

Consolidated Financial Results for the Second quarter Ended September 30, 2019 (IFRS)

October 28, 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: November 12, 2019

Scheduled date of commencement of payment of dividends: November 29, 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 second quarter ended September (April 1, 2019 to September 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	%
September 30, 2019	480,559	(2.0)	44,965	(15.7)	41,130	(15.6)	28,443	(18.5)	25,196	(16.7)	5,785	(82.4)
September 30, 2018	490,413	11.4	53,358	55.9	48,714	32.7	34,884	31.3	30,243	30.2	32,807	(13.8)

"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 second quarter ended September is as below.

September 30, 2019: ¥43,307 million YoY (14.2) % September 30, 2018: ¥50,503 million YoY 40.7%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
	Yen	Yen
September 30, 2019	118.48	118.48
September 30, 2018	142.22	142.22

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

September 30, 2019: ¥2,030million September 30, 2018: ¥1,739million

(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	%
September 30, 2019	1,194,807	530,336	477,491	40.0
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: Yes

(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)

September 2019 215,115,038

March 2019 215,115,038

[2] Number of treasury shares

September 2019 2,460,701

March 2019 2,460,265

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

September 2019 212,654,558

September 2018 212,656,472

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.

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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 in ACME in U.S. and establishment of Synergy Hire in the U.K., we are enhancing the rental business in China, and are further trying to expand the 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 especially through a globally launched service called “ConSite®.” We 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, and started to provide the service to Southeast Asia during this term followed by Europe, Japan, and Australia, 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 September 30, 2019) decreased by 2.0% year on year to ¥480,559 million due to appreciation of JPY compared with the same term of the previous fiscal year, 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.

As for profit items, adjusted operating income decreased by 15.7% year on year to ¥44,965 million, operating income decreased by 14.2% to ¥43,307 million, and net income attributable to the owners of the parent decreased by 16.7% to ¥25,196 million, due to appreciation of JPY and increase in overhead costs although there was an increase in sales on a local currency basis, compared with the same term of the previous fiscal year.

Business results by segment are described below.

1. Construction machinery business

Demand for hydraulic excavators decreased year on year in China, Asia & Oceania, India, the Middle East, Africa, South America, etc., although demand in Japan and North America showed steady growth. As for mining machinery, demand stayed at a high level, equivalent to the previous fiscal year, by the steady level of CAPEX from mining companies.

Consolidated revenue of the construction machinery business for this term (April 1, 2019 to

September 30, 2019) increased in new machines and value chain business mainly from parts & services. However, due to appreciation of JPY, it decreased by 1.8% year on year to ¥434,202 million. Adjusted operating income decreased by 19.2% to ¥40,849 million due to appreciation of JPY, 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 mining machinery and equipment. 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 September 30, 2019) decreased by 3.1% year on year to ¥47,525 million due to appreciation of JPY, although there were steady contributions to its revenue from solutions for mining machines in Russia-CIS, the Americas, etc.

Adjusted operating income increased by 48.5% to ¥4,116 million due to the steady growth of Australian business, and 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 September 2019.

(Millions of yen)

	Current consolidated cumulative second quarter (Apr.1- Sep.30, 2019) (A)	Previous consolidated cumulative second quarter (Apr.1- Sep.30, 2018) (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	480,559	490,413	(9,854)	(2.0)
Adjusted operating income*	44,965	53,358	(8,393)	(15.7)
Operating income	43,307	50,503	(7,196)	(14.2)
Income before income taxes	41,130	48,714	(7,584)	(15.6)
Net income attributable to owners of the parent	25,196	30,243	(5,047)	(16.7)

