

Consolidated Financial Results for the Third Quarter Ended December 31, 2020 (IFRS)

January 29, 2021

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 10, 2021

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, 2020 to December 31, 2020)

(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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2020	558,727	(18.7)	18,298	(68.9)	11,833	(78.8)	6,377	(83.9)	3,126	(91.1)
December 31, 2019	687,188	(7.5)	58,742	(31.0)	55,837	(29.2)	39,524	(31.8)	35,112	(31.6)

Note: "Adjusted operating income" is presented as revenues less cost of sales as well as selling, general and administrative expenses.

	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, 2020	14.70	14.70
December 31, 2019	165.11	165.11

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

December 31, 2020: ¥675million December 31, 2019: ¥2,726million

(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, 2020	1,165,541	538,987	485,006	41.6
March 31, 2020	1,167,567	525,111	473,537	40.6

2. Dividends status

	Cash dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
March 31, 2020	—	36.00	—	24.00	60.00
March 31, 2021	—	10.00	—		
March 31, 2021 (Projection)				—	—

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

Note: Changes involving the dividend states for the fiscal year ending March 2021: None

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

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

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

Notes: Changes in consolidated earnings forecast: None

*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 None
 - [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 2020	215,115,038
March 2020	215,115,038
 - [2] Number of treasury shares

December 2020	2,462,696
March 2020	2,461,867
 - [3] Average number of common shares outstanding during the fiscal year (shares)

December 2020	212,652,785
December 2019	212,654,406

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, (2) Outlook for the Fiscal Year Ending March 2021” of the attachment for conditions serving as assumptions for results forecasts.

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1. Management Performance and Financial Conditions

(1) Management Results

As a direction of the HCM Group's medium-term management strategy, in order to further strengthen the value chain business, on which the Group has been focusing, the Group is using digital technology to provide deeper solutions at every point of contact with customers, and is working to transform itself into a corporate structure that is resilient to change.

During the 3Q of the current fiscal year (April 1, 2020 to December 31, 2020), revenues from rental and used equipment increased year on year, but overall revenues fell sharply to ¥558,727 million (a decrease of 18.7% year on year). This was mainly due to a decrease in sales of new construction machinery and parts and services due to a deterioration in the market caused by COVID-19, a decrease in sales of new mining machinery and parts and service due to restrained capital expenditure reflecting sluggish resource prices and other factors, and the impact of the yen's appreciation compared to the previous fiscal year. These factors were partially offset by an increase in sales of rental and used equipment compared to the same period of the previous fiscal year in the value chain business, which is at the forefront of our consideration.

As for consolidated income items, adjusted operating income was ¥18,298 million (a decrease of 68.9% year on year), mainly due to a decrease in revenue and the impact of yen appreciation. Quarterly profit attributable to owners of the parent was ¥3,126 million (a decrease of 91.1% year on year), affected by a decline in adjusted operating income, a decrease in the share of profits of investments accounted for using the equity method attributed to overseas subsidiaries, income tax expenses, and non-controlling interests' gains and losses.

Business results by segment are described below.

1. Construction Machinery Business

Demand for hydraulic excavators in the consolidated cumulative 3Q was lower than that in the same period of the previous fiscal year in major regions except China and Japan. Mining companies restrained capital investment, thus demand for mining machinery, particularly from small and medium-sized mining companies, continued declining.

As a result, although the revenues from rental and used equipment rose, revenues for the consolidated cumulative 3Q amounted to ¥499,480 million (a decrease of 19.2% year on year), mainly due to the decline in sales of new machinery and parts services, as well as the impact of the yen's appreciation, due to the sluggish markets caused by COVID-19.

Adjusted operating income was ¥12,928 million (a decrease of 75.3% year on year), mainly due to a decrease in revenue and the impact of yen appreciation.

2. Solution Business

This segment consists primarily of Bradken Pty Limited and its subsidiaries, which are engaged in the parts service business in the after-sales service of mining facilities and machinery, and H-E Parts International LLC and its subsidiaries, which provide service solutions.

