Consolidated Financial Results for the Year Ended March 31, 2020 (IFRS)

May 28, 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, Executive Officer, President & CEO
Scheduled date of ordinary General Meeting of Shareholders: TBD
Scheduled date of commencement of payment of dividends: TBD
Scheduled date for submission of Securities Report: TBD
Supplementary materials to the financial statements have been prepared: Yes
Presentation will be held to explain the financial statements: Yes (for institutional investors, analysts and journalists)

(Rounded off to the nearest million)

1. Consolidated results for the year ended March 2020 (April 1, 2019 to March 31, 2020)

(1) Consolidated results

	Revenue		Adjusted Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2020	931,347	(9.9)	76,618	(34.4)	67,103	(34.7)	44,768	(39.7)	41,171	(39.9)	9,085	(85.3)
March 31, 2019	1,033,703	7.8	116,841	24.9	102,702	7.4	74,186	7.2	68,542	14.2	61,947	(8.5)

Notes: The percentages indicated show changes from the same period of the previous fiscal year.
Importance: "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Adjusted operating income" is Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring. "Operating income" for the year ended March 2020 is as below.
March 31, 2020: ¥72,849million YoY (28.8) % March 31, 2019: ¥ 102,296 million YoY 6.9%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)	Profit on equity attributable to owners of the parent	Ratio of income before income taxes	Operating income to Revenue
	Yen	Yen	%	%	%
March 31, 2020	193.61	193.61	8.6	5.7	7.8
March 31, 2019	322.31	322.31	14.7	9.0	9.9

References: Share of profits (losses) of investments accounted for using the equity method
March 31, 2020: ¥2,682million March 31, 2019: ¥4,716million
"Net income attributable to owners of the Parent per share (basic)" and "Net income attributable to owners of the Parent per share (diluted)" are calculated based on "Net income attributable to owners of the parent".

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity attributable to owners of the parent ratio	Equity per share attributable to owners of the parent
	Millions of yen	Millions of yen	Millions of yen	%	Yen
March 31, 2020	1,167,567	525,111	473,537	40.6	2,226.80
March 31, 2019	1,185,256	542,661	486,407	41.0	2,287.31

(3) Consolidated cash flows

	Net cash from operating activities	Net cash from investing activities	Net cash from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2020	22,682	(34,749)	10,993	62,165
March 31, 2019	(25,693)	(30,339)	43,928	67,347

2. Dividends status

	Cash dividends per share					Dividends paid (Total)	Dividend Payout Ratio (Consolidated)	Dividend attributable to owners of the parent (Consolidated)
	First Quarter	Second Quarter	Third Quarter	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
March 31, 2019	－	43.00	－	57.00	100.00	21,266	31.0	4.6
March 31, 2020	－	36.00	－	24.00	60.00	12,759	31.0	2.7
March 31, 2021 (Projection)	－	－	－	－	－		－	

Interim and year-end dividends for the fiscal year ending March 2021 are to be determined.

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

3. Consolidated earnings forecast for the full year ending March 2021 (April 1, 2020 to March 31, 2021)

	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, 2021	770,000	(17.3)	40,000	(47.8)	34,000	(49.3)	20,000	(51.4)	94.05

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

Importance: "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income. "Adjusted operating income" is Hitachi group's common profit index to show actual business conditions excluding impact of business restructuring. Cumulated "Operating income" for projected consolidated result ending March 2021 is as below.
March 31, 2021: ¥36,000 million YoY (50.6) %

*Notes
(1) Important changes in the scope of the consolidation during period(changes involving specific subsidiaries accompanying changes in the scope of consolidation): None

(2) Changes in accounting policies; changes in accounting estimates
[1] Changes in accounting policies required by IFRS Yes
[2] Changes in accounting policies other than those in [1] None
[3] Changes in accounting estimates None

(3) Number of outstanding shares (common shares)
[1] Number of outstanding shares (including treasury shares)
March 2020 215,115,038
March 2019 215,115,038
[2] Number of treasury shares
March 2020 2,461,867
March 2019 2,460,265
[3] Average number of common shares outstanding during the fiscal year (shares)
March 2020 212,654,154
March 2019 212,655,771

(Reference) Non-consolidated Financial Results
1. Non-consolidated results for the year ended March 2020(April 1, 2019 to March 31, 2020)
(1) Non-consolidated results (Rounded off to the nearest million)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2020	482,571	(11.6)	(4,665)	-	34,434	(40.3)	33,832	(33.0)
March 31, 2019	545,949	14.4	23,064	(2.3)	57,703	11.9	50,503	9.1

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

	Net income per share	Net income per share (Diluted)
	Yen	Yen
March 31, 2020	159.10	159.10
March 31, 2019	237.49	237.49

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2020	608,967	295,232	48.5	1,388.33
March 31, 2019	634,437	281,616	44.4	1,324.29

(Reference) Total equity at fiscal year-end March 2020: ¥295,232 million March 2019: ¥281,616 million

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 focused on the management measures outlined in CONNECT TOGETHER 2019, its three-year medium-term management plan, which ends in the fiscal year under review. The Group positioned solutions utilizing ICT and IoT as Solution Linkage®, which lead to customer business issues of improving safety, productivity, and reducing lifecycle costs (including fuel, maintenance, repair, and other costs), and actively worked on these issues.