(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 second quarter (Apr.1- Sep.30, 2019)		Previous consolidated cumulative second quarter (Apr.1- Sep.30, 2018)		Increase (Decrease)	
	Revenue (A)	Proportion (%)	Revenue (B)	Proportion (%)	(A)-(B)	(A)/(B)-1 (%)
North America	92,136	19.2	79,292	16.2	12,844	16.2
Central and South America	7,230	1.5	8,292	1.7	(1,062)	(12.8)
The Americas	99,366	20.7	87,584	17.9	11,782	13.5
Europe	55,828	11.6	53,297	10.9	2,531	4.7
Russia-CIS	17,980	3.7	15,011	3.1	2,969	19.8
Africa	18,767	3.9	19,603	4.0	(836)	(4.3)
Middle East	3,850	0.8	7,901	1.6	(4,051)	(51.3)
Russia-CIS, Africa, and the Middle East	40,597	8.4	42,515	8.7	(1,918)	(4.5)
Asia	40,867	8.5	39,552	8.1	1,315	3.3
India	24,578	5.1	31,903	6.5	(7,325)	(23.0)
Oceania	76,307	15.9	88,912	18.1	(12,605)	(14.2)
Asia and Oceania	141,752	29.5	160,367	32.7	(18,615)	(11.6)
China	43,092	9.0	56,916	11.6	(13,824)	(24.3)
Sub-total	380,635	79.2	400,679	81.7	(20,044)	(5.0)
Japan	99,924	20.8	89,734	18.3	10,190	11.4
Total	480,559	100.0	490,413	100.0	(9,854)	(2.0)

(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 ¥ 646,922 million, a decrease of 4.0%, or ¥ 26,966 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥ 20,869 million in trade receivables. Non-current assets amounted to ¥ 547,885 million, an increase of 7.1%, or ¥ 36,517 million, from the previous fiscal year-end. This was due mainly to an increase of ¥52,148 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 0.8%, or ¥ 9,551 million, from the previous fiscal year-end to ¥ 1,194,807million.

(b) Liabilities

Current liabilities amounted to ¥ 454,257 million, a decrease of 3.5%, or ¥ 16,366 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥56,998 million in Trade and other payables though an increase of ¥33,738 million in Bonds and borrowings. Non-current liabilities increased by 22.2%, or ¥38,242 million, from the previous fiscal year-end to ¥ 210,214 million. This was mainly due to an increase of ¥ 44,205 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 3.4%, or ¥ 21,876 million, from the previous fiscal year-end to ¥ 664,471 million.

(c) Equity

Total equity decreased by 2.3%, or ¥ 12,325 million, from the previous fiscal year-end to ¥ 530,336 million.

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

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of second quarter totaled ¥ 58,277 million, a decrease of ¥ 9,070 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 second quarter based on ¥ 28,443 million in net income, and included ¥ 19,465 million in depreciation, a ¥ 3,028 million decrease in trade receivables and contract assets, a ¥ 24,085 million decrease in trade payables, a ¥ 17,586 million increase in inventories, and a ¥19,921 million income tax paid as cash outflow.

As a result, net cash used in operating activities for the second quarter totaled to an outflow of ¥ 9,732 million, an decrease outflow of ¥ 37,030 million year on year.

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

Net cash used in investing activities for the second quarter amounted to ¥ 19,500 million, an increase of ¥ 8,219 million year on year. This was mainly due to an outlay of ¥ 17,059 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 ¥ 29,232 million.

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

Net cash provided by financing activities for the second quarter amounted to ¥ 22,787 million. This was due mainly to an increase of ¥ 69,913 million in short-term debt though a decrease of ¥ 25,325 million in bonds and borrowings.

As a result, cash for financing activities for the second quarter produced a decreased inflow of ¥17,642 million year on year.

(3) Outlook for the Fiscal Year Ending March 2020

Demand for hydraulic excavators during the current term decreased year on year because of slowdown in China, India, etc., although demand in Japan and North America showed steady growth. Therefore, we have revised down the demand for hydraulic excavators for FY19 by about 5,000 units from that assumed in the July announcement, which was 222,000 units (a 6% decrease year on year), to 217,000 units (an 8% decrease year on year).

On the other hand, as for mining machinery, especially ultra-large-sized machines, continuous high-level demand for ultra-large dump trucks (over 150 t) and excavators (over 300 t) is assumed, led by an expected continuous 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 decrease inventory levels further and increase operational efficiency. With consideration of the above situation and the results of this term, 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.