Sales of consumables for mineral processing facilities operating at mining companies remained steady, reaching ¥61,608 million (a decrease of 12.2% year on year). Despite a decrease in sales revenues in the 3Q of the fiscal year, the effect was relatively smaller compared to the Construction Machinery Business.

Adjusted operating income was ¥5,370 million (a decrease of 15.8% year on year), due in part to the effects of business restructuring, despite the decrease in revenue and the impact of the yen's appreciation.

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

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

The following table summarizes consolidated net revenue by geographic area.

(Millions of yen)

	FY2020		FY2019		Increase (Decrease)	
	(April 1,2020- December 31, 2020)		(April 1,2019- December 31, 2019)			
	Revenue	Proportion	Revenue	Proportion	(A)-(B)	(A)/(B)-1
	(A)	(%)	(B)	(%)		(%)
North America	71,357	12.8	130,039	18.9	(58,682)	(45.1)
Central and South America	7,822	1.4	10,155	1.5	(2,333)	(23.0)
The Americas	79,179	14.2	140,194	20.4	(61,015)	(43.5)
Europe	54,619	9.8	73,610	10.7	(18,991)	(25.8)
Russia-CIS	17,300	3.1	25,021	3.6	(7,721)	(30.9)
Africa	24,094	4.3	28,348	4.1	(4,254)	(15.0)
Middle East	10,010	1.8	4,880	0.7	5,130	105.1
Russia-CIS, Africa, and the Middle East	51,404	9.2	58,249	8.5	(6,845)	(11.8)
Asia	34,591	6.2	64,086	9.3	(29,495)	(46.0)
India	32,277	5.8	38,569	5.6	(6,292)	(16.3)
Oceania	102,489	18.3	108,398	15.8	(5,909)	(5.5)
Asia and Oceania	169,357	30.3	211,053	30.7	(41,696)	(19.8)
China	61,522	11.0	58,672	8.5	2,850	4.9
Sub-total	416,081	74.5	541,778	78.8	(125,697)	(23.2)
Japan	142,646	25.5	145,410	21.2	(2,764)	(1.9)
Total	558,727	100.0	687,188	100.0	(128,461)	(18.7)

(Rounded off to the nearest million)

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

(2) Outlook for the Fiscal Year Ending March 2021

In the fiscal year ending March 31, 2021, we revise the forecast of demand for hydraulic excavators which we announced on October 27, 2020 and now expect to reach approximately 201,000 units worldwide (a decrease of 7% year on year). This is mainly because demand for hydraulic excavators has been increasing significantly in China, while it has been decreasing in the other major markets on a year-on-year basis.

On the other hand, in mining machinery, demand for new machinery is expected to decline as customers' new investment continued restrained due to falling resource prices and global economic uncertainty. Despite the impact of COVID-19, some countries and regions continued to operate mining operations as essential business supporting social infrastructure. However, sites were shut down in other regions, and, as a result, we expect revenue from our parts services and solutions businesses to decline year on year.

Based on the above projections, there will be a positive impact in the consolidated 4Q, owing to demand for the Chinese New Year in China and for the spring sales season in Europe and North America, even if there is some negative impact of COVID-19. We will steadily continue to implement the current measures that have been taken during the consolidated cumulative 3Q without fail. Therefore, the consolidated financial forecast for the fiscal year ending March 2021 (April 1, 2020 through March 31, 2021) has been left unchanged from the forecast announced on May 28, 2020.

As for foreign exchange rates for the 4Q, which are the assumptions for the forecasts for the current fiscal year, the Company will maintain the rates of ¥105 to one US dollar, ¥120 to one euro, ¥15.0 to one Chinese yuan, and ¥72 to one Australian dollar.

(3) 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 ¥ 586,296 million, a decrease of 4.3%, or ¥ 26,483 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥ 40,256 million in trade receivables and contract assets although there was an increase of ¥ 6,253 million in cash and cash equivalents. Non-current assets amounted to ¥ 579,245 million, an increase of 4.4%, or ¥ 24,457 million, from the previous fiscal year-end. This was due mainly to an increase of ¥ 20,772 million in property, plant and equipment.