In the Parts and Services Business, we are working to increase the penetration of ConSite ®. In particular, in fiscal 2017, we began providing ConSite® OIL, the first in the construction machinery industry to remotely detect oil conditions using sensors and predict failures in engines and hydraulic components. Following Europe, Japan, and Australia, we launched this service in Southeast Asia and China. Through these and other initiatives, we are working to reduce the lifecycle costs of our customers worldwide.

In the mining business, we worked to expand sales of the rigid dump truck AC-3 series, which realized advanced vehicle body stabilization control through a collaboration with the Hitachi Group. In addition, we are actively working to provide operation control systems for mining machinery that contributes to more efficient mining operations and to develop autonomous haulage systems (AHS). In order to achieve commercialization early this year, we have been working with Whitehaven Coal in Australia.

In addition, H-E Parts and Bradken, which we acquired before, are strengthening their solutions business, which promotes components servicing related to mining facilities. Bradken began the production of genuine bodies for dump trucks of Hitachi Construction Machinery this fiscal year, and has further deepened its collaboration within group companies.

In the rental business, we have invested in ACME in the United States and established Synergy Hire in the United Kingdom. We are also strengthening our business in China. Going forward, we plan to further develop this business in Asia and Oceania.

As described above, we have been working to expand earnings by strengthening the value chain other than new machinery sales (parts services, solutions business, rental business, and businesses other than new machinery sales).

On the other hand, under growing uncertainty about the global outlook, the worsening of the new coronavirus infections (COVID-19) worldwide from the fourth quarter caused demand for hydraulic excavators to decline, the impact of decrease in resource prices on demand for mining machinery from small-and medium-sized mining companies, shipment delay due to typhoon ocuured in Japan in the third quarter, and the appreciation of the yen in exchange rates compared with the previous fiscal year. As a result, revenues for the consolidated period (from April 1, 2019 to March 31, 2020) amounted to 931,347 million yen, a decrease of 9.9% from the previous fiscal year.

In terms of profit items, adjusted operating profit was 76,618 million yen (a decrease of 34.4%), operating income was 72,849 million yen (a decrease of 28.8%), and profit attributable to owners of the parent was 41,171 million yen (a decrease of 39.9%), due to factors such as the decrease in revenue and the appreciation of the yen.

With respect to the non-consolidated results, revenue was 482,571 million yen (a decease of 11.6%), and net income was 33,832 million yen (a decrease of 33.0%), due to the same factors as above mentioned.

Business results by segment are described below.

1. Construction machinery business

Demand for hydraulic excavators during the fiscal year under review remained strong in

Japan and North America, however, under growing uncertainty about the global outlook, the impact of COVID-19 expanded from the fourth quarter to many regions, and demand including China, Asia, India, Oceania, Africa, and Western Europe decreased compared to the previous year. On the other hand, demand for mining machinery from large-scale mining companies remained at the same level as the previous year, but demand from medium-scale mining companies continued to decline.

As a result, revenue for the consolidated fiscal year under review amounted to 840,762 million yen, a decrease of 10.3% from the previous year, due to a decline in sales of new machinery because of the slowdown in markets such as the effect of COVID-19, and the appreciation of the yen.

Adjusted operating income was 68,529 million yen, a decrease of 38.3% compared to the same period of the previous fiscal year, due to the decline in revenue and the stronger yen.

2. Solution business

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

Revenue for the consolidated fiscal year under review totaled 91,975 million yen (a decrease of 5.0% year on year) due to the appreciation of the yen, despite a year-on-year increase in sales on a local currency basis due to strong sales of mining machinery in the Russian CIS, Asian, and other markets.

Adjusted operating income was 8,089 million yen (a 38.3% increase year-on-year), due in part to the restructuring of Bradken's businesses implemented up to the end of the previous fiscal year.

The above revenues of segment 1 and 2 are figures before intersegment adjustments.