With respect to the forex assumptions of this fiscal year's forecast, we expect the foreign exchange rate to be ¥100 to one US dollar and ¥110 to one euro as we assumed in the July announcement, while we expect it to be ¥14.5 from ¥15.0 for one Chinese yuan and ¥70 from ¥77 for one Australian dollar. The assumptions of these foreign exchange rates will be the basis of our outlook, and we applied the lowest estimation range to the rate.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Second quarter As of Sep. 30, 2019 (A)	Previous fiscal year-end As of Mar. 31, 2019 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	58,277	67,347	(9,070)
Trade receivables	215,295	236,164	(20,869)
Contract assets	3,355	2,070	1,285
Inventories	328,314	324,844	3,470
Other financial assets	24,508	27,071	(2,563)
Other current assets	14,991	14,110	881
Subtotal	644,740	671,606	(26,866)
Assets held for sale	2,182	2,282	(100)
Total current assets	646,922	673,888	(26,966)
Non-current assets			
Property, plant and equipment	304,656	311,245	(6,589)
Right-of-use-asset	52,148	-	52,148
Intangible assets	39,032	42,092	(3,060)
Goodwill	32,511	34,564	(2,053)
Investments accounted for using the equity method	32,291	32,628	(337)
Trade receivables	42,523	44,357	(1,834)
Deferred tax assets	18,100	19,145	(1,045)
Other financial assets	18,006	17,279	727
Other non-current assets	8,618	10,058	(1,440)
Total non-current assets	547,885	511,368	36,517
Total assets	1,194,807	1,185,256	9,551
Liabilities			
Current liabilities			
Trade and other payables	194,069	251,067	(56,998)
Lease liabilities	12,715	-	12,715
Contract liabilities	8,079	8,503	(424)
Bonds and borrowings	219,379	185,641	33,738
Income taxes payable	5,830	12,012	(6,182)
Other financial liabilities	10,006	10,165	(159)
Other current liabilities	4,179	3,235	944
Subtotal	454,257	470,623	(16,366)
Liabilities held for sale	-	-	-
Total current liabilities	454,257	470,623	(16,366)
Non-current liabilities			
Trade and other payables	5,593	16,203	(10,610)
Lease liabilities	44,205	-	44,205
Contract liabilities	2,392	2,314	78
Bonds and borrowings	121,597	119,167	2,430
Retirement and severance benefit	18,156	17,958	198
Deferred tax liabilities	6,601	8,726	(2,125)
Other financial liabilities	3,258	1,158	2,100
Other non-current liabilities	8,412	6,446	1,966
Total non-current liabilities	210,214	171,972	38,242
Total liabilities	664,471	642,595	21,876
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	80,468	81,991	(1,523)
Retained earnings	339,971	328,344	11,627
Accumulated other comprehensive income	(21,447)	(2,428)	(19,019)
Treasury stock, at cost	(3,078)	(3,077)	(1)
Total Equity attribute to owners of the parent	477,491	486,407	(8,916)
Non-controlling interests	52,845	56,254	(3,409)
Total equity	530,336	542,661	(12,325)
Total liabilities and equity	1,194,807	1,185,256	9,551

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated cumulative quarter

Consolidated Statements of Income

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2019 (A)	Second quarter Six months ended Sep. 30, 2018 (B)	(A)/(B)×100 (%)
Revenue	480,559	490,413	98
Cost of sales	(347,024)	(350,246)	99
Gross profit	133,535	140,167	95
Selling, general and administrative expenses	(88,570)	(86,809)	102
Adjusted operating income	44,965	53,358	84
Other income	5,429	2,576	211
Other expenses	(7,087)	(5,431)	130
Operating income	43,307	50,503	86
Financial income	1,242	2,896	43
Financial expenses	(5,449)	(6,424)	85
Share of profits of investments accounted for using the equity method	2,030	1,739	117
Income before income taxes	41,130	48,714	84
Income taxes	(12,687)	(13,830)	92
Net income	28,443	34,884	82
Net income attributable to			
Owners of the parent	25,196	30,243	83
Non-controlling interests	3,247	4,641	70
Total net income	28,443	34,884	82
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	118.48	142.22	83
Net income per share (Diluted) (yen)	118.48	142.22	83