As a result, total assets decreased by 0.2%, or ¥ 2,026 million, from the previous fiscal year-end to ¥ 1,165,541 million.

(b) Liabilities

Current liabilities amounted to ¥ 351,068 million, a decrease of 5.5%, or ¥ 20,298 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥ 18,670 million in trade and other payables. Non-current liabilities amounted to ¥ 275,486 million, an increase of 1.6%, or ¥ 4,396 million, from the previous fiscal year-end. This was mainly due to an increase of ¥ 2,215 million trade and other payables.

As a result, total liabilities decreased by 2.5%, or ¥ 15,902 million, from the previous fiscal year-end to ¥ 626,554 million.

(c) Equity

Total equity increased by 2.6%, or ¥ 13,876 million, from the previous fiscal year-end to ¥ 538,987 million.

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

[2] Analysis of the Status of Consolidated Cash Flows

Cash and cash equivalents at the end of third quarter totaled ¥ 68,418 million, an increase of ¥ 6,253 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 ¥ 6,377 million in net income, and included ¥ 33,723 million in depreciation, a ¥ 48,572 million decrease in trade receivables and contract assets, a ¥ 3,176 million decrease in inventories, a ¥ 22,043million decrease in trade payables, and a ¥ 8,735 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 ¥ 56,736 million, an increase inflow of ¥ 36,281 million year on year.

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

Net cash used in investing activities for the third quarter amounted to ¥ 23,259 million, a decrease of ¥ 5,287 million year on year. This was mainly due to an outlay of ¥ 20,102 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 inflow of ¥ 33,477 million.

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

Net cash used in financing activities for the third quarter amounted to ¥ 28,967 million. This was due mainly to a decrease of ¥ 8,851 million in lease liabilities and ¥ 10,637 million dividends paid (including dividends paid to non-controlling interests) as cash outflow.

As a result, cash for financing activities for the third quarter produced a increased outflow of ¥ 34,390 million year on year.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Third quarter As of Dec. 31, 2020 (A)	Previous fiscal year-end As of Mar. 31, 2020 (B)	(A)-(B)
Assets			
Current assets			
Cash and cash equivalents	68,418	62,165	6,253
Trade receivables	166,711	207,843	(41,132)
Contract assets	5,577	4,701	876
Inventories	308,872	301,222	7,650
Other financial assets	19,085	20,309	(1,224)
Other current assets	16,973	16,539	434
Subtotal	585,636	612,779	(27,143)
Assets held for sale	660	-	660
Total current assets	586,296	612,779	(26,483)
Non-current assets			
Property, plant and equipment	336,237	315,465	20,772
Right-of-use-asset	60,088	57,853	2,235
Intangible assets	40,189	37,883	2,306
Goodwill	33,111	30,538	2,573
Investments accounted for using the equity method	30,933	33,177	(2,244)
Trade receivables	38,019	39,572	(1,553)
Deferred tax assets	14,349	15,094	(745)
Other financial assets	17,051	16,394	657
Other non-current assets	9,268	8,812	456
Total non-current assets	579,245	554,788	24,457
Total assets	1,165,541	1,167,567	(2,026)
Liabilities			
Current liabilities			
Trade and other payables	155,202	173,872	(18,670)
Lease liabilities	12,536	12,996	(460)
Contract liabilities	8,585	6,593	1,992
Bonds and borrowings	158,281	160,447	(2,166)
Income taxes payable	3,965	4,756	(791)
Other financial liabilities	10,781	10,019	762
Other current liabilities	1,718	2,683	(965)
Total current liabilities	351,068	371,366	(20,298)
Non-current liabilities			
Trade and other payables	8,180	5,965	2,215
Lease liabilities	47,931	47,795	136
Contract liabilities	2,095	2,282	(187)
Bonds and borrowings	176,907	178,496	(1,589)
Retirement and severance benefit	17,050	17,084	(34)
Deferred tax liabilities	5,897	6,119	(222)
Other financial liabilities	4,952	3,255	1,697
Other non-current liabilities	12,474	10,094	2,380
Total non-current liabilities	275,486	271,090	4,396
Total liabilities	626,554	642,456	(15,902)
Equity			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	80,373	80,475	(102)
Retained earnings	343,563	347,668	(4,105)
Accumulated other comprehensive income	(17,422)	(33,101)	15,679
Treasury stock, at cost	(3,085)	(3,082)	(3)
Total Equity attribute to owners of the parent	485,006	473,537	11,469
Non-controlling interests	53,981	51,574	2,407
Total equity	538,987	525,111	13,876
Total liabilities and equity	1,165,541	1,167,567	(2,026)