The following table summarizes consolidated net revenue by geographic area:

	FY2019 (April 1,2019- March 31, 2020)		FY2018 (April 1,2018- March 31, 2019)		Increase (Decrease)	
	Revenue (A)	Proportion (%)	Revenue (B)	Proportion (%)	(A)-(B)	(A)/(B)-1 (%)
North America	173,421	18.6	168,664	16.3	4,757	2.8
Central and South America	12,900	1.4	17,077	1.7	(4,177)	(24.5)
The Americas	186,321	20.0	185,741	18.0	580	0.3
Europe	103,565	11.1	111,643	10.8	(403)	(7.2)
Russia-CIS	32,636	3.5	34,394	3.3	(9,433)	(5.1)
Africa	38,033	4.1	43,793	4.2	(5,760)	(13.2)
Middle East	7,559	0.8	11,760	1.1	(4,201)	(35.7)
Russia-CIS, Africa, and the Middle East	78,228	8.4	89,947	8.7	(19,394)	(13.0)
Asia	85,910	9.2	88,487	8.6	(131)	(2.9)
India	50,736	5.4	67,930	6.6	(19,640)	(25.3)
Oceania	145,960	15.7	163,940	15.9	(17,980)	(11.0)
Asia and Oceania	282,606	30.3	320,357	31.0	(37,751)	(11.8)
China	75,023	8.1	119,940	11.6	(44,917)	(37.4)
Sub-total	725,743	77.9	827,628	80.1	(101,885)	(12.3)
Japan	205,604	22.1	206,075	19.9	(471)	(0.2)
Total	931,347	100.0	1,033,703	100.0	(102,356)	(9.9)

(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 ¥ 612,779 million, a decrease of 9.1%, or ¥ 61,109 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥ 28,321 million in trade receivables and ¥ 23,622 million in inventories.. Non-current assets amounted to ¥ 554,788 million, an increase of 8.5%, or ¥ 43,420 million, from the previous fiscal year-end. This was due mainly to an increase of ¥57,853 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 decreased 1.5%, or ¥ 17,689 million, from the previous fiscal year-end to ¥ 1,167,567 million.

(b) Liabilities

Current liabilities amounted to ¥ 371,366 million, a decrease of 21.1%, or ¥ 99,257 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥77,195 million in Trade and other payables. Non-current liabilities increased by 57.6%, or ¥99,118 million, from the previous fiscal year-end to ¥ 271,090 million. This was mainly due to an increase of ¥ 47,795 million in lease liabilities due to adoption of IFRS 16 from the beginning of the fiscal year 2019 and ¥ 59,329 million in Bonds and borrowings.

As a result, total liabilities decreased by ¥ 139 million, from the previous fiscal year-end to ¥ 642,456 million.

(c) Equity

Total equity decreased by 3.2%, or ¥ 17,550 million, from the previous fiscal year-end to ¥ 525,111 million.

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of fiscal year totaled ¥ 62,165 million, a decrease of ¥ 5,182 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 fiscal year based on ¥ 44,768 million in net income, and included ¥ 46,147 million in depreciation, a ¥ 646 million decrease in trade receivables and contract assets, a ¥ 9,213 million decrease in lease receivables, a ¥ 107 million decrease in inventories though a ¥ 32,769 million decrease in trade payables, and a ¥31,404 million income tax paid as cash outflow.

As a result, net cash provided by operating activities for the fiscal year quarter totaled to an inflow of ¥ 22,682 million, an increase inflow of ¥ 48,375 million year on year.

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

Net cash used in investing activities for the fiscal year amounted to ¥ 34,749 million, an increase of ¥ 4,410 million year on year. This was mainly due to an outlay of ¥ 32,044 million for capital expenditure and outlay of ¥ 7,311 million for acquisition of intangible assets.

As a result, free cash flows, the sum of net cash provided by operating activities and net cash used in investing activities, amounted to an outflow of ¥ 12,067 million.

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

Net cash provided by financing activities for the fiscal year amounted to ¥ 10,993 million. This was due mainly to an increase of ¥ 9,694 million in short-term debt, an increase of ¥ 39,382 million in bonds and long-term debt though a decrease of ¥ 25,308 million in dividends paid (including dividends paid to non-controlling interests).

As a result, cash for financing activities for the fiscal year produced a decreased inflow of ¥32,935 million year on year.

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

	March 2020	March 2019	March 2018
Equity attributable to owners of the parent ratio (%)	40.6	41.0	41.2
Equity attributable to owners of the parent ratio on a market price basis (%)	39.9	52.7	80.1
Interest-bearing debt to operating cash flow ratio (%)	14.9	(11.9)	2.7
Interest coverage ratio (times)	3.3	(4.8)	16.6

Notes:

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

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

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

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

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

(3) Outlook for the Fiscal Year Ending March 2021

For the year ending March 2021, we assume that the market will continue to slow down due to the effects of COVID-19, and that demand will fall significantly below that of the previous year, resulting in a decrease of about 166,000 units worldwide (decrease of 23% over the previous year).