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2019 (A)	Second quarter Six months ended Sep. 30, 2018 (B)	(A)/(B)×100 (%)
Net income	28,443	34,884	82
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	(2)	193	-
Remeasurements of defined benefit obligations	(243)	77	-
Other comprehensive income of equity method associates	1	-	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	(22,147)	(1,734)	1,277
Cash flow hedges	256	(88)	-
Other comprehensive income of equity method associates	(523)	(525)	100
Other comprehensive income, net of taxes	(22,658)	(2,077)	1,091
Comprehensive income	5,785	32,807	18
Comprehensive income attributable to			
Owners of the parent	6,176	28,616	22
Non-controlling interests	(391)	4,191	-

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
Second quarter six months ended Sep. 30, 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			25,196			
Other comprehensive income				(242)	(2)	256
Comprehensive income	-	-	25,196	(242)	(2)	256
Acquisition of treasury stock						
Dividends to stockholders of the Company			(12,121)			
Gains/losses on change in equity						
Transfer to retained earnings			(1)	3	(2)	
Change in liabilities for written put options over non-controlling interests		(1,523)				
Transaction with owners	-	(1,523)	(12,122)	3	(2)	-
Balance at end of period	81,577	80,468	339,971	(2,569)	7,114	469

(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				25,196	3,247	28,443
Other comprehensive income	(19,032)	(19,020)		(19,020)	(3,638)	(22,658)
Comprehensive income	(19,032)	(19,020)	-	6,176	(391)	5,785
Acquisition of treasury stock			(1)	(1)		(1)
Dividends to stockholders of the Company				(12,121)	(3,035)	(15,156)
Gains/losses on change in equity				-		-
Transfer to retained earnings			1			
Change in liabilities for written put options over non-controlling interests				(1,523)	56	(1,467)
Transaction with owners	-	1	(1)	(13,645)	(2,979)	(16,624)
Balance at end of period	(26,461)	(21,447)	(3,078)	477,491	52,845	530,336

Consolidated cumulative quarter
Second quarter six months ended Sep. 30, 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			30,243			
Other comprehensive income				95	193	(88)
Comprehensive income	-	-	30,243	95	193	(88)
Acquisition of treasury stock						
Dividends to stockholders of the Company			(10,420)			
Gains/losses on change in equity						
Transfer to retained earnings			(54)		54	
Change in liabilities for written put options over non-controlling interests						
Transaction with owners	-	-	(10,474)	-	54	-
Balance at end of period	81,577	81,991	299,002	(1,137)	9,239	61

(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				30,243	4,641	34,884
Other comprehensive income	(1,827)	(1,627)		(1,627)	(450)	(2,077)
Comprehensive income	(1,827)	(1,627)	-	28,616	4,191	32,807
Acquisition of treasury stock			(5)	(5)		(5)
Dividends to stockholders of the Company				(10,420)	(2,186)	(12,606)
Gains/losses on change in equity						
Transfer to retained earnings		54				
Change in liabilities for written put options over non-controlling interests						
Transaction with owners	-	54	(5)	(10,425)	(2,186)	(12,611)
Balance at end of period	(934)	7,229	(3,074)	466,725	58,533	525,258