(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, 2020 (A)	Third quarter Nine months ended Dec. 31, 2019 (B)	(A)/(B)×100 (%)
Revenue	558,727	687,188	81
Cost of sales	(422,988)	(496,505)	85
Gross profit	135,739	190,683	71
Selling, general and administrative expenses	(117,441)	(131,941)	89
Adjusted operating income	18,298	58,742	31
Other income	3,025	7,115	43
Other expenses	(6,089)	(8,495)	72
Operating income	15,234	57,362	27
Financial income	1,754	1,641	107
Financial expenses	(5,830)	(5,892)	99
Share of profits of investments accounted for using the equity method	675	2,726	25
Income before income taxes	11,833	55,837	21
Income taxes	(5,456)	(16,313)	33
Net income	6,377	39,524	16
Net income attributable to			
Owners of the parent	3,126	35,112	9
Non-controlling interests	3,251	4,412	74
Total net	6,377	39,524	16
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	14.70	165.11	9
Net income per share (Diluted) (yen)	14.70	165.11	9

(Rounded off to the nearest million)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2020 (A)	Third quarter Nine months ended Dec. 31, 2019 (B)	(A)/(B)×100 (%)
Net income	6,377	39,524	16
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	681	576	118
Remeasurements of defined benefit obligations	-	(243)	-
Other comprehensive income of equity method associates	(1)	7	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	17,892	(10,395)	-
Cash flow hedges	(180)	(92)	196
Other comprehensive income of equity method associates	(751)	(539)	139
Other comprehensive income, net of taxes	17,641	(10,686)	-
Comprehensive income	24,018	28,838	83
Comprehensive income attributable to			
Owners of the parent	18,805	26,353	71
Non-controlling interests	5,213	2,485	210

(Rounded off to the nearest million)

(3) Consolidated Statements of Changes in Equity
Consolidated cumulative quarter
Third quarter nine months ended Dec. 31, 2020

(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	80,475	347,668	(1,933)	5,700	228
Net income			3,126			
Other comprehensive income					680	(180)
Comprehensive income	-	-	3,126	-	680	(180)
Acquisition of treasury stock						
Dividends to stockholders of the Company			(7,231)			
Transfer to retained earnings						
Change in liabilities for written put options over non-controlling interests		(102)				
Transaction with owners	-	(102)	(7,231)	-	-	-
Balance at end of period	81,577	80,373	343,563	(1,933)	6,380	48

(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	(37,096)	(33,101)	(3,082)	473,537	51,574	525,111
Net income		-		3,126	3,251	6,377
Other comprehensive income	15,179	15,679		15,679	1,962	17,641
Comprehensive income	15,179	15,679	-	18,805	5,213	24,018
Acquisition of treasury stock			(3)	(3)		(3)
Dividends to stockholders of the Company				(7,231)	(2,805)	(10,036)
Transfer to retained earnings						
Change in liabilities for written put options over non-controlling interests				(102)	(1)	(103)
Transaction with owners	-	-	(3)	(7,336)	(2,806)	(10,142)
Balance at end of period	(21,917)	(17,422)	(3,085)	485,006	53,981	538,987

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)			
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)
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

(4) Consolidated Statements of Cash Flows

Consolidated cumulative quarter

(Millions of yen)