In mining machinery, we expect new investment to be curbed due to uncertainty about the global economy and demand for new machinery to decline. Some mines are shut down in some areas to prevent the spread of infectious diseases, while others continue to operate as Essential Business that support social infrastructures. In the solutions business as well, we will continue to respond firmly to the persistent demand for machinery and equipment services accompanying the ongoing production of resources by the mining companies, which are our main customers.

In light of these conditions, the HCM Group will continue to use digital technologies to further strengthen its value chain business, provide in-depth solutions at every point of contact with customers, and aim to build a corporate structure that is resilient to change. We will also continue to reduce costs and optimize inventories to improve management efficiency.

The forecasts for the fiscal year ending March 2021 (from April 1, 2020 to March 31, 2021) are as follows, considering various factors of concern at this time, such as the effects of a decrease in demand due to the expansion of COVID-19, the U.S.-Chinese economic conflict, and the U.K. separation from the EU.

These forecasts are based on foreign exchange rates of ¥105 to the U.S. dollar, ¥120 to the euro, ¥15.0 to the yuan, and ¥72 to the Australian dollar.

The detailed measures and numerical targets for the Medium-Term Management Plan, which began in fiscal 2020, are not disclosed at this time, as it is difficult to calculate them appropriately and rationally due to the impact of COVID-19 on business activities and operating results. We will disclose the information as soon as it becomes possible to calculate it in the future.

Consolidated Earnings Forecast for the Full Year Ending March 31, 2021
(from April 1, 2020 to March 31, 2021)

	Revenue	Adjusted Operating Income	Operating income	Income before income taxes	Net income attributable to owners of the parent	Net income attributable to owners of the parent per share (basic)
Forecast	¥Millions 770,000	¥Millions 40,000	¥Millions 36,000	¥Millions 34,000	¥Millions 20,000	Yen 94.05
Change	(161,347)	(36,618)	(36,849)	(33,103)	(21,171)	
% Change	(17.3)	(47.8)	(50.6)	(49.3)	(51.4)	
(Reference) FY2019	¥Millions 931,347	¥Millions 76,618	¥Millions 72,849	¥Millions 67,103	¥Millions 41,171	Yen 193.61

(Rounded off to the nearest million)

Notes:
Any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors may cause actual results to differ materially.

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(4) Business Risks

The Group operates in a wide range of business fields, including production, sales, and finance, and conducts business activities worldwide. As a result, the business activities of the Consolidated Group are affected by a wide range of factors, including market conditions, exchange rates, and finance. Major business and other risks that are currently anticipated to be incurred to the extent foreseeable are as follows.

(1) Market conditions

Under the Group’s business activities, demand is heavily affected by public investment such as infrastructure development and private investment including the development of natural resources, real estate, etc. There is a risk that demand may decline significantly due to rapid economic fluctuations in each region, and there is a risk that profits may deteriorate due to factors such as a decline in factory utilization, an excess or shortage of inventory levels, and a decline in selling prices caused by intensified competition.

(2) Foreign currency exchange rate fluctuations

The Group's overseas sales ratio for the fiscal year under review was 78%, and the risk of exchange rate fluctuations also increased. In addition to the major settlement currencies, the U.S. dollar, and European euro, the appreciation of the yen against emerging currencies could have a material adverse impact on operating results. To mitigate the impact of exchange rate fluctuations on business performance, the Group expands the ratio of local production, promotes imports through international purchasing, and enters into forward exchange contracts. However, there is no assurance that the Group will be able to avoid the risk of exchange rate fluctuations through these measures.

(3) Fluctuation in financial markets

The Consolidated Group is working to reduce interest-bearing debt by improving asset efficiency. As of March 31, 2020, the Group had short-and long-term interest-bearing debt totaling 338.9 billion yen. While the Group uses fixed-rate funding to mitigate the impact of interest rate fluctuation risk, an increase in market interest rates has the risk of increasing interest expense and reducing profits. As for pension assets, fluctuations in the financial market, such as the fair value of marketable securities and interest rates, may increase the amount of reserves under the pension system and liabilities, and may deteriorate operating results and financial position.

(4) Procurement and production

Parts and materials account for a large proportion of the Group's product costs, and procurement is affected by fluctuations in the materials market. Higher prices for steel and other raw materials will lead to higher manufacturing costs. Shortages of parts and materials may also make it difficult to procure and produce parts and materials in a timely manner, resulting in lower production efficiency. We will respond to rising material costs by reducing costs through VEC activities and striving to ensure appropriate sales prices in line with these increases. There is a risk of impacts on business performance in the event of rising materials costs or supply shortages that exceed these measures.

(5) Credit management

Construction machinery, which is the main product of the Consolidated Group, is engaged in sales finance, such as installment sales and finance leases, and a specialized department is established to manage receivables. Sales finance is used by many customers, and although there is no extreme concentration of receivables, there is a risk that the deterioration of the customer's financial position may cause a loan loss, which may affect earnings.