(4) Consolidated Statements of Cash Flows

Consolidated cumulative quarter

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2019	Second quarter Six months ended Sep. 30, 2018
Net income	28,443	34,884
Depreciation	19,465	15,597
Amortization of intangible asset	2,127	2,267
Impairment losses	5,687	1,224
Gains on business restructuring	(3,105)	-
Income tax expense	12,687	13,830
Equity in net earnings of associates	(2,030)	(1,739)
(Gain) loss on sales of property, plant and equipment	(283)	(238)
Financial income	(1,242)	(2,896)
Financial expense	5,449	6,424
(Increase) decrease in trade receivables and contract assets	3,028	7,143
(Increase) decrease in lease receivables	4,205	(1,184)
(Increase) decrease in inventories	(17,586)	(47,734)
Increase (decrease) in trade payables	(24,085)	(34,191)
Increase (decrease) in retirement and severance benefit	195	(96)
Other	(23,722)	(21,623)
Subtotal	9,233	(28,332)
Interest received	1,088	1,240
Dividends received	3,236	1,565
Interest paid	(3,368)	(2,668)
Income tax paid	(19,921)	(18,567)
Net cash provided by (used in) operating activities	(9,732)	(46,762)
Capital expenditures	(17,059)	(10,550)
Proceeds from sale of property, plant and equipment	389	2,920
Acquisition of intangible assets	(4,366)	(3,620)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	-	(45)
Sales of investments in securities and other financial assets (including investments in associates)	1,620	0
(Increase) decrease in short-term loan receivables, net	(25)	158
Collection of long-term loan receivables	14	17
Other	(73)	(161)
Net cash provided by (used in) investing activities	(19,500)	(11,281)
Increase (decrease) in short-term debt, net	69,913	49,841
Proceeds from long-term debt and bond	15,010	27,126
Payments on long-term debt	(40,335)	(20,319)
Payments on lease payables	(6,290)	(2,978)
Dividends paid to owners of the parent	(12,129)	(10,430)
Dividends paid to non-controlling interests	(3,402)	(2,806)
Other	20	(5)
Net cash provided by (used in) financing activities	22,787	40,429
Effect of exchange rate changes on cash and cash equivalents	(2,625)	(1,271)
Net increase (decrease) in cash and cash equivalents	(9,070)	(18,885)
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	-	-
Cash and cash equivalents at end of period	58,277	63,044

(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 expenses are as follows:

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2019	Second quarter Six months ended Sep. 30, 2018
Gain on sales of property, plants, and equipment	294	287
Subsidy income	413	399
Gain on business restructuring (note)	3,105	-
Other	1,617	1,890
Total	5,429	2,576

(Note) Gain on business restructuring

Gain on business restructuring for the year ended September 30, 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)

	Second quarter Six months ended Sep. 30, 2019	Second quarter Six months ended Sep. 30, 2018
Loss on sales of property, plants, and equipment	11	49
Loss on disposal of property, plants, and equipment	244	388
Impairment losses (*1)	5,687	1,224
Business structure reform expenses (*2)	37	2,128
Other	1,108	1,642
Total	7,087	5,431

Note (*1): Impairment losses

Impairment losses recognized for the year ended September 30, 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.

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Note (*2): Business structure reform expenses

Business structure improvement expenses recognized for the year ended September 30, 2019 and for the year ended September 30, 2018 include a special severance payment and so forth.

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(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 second quarter six months ended Sep. 30, 2019

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	434,200	46,359	480,559	-	480,559
Intersegment transactions	2	1,166	1,168	(1,168)	-
Total revenues	434,202	47,525	481,727	(1,168)	480,559
Adjusted operating income	40,849	4,116	44,965	-	44,965
Operating income (loss)	44,694	(1,387)	43,307	-	43,307
Financial income	-	-	-	1,242	1,242
Financial expenses	-	-	-	(5,449)	(5,449)
Share of profits (losses) of investments accounted for using the equity method	2,030	-	2,030	-	2,030
Income (loss) before income taxes	46,724	(1,387)	45,337	(4,207)	41,130

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

For the second quarter six months ended Sep. 30, 2018

(Millions of yen)

	Reportable segment			Adjustments (*1)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	441,602	48,811	490,413	-	490,413
Intersegment transactions	486	236	722	(722)	-
Total revenues	442,088	49,047	491,135	(722)	490,413
Adjusted operating income	50,586	2,772	53,358	-	53,358
Operating income	50,349	154	50,503	-	50,503
Financial income	-	-	-	2,896	2,896
Financial expenses	-	-	-	(6,424)	(6,424)
Share of profits (losses) of investments accounted for using the equity method	1,739	-	1,739	-	1,739
Income (loss) before income taxes	52,088	154	52,242	(3,528)	48,714

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

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