	Third quarter Nine months ended Dec. 31, 2020 (A)	Third quarter Nine months ended Dec. 31, 2019 (B)
Net income	6,377	39,524
Depreciation	33,723	29,703
Amortization of intangible asset	3,951	3,448
Impairment losses	1,257	5,995
Gains or loss on business restructuring	464	(3,105)
Income tax expense	5,456	16,313
Equity in net earnings of associates	(675)	(2,726)
(Gain) loss on sales of property, plant and equipment	99	(387)
Financial income	(1,754)	(1,641)
Financial expense	5,830	5,892
(Increase) decrease in trade receivables and contract assets	48,572	43,418
(Increase) decrease in lease receivables	4,066	7,444
(Increase) decrease in inventories	3,176	(23,452)
Increase (decrease) in trade payables	(22,043)	(33,441)
Increase (decrease) in retirement and severance benefit	(239)	378
Other	(20,953)	(38,718)
Subtotal	67,307	48,645
Interest received	1,453	1,385
Dividends received	714	3,318
Interest paid	(4,003)	(4,604)
Income tax paid	(8,735)	(28,289)
Net cash provided by (used in) operating activities	56,736	20,455
Capital expenditures	(20,102)	(25,356)
Proceeds from sale of property, plant and equipment	332	909
Acquisition of intangible assets	(3,156)	(5,627)
Acquisition of investments in securities and other financial assets(including investments in associates)	(172)	-
Sales of investments in securities and other financial assets (including investments in associates)		1,620
(Increase) decrease in short-term loan receivables, net	1	(16)
Collection of long-term loan receivables	19	20
Other	(181)	(96)
Net cash provided by (used in) investing activities	(23,259)	(28,546)
Increase (decrease) in short-term debt, net	(22,739)	27,714
Proceeds from long-term debt and bond	32,084	57,517
Payments on long-term debt	(18,821)	(45,937)
Payments on lease payables	(8,851)	(8,791)
Dividends paid to owners of the parent	(7,267)	(19,770)
Dividends paid to non-controlling interests	(3,370)	(5,328)
Other	(3)	18
Net cash provided by (used in) financing activities	(28,967)	5,423
Effect of exchange rate changes on cash and cash equivalents	1,743	(975)
Net increase (decrease) in cash and cash equivalents	6,253	(3,643)
Cash and cash equivalents at beginning of period	62,165	67,347
Cash and cash equivalents at end of period	68,418	63,704

(5) Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There are no relevant items.

(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)

	Third quarter Nine months ended Dec. 31, 2020	Third quarter Nine months ended Dec. 31, 2019
Gain on sales of property, plants, and equipment	127	417
Subsidy income	191	567
Gain on business restructuring (note)	-	3,105
Other	2,707	3,026
Total	3,025	7,115

(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 PEO Construction Machinery Operators Training Center Co., Ltd. (previously known as 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, 2020	Third quarter Nine months ended Dec. 31, 2019
Loss on sales of property, plants, and equipment	226	30
Loss on disposal of property, plants, and equipment	359	451
Impairment losses (*1)	1,257	5,995
Business structure reform expenses (*2)	1,653	100
Other	2,594	1,919
Total	6,089	8,495

Note (*1): Impairment

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.

Note (*2): Business structure reform expenses

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

(English translation of "KESSAN TANSIN" 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.

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

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

For the third quarter nine months ended Dec. 31, 2020

(Millions of yen)

	Reportable segment			Adjustments (*1,2)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	499,477	59,250	558,727	-	558,727
Intersegment transactions	3	2,358	2,361	(2,361)	-
Total revenues	499,480	61,608	561,088	(2,361)	558,727
Adjusted operating income	12,928	5,370	18,298	-	18,298
Operating income (loss)	12,407	2,827	15,234	-	15,234
Financial income	-	-	-	1,754	1,754
Financial expenses	-	-	-	(5,830)	(5,830)
Share of profits (losses) of investments accounted for using the equity method	675	-	675	-	675
Income (loss) before income taxes	13,082	2,827	15,909	(4,076)	11,833

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.)

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

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.

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