(6) Public laws and tax practices

The Group's business activities are affected by policy trends, a number of public regulations, tax laws, and other factors. Specifically, in the countries in which we operate, we are subject to the application of laws and regulations relating to intellectual property rights, consumers, the environment and recycling, labor conditions, taxes, etc. as well as business and investment licenses, import and export restrictions and regulations. Strengthening or changing these regulations may have an impact on earnings due to increased costs and taxes paid.

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

Construction machinery handled by the Consolidated Group is subject to environmental regulations as it is required to deal with such social issues as climate change (reducing CO2, etc.) and environmental impact (emissions, noise, etc.). In order to meet these demands, it is necessary to invest in the development of more advanced environmental technologies, such as securing up-front research, securing resources (securing human resources, introducing facilities, etc.), and constructing a service and sales system. There is a risk that this will have a financial impact on management.

(8) Product liability

The Group strives to maintain and improve quality and reliability in its businesses and products based on strict internal standards. However, in the unlikely event of an unexpected defect in a product, the Group may face product liability or other obligations. If this expense cannot be covered by insurance, the expense must be borne and there is a risk of reducing profits.

(9) Alliances and collaborative relationships

In order to strengthen its international competitiveness, the Consolidated Group works with distributors, suppliers, competitors, and other companies to develop, produce, and sell and service products. If the expected effects of these alliances and cooperation cannot be obtained, or if the alliances and cooperation are terminated, there is a risk of impacting the Company's business results.

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

The Consolidated Group is exposed to customer information and personal information in its business activities, and possesses confidential business and technical information. Careful attention is paid to the handling and confidentiality of such information. To protect such information from unauthorized access, tampering, destruction, leakage, and loss, we have established a management system and rules for handling such information, and have taken appropriate safety measures such as implementing reasonable technical measures. In the unlikely event of an accident, such as a leak of information, there is a risk that it will adversely affect reputation and credibility. The Group also faces the risk of infringement of intellectual property rights due to unauthorized use by third parties and the risk of prosecution against the Group.

(11) Impact of natural and man-made disasters

The Consolidated Group operates its business globally by establishing development, production, and sales bases in many countries. There is a risk of natural disasters such as earthquakes and floods, the outbreak of infectious diseases, wars, terrorism, accidents, and other criticism and hindrance by third parties occurring at these bases. Such disruptions could cause damage that cannot be restored in a short period of time, causing delays or disruptions in the procurement of materials and parts, production, sales, and service activities. Such events could have a significant impact on the Group's performance.

In addition, if requests for voluntary restraint on expansion of the new type of coronavirus infectious disease (COVID-19) are prolonged or repeatedly made in various parts of the world, there is a risk that our business activities could be seriously impacted, and we will continue to pay close attention to the situation in the future.

(5) Dividend Policy

The Company will work to bolster its internal reserves while considering maintenance and strengthening of its financial structure and implementation plans for upfront investments, including investments for technology development and facilities based on medium- and long-term business strategies. At the same time, the Company will, in principle, pay dividends of surplus linked to its consolidated business results twice a year as interim and year-end dividends and aim to achieve a consolidated dividend payout ratio of approx. 30% or more.

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

2. Our Fundamental Position Concerning Selection of Accounting Standards Policy

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

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Current fiscal year-end As of Mar. 31, 2020 (A)	Previous fiscal year-end As of Mar. 31, 2019 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	62,165	67,347	(5,182)
Trade receivables	207,843	236,164	(28,321)
Contract assets	4,701	2,070	2,631
Inventories	301,222	324,844	(23,622)
Income tax receivables	3,671	1,167	2,504
Other financial assets	20,309	25,904	(5,595)
Other current assets	12,868	14,110	(1,242)
Subtotal	612,779	671,606	(58,827)
Assets held for sale	-	2,282	(2,282)
Total current assets	612,779	673,888	(61,109)
Non-current assets			
Property, plant and equipment	315,465	311,245	4,220
Right-of-use-asset	57,853	-	57,853
Intangible assets	37,883	42,092	(4,209)
Goodwill	30,538	34,564	(4,026)
Investments accounted for using the equity method	33,177	32,628	549
Trade receivables	39,572	44,357	(4,785)
Deferred tax assets	15,094	19,145	(4,051)
Other financial assets	16,394	17,279	(885)
Other non-current assets	8,812	10,058	(1,246)
Total non-current assets	554,788	511,368	43,420
Total assets	1,167,567	1,185,256	(17,689)
Liabilities			
Current liabilities			
Trade and other payables	173,872	251,067	(77,195)
Lease liabilities	12,996	-	12,996
Contract liabilities	6,593	8,503	(1,910)
Bonds and borrowings	160,447	185,641	(25,194)
Income taxes payable	4,756	12,012	(7,256)
Other financial liabilities	10,019	10,165	(146)
Other current liabilities	2,683	3,235	(552)
Total current liabilities	371,366	470,623	(99,257)
Non-current liabilities			
Trade and other payables	5,965	16,203	(10,238)
Lease liabilities	47,795	-	47,795
Contract liabilities	2,282	2,314	(32)
Bonds and borrowings	178,496	119,167	59,329
Retirement and severance benefit	17,084	17,958	(874)
Deferred tax liabilities	6,119	8,726	(2,607)
Other financial liabilities	3,255	1,158	2,097
Other non-current liabilities	10,094	6,446	3,648
Total non-current liabilities	271,090	171,972	99,118
Total liabilities	642,456	642,595	(139)
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	80,475	81,991	(1,516)
Retained earnings	347,668	328,344	19,324
Accumulated other comprehensive income	(33,101)	(2,428)	(30,673)
Treasury stock, at cost	(3,082)	(3,077)	(5)
Total Equity attribute to owners of the parent	473,537	486,407	(12,870)
Non-controlling interests	51,574	56,254	(4,680)
Total equity	525,111	542,661	(17,550)
Total liabilities and equity	1,167,567	1,185,256	(17,689)

