2)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	670,075	73,117	743,192	-	743,192
Intersegment transactions	-	459	459	(459)	-
Total revenues	670,075	73,576	743,651	(459)	743,192
Adjusted operating income	80,582	4,533	85,115	-	85,115
Operating income	80,560	776	81,336	-	81,336
Financial income	-	-	-	3,191	3,191
Financial expenses	-	-	-	(8,689)	(8,689)
Share of profits (losses) of investments accounted for using the equity method	3,048	-	3,048	-	3,048
Income (loss) before income taxes	83,608	776	84,384	(5,498)	78,886

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

Note (\*2): Intersegment transactions are recorded at the same prices used in arm's length transactions.

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