(2) Consolidated Statements of Income

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2020	Previous fiscal year For the year ended Mar. 31, 2019	(A)/(B)×100 (%)
Revenue	931,347	1,033,703	90
Cost of sales	(680,590)	(735,507)	93
Gross profit	250,757	298,196	84
Selling, general and administrative expenses	(174,139)	(181,355)	96
Adjusted operating income	76,618	116,841	66
Other income	8,543	5,369	159
Other expenses	(12,312)	(19,914)	62
Operating income	72,849	102,296	71
Financial income	2,880	3,781	76
Financial expenses	(11,308)	(8,091)	140
Share of profits of investments accounted for using the equity method	2,682	4,716	57
Income before income taxes	67,103	102,702	65
Income taxes	(22,335)	(28,516)	78
Net income	44,768	74,186	60

Net income attributable to			
Owners of the parent	41,171	68,542	60
Non-controlling interests	3,597	5,644	64
Total net income	44,768	74,186	60

EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	193.61	322.31	60
Net income per share (Diluted) (yen)	193.61	322.31	60

(Rounded off to the nearest million)

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2020	Previous fiscal year For the year ended Mar. 31, 2019	(A)/(B)×100 (%)
Net income	44,768	74,186	60
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	(1,422)	(1,743)	82
Remeasurements of defined benefit obligations	(105)	(1,077)	10
Other comprehensive income of equity method associates	8	7	114
Items that can be reclassified into net income			
Foreign currency translation adjustments	(33,521)	(8,988)	373
Cash flow hedges	15	64	23
Other comprehensive income of equity method associates	(658)	(502)	131
Other comprehensive income, net of taxes	(35,683)	(12,239)	292
Comprehensive income	9,085	61,947	15
Comprehensive income attributable to			
Owners of the parent	9,874	57,445	17
Non-controlling interests	(789)	4,502	-

(Rounded off to the nearest million)

(4) Consolidated Statements of Changes in Equity

Year ended March 31, 2020

(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
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			41,171			
Other comprehensive income				(230)	(1,415)	15
Comprehensive income	-	-	41,171	(230)	(1,415)	15
Acquisition of treasury stock						
Dividends to stockholders of the Company			(19,776)			
Gains/losses on change in equity						
Transfer to retained earnings			(624)	627	(3)	
Change in liabilities for written put options over non-controlling interests		(1,516)				
Transaction with owners	-	(1,516)	(20,400)	627	(3)	-
Balance at end of period	81,577	80,475	347,668	(1,933)	5,700	228

(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	(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		-		41,171	3,597	44,768
Other comprehensive income	(29,667)	(31,297)		(31,297)	(4,386)	(35,683)
Comprehensive income	(29,667)	(31,297)	-	9,874	(789)	9,085
Acquisition of treasury stock		-	(5)	(5)		(5)
Dividends to stockholders of the Company		-		(19,776)	(3,939)	(23,715)
Change in the scope of consolidation		-		-		-
Transfer to retained earnings		624		-		-
Change in liabilities for written put options over non-controlling interests		-		(1,516)	87	(1,429)
Transaction with owners	-	624	(5)	(21,297)	(3,852)	(25,149)
Balance at end of period	(37,096)	(33,101)	(3,082)	473,537	51,574	525,111

Year ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	81,991	279,201	(1,232)	8,992	149
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			68,542			
Other comprehensive income				(1,098)	(1,741)	64
Comprehensive income	-	-	68,542	(1,098)	(1,741)	64
Acquisition of treasury stock						
Dividends to stockholders of the Company			(19,564)			
Gains/losses on change in equity						
Transfer to retained earnings			133		(133)	
Change in liabilities for written put options over non-controlling interests						
Transaction with owners	-	-	(19,431)	-	(133)	-
Balance at end of period	81,577	81,991	328,344	(2,330)	7,118	213

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	893	8,802	(3,069)	448,502	56,528	505,030
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		-		68,542	5,644	74,186
Other comprehensive income	(8,322)	(11,097)		(11,097)	(1,142)	(12,239)
Comprehensive income	(8,322)	(11,097)	-	57,445	4,502	61,947
Acquisition of treasury stock		-	(8)	(8)		(8)
Dividends to stockholders of the Company		-		(19,564)	(4,795)	(24,359)
Change in the scope of consolidation		-		-	19	19
Transfer to retained earnings		(133)		-		-
Change in liabilities for written put options over non-controlling interests		-		-		-
Transaction with owners	-	(133)	(8)	(19,572)	(4,776)	(24,348)
Balance at end of period	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Current fiscal year For the year ended Mar. 31, 2020	Previous fiscal year For the year ended Mar. 31, 2019
Net income	44,768	74,186
Depreciation	41,443	32,343
Amortization of intangible asset	4,704	4,611
Impairment losses	6,002	2,143
Gains on business restructuring	(3,105)	-
Income tax expense	22,335	28,516
Equity in net earnings of associates	(2,682)	(4,716)
(Gain) loss on sales of property, plant and equipment	(424)	(458)
Financial income	(2,880)	(3,781)
Financial expense	11,308	8,091
(Increase) decrease in trade receivables and contract assets	646	(19,101)
(Increase) decrease in lease receivables	9,213	(7,115)
(Increase) decrease in inventories	107	(76,497)
Increase (decrease) in trade payables	(32,769)	(18,583)
Increase (decrease) in retirement and severance benefit	133	(587)
Other	(43,258)	(11,995)
Subtotal	55,541	7,057
Interest received	2,086	2,525
Dividends received	3,382	1,800
Interest paid	(6,923)	(5,357)
Income tax paid	(31,404)	(31,718)
Net cash provided by (used in) operating activities	22,682	(25,693)
Capital expenditures	(32,044)	(26,231)
Proceeds from sale of property, plant and equipment	2,951	5,251
Acquisition of intangible assets	(7,311)	(8,536)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	-	(1,315)
Sales of investments in securities and other financial assets (including investments in associates)	1,635	318
(Increase) decrease in short-term loan receivables, net	(1)	303
Collection of long-term loan receivables	33	47
Other	(12)	(176)
Net cash provided by (used in) investing activities	(34,749)	(30,339)
Increase (decrease) in short-term debt, net	9,694	67,386
Proceeds from long-term debt and bond	91,868	36,197
Payments on long-term debt	(52,486)	(28,766)
Payments on lease payables	(12,770)	(6,388)
Dividends paid to owners of the parent	(19,764)	(19,562)
Dividends paid to non-controlling interests	(5,544)	(4,933)
Other	(5)	(6)
Net cash provided by (used in) financing activities	10,993	43,928
Effect of exchange rate changes on cash and cash equivalents	(4,108)	(2,478)
Net increase (decrease) in cash and cash equivalents	(5,182)	(14,582)
Cash and cash equivalents at beginning of period	67,347	81,929
Cash and cash equivalents at end of period	62,165	67,347

(6)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 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.

(Important matters for compiling consolidated financial statements)

1. Scope of consolidation

Numbers of consolidated subsidiaries: 80

(1) Main consolidated subsidiaries

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

(2) Number of companies included in consolidation during the fiscal year ended March 31, 2020: 2

1) Increase by newly established: 2
Hitachi Construction Machinery Oceania Holdings Pty., Ltd. and 1 other

(3) Number of companies excluded from consolidation during the fiscal year ended March 31, 2020: 2

1) Decrease by Merger
KCM Corporation
2) Decrease by sales part of shares
Hitachi Construction Machinery Operators Training Center Co., Ltd.

2. Application of the equity method

Numbers of affiliates accounted for by the equity method: 24

(1) Main affiliates subject to the equity method

1) Deere-Hitachi Construction Machinery Corp.
2) P.T. Hexa Finance Indonesia
3) HTC Leasing Company Limited
4) Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

(2) Number of companies including equity-method affiliates during the fiscal year ended March 31, 2020: 4

1) Increase by newly established: 2
2) Increase by newly invested: 1
3) Increase by sales part of shares: 1

(3) Number of companies excluded from equity-method affiliates during the fiscal year ended March 31, 2020: 4

1) Decrease by sales part of shares: 1
2) Decrease by liquidation: 3

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

3. Date of settlement of accounts for consolidated subsidiaries

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

1) Hitachi Construction Machinery Holding U.S.A. Corporation
2) Hitachi Construction Machinery (China) Co., Ltd.
3) Hitachi Construction Machinery (Shanghai) Co., Ltd.
Others: 19

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

(Segment Information)

1. Reportable segment information

1) Overview of business segments

The operating segments of the Group are the components for which separate financial information is available and that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The reportable segments are determined based on the operating segment.

Taking into consideration the nature of products and services as well as categories, types of customers, and economic characteristics in a comprehensive manner, the company determines to classify two reportable segments as follows: The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle solutions related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large hydraulic excavators, and wheeled loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide 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 year ended March 31, 2020

(Millions of yen)

	Reportable segment			Adjustments (*1,2)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	840,751	90,596	931,347	-	931,347
Intersegment transactions	11	1,379	1,390	(1,390)	-
Total revenues	840,762	91,975	932,737	(1,390)	931,347
Adjusted operating income	68,529	8,089	76,618	-	76,618
Operating income	72,132	717	72,849	-	72,849
Financial income	-	-	-	2,880	2,880
Financial expenses	-	-	-	(11,308)	(11,308)
Share of profits (losses) of investments accounted for using the equity method	2,682	-	2,682	-	2,682
Income before income taxes	74,814	717	75,531	(8,428)	67,103

Segment assets Segment liabilities	1,048,853 585,762	126,206 64,186	1,175,059 649,948	(7,492) (7,492)	1,167,567 642,456
Other items:					
Depreciation and amortization	(41,082)	(5,065)	(46,147)	-	(46,147)
Impairment losses	(25)	(5,977)	(6,002)	-	(6,002)
Business structure reform expenses	(142)	(512)	(654)	-	(654)
Investments accounted for using the equity method	33,177	-	33,177	-	33,177

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 year ended March 31, 2019

(Millions of yen)

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

Other items:					
Depreciation and amortization	(31,506)	(5,448)	(36,954)	-	(36,954)
Impairment losses	(111)	(2,032)	(2,143)	-	(2,143)
Business structure reform expenses	(1,819)	(3,092)	(4,911)	-	(4,911)
Investments accounted for using the equity method	32,628	-	32,628	-	32,628

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.

2. Information on products and services

The following tables show revenue from outside customers by product and service for the year ended March 31, 2020 and 2019.

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Mining machinery	166,771	160,762
Construction machinery and others	764,576	872,941
Total	931,347	1,033,703

(Note on consolidated statements of income)

The main components of other income for the year ended March 31, 2020 and 2019 are as follows:

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Gain on sales of property, plants, and equipment	454	529
Subsidy income	570	522
Gain on business restructuring (note)	3,105	-
Other	4,414	4,318
Total	8,543	5,369

(Note) Gain on business restructuring

Gain on business restructuring for the year ended March 31, 2020 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 for the year ended March 31, 2020 and 2019 are as follows:

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Loss on sales of property, plants, and equipment	30	71
Loss on disposal of property, plants, and equipment	779	776
Impairment losses (*1)	6,002	2,143
Business structure reform expenses (*2)	654	4,911
Other (*3)	4,847	12,013
Total	12,312	19,914

Note (*1): Impairment losses

Impairment losses recognized for the year ended March 31, 2020 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.

Note (*2): Business structure reform expenses

Business structure improvement expenses recognized for the year ended March 31, 2020 and for the year ended March 31, 2019 include a special severance payment and so forth.

Note (*3): Other

Other expenses recognized for the year ended March 31, 2019 includes ¥ 8,781 million for an allowance for uncollectible VAT receivables overpaid in previous periods by subsidiary in China.

(Earnings per share)

A calculation of the basic and diluted earnings per share (attributable to owners of the parent) for the years ended March 31, 2020 and 2019 are as follows:

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Net income attributable to owners of the parent	41,171	68,542
Net income attributable to owners of the Parent (diluted)	41,171	68,542

(Number of shares)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Weighted average number of common shares outstanding	212,654,154	212,655,771
Dilutive effect of stock options	-	-
Weighted average number of common shares outstanding - diluted	212,654,154	212,655,771

(Yen)

	For the year ended March 31, 2020	For the year ended March 31, 2019
Net income attributable to owners of the parent per share (basic)	193.61	322.31
Net income attributable to owners of the parent per share (diluted)	193.61	322.31

	For the year ended March 31, 2020	For the year ended March 31, 2019
Summary of dilutive shares not included the calculation of diluted earnings per share (attributed to owners of the parent) due to no dilutive effect	-	-

(Important subsequent events)

There are no relevant items.

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