

## Consolidated Financial Results for the Second quarter Ended September 30, 2020 (IFRS)

October 27, 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 for submission of the Quarterly Securities Report: November 12, 2020

Scheduled date of commencement of payment of dividends: November 30, 2020

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, 2020 to September 30, 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	%
September 30, 2020	360,902	(24.9)	10,939	(75.7)	4,779	(88.4)	2,168	(92.4)	211	(99.2)
September 30, 2019	480,559	(2.0)	44,965	(15.7)	41,130	(15.6)	28,443	(18.5)	25,196	(16.7)

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
September 30, 2020	0.99	0.99
September 30, 2019	118.48	118.48

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

September 30, 2020: ¥66million September 30, 2019: ¥2,030million

#### (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, 2020	1,141,533	530,343	478,499	41.9
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: Yes

(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)

(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)
 

September 2020	215,115,038
March 2020	215,115,038
  - [2] Number of treasury shares
 

September 2020	2,462,281
March 2020	2,461,867
  - [3] Average number of common shares outstanding during the fiscal year (shares)
 

September 2020	212,652,965
September 2019	212,654,558

#### 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 even 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 2Q of the current fiscal year (April 1, 2020 to September 30, 2020), revenues from rental and used equipment increased year-on-year, but overall revenues fell sharply to ¥360,902 million (a decrease of 24.9% year-on-year). This was mainly due to a decrease in sales of new machinery and parts & services due to a deterioration in the market caused by COVID-19, a decrease in sales of new mining machinery and parts & services due to restrained capital expenditure due to 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, on which we are focusing.

As for consolidated income items, adjusted operating income was ¥10,939 million ( a decrease of 75.7% year on year ), mainly due to a decrease in revenue and the impact of the yen's appreciation. Quarterly profit attributable to owners of parent was ¥211 million ( a decrease of 99.2% year-on-year), affected by foreign exchange losses due to the appreciation of domestic currencies at overseas bases, 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 2Q was significantly lower than that in the same period of the previous fiscal year in major regions except China. Demand for mining machinery was also marked by restraints on capital investment by mining companies, and demand from small and medium-sized mining companies declined significantly in particular.

As a result, although rentals and used equipment rose, revenues for the first half of the fiscal year under review amounted to ¥320,216 million (a decrease of 26.3% 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 ¥7,159 million (a decrease of 82.5% year-on-year), mainly due to a decrease in revenue and the impact of the yen's 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 sales of mining facilities and machinery, and H-E Parts International LLC and its subsidiaries, which provide service solutions.

Sales of consumables for processing facilities operating at mining companies remained steady, reaching ¥42,071 million (a decrease of 11.5% year-on-year), despite a decrease in sales revenues in the 2Q of the fiscal year.

Adjusted operating income was ¥3,780 million (a decrease of 8.2% 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 (April 1,2020- September 30, 2020)		FY2019 (April 1,2019- September 30, 2019)		Increase (Decrease)	
	Revenue (A)	Proportion (%)	Revenue (B)	Proportion (%)	(A)-(B)	(A)/(B)-1 (%)
North America	47,654	13.2	92,136	19.2	(44,482)	(48.3)
Central and South America	5,164	1.4	7,230	1.5	(2,066)	(28.6)
The Americas	52,818	14.6	99,366	20.7	(46,548)	(46.8)
Europe	34,045	9.4	55,828	11.6	(21,783)	(39.0)
Russia-CIS	9,873	2.7	17,980	3.7	(8,107)	(45.1)
Africa	15,456	4.3	18,767	3.9	(3,311)	(17.6)
Middle East	8,627	2.4	3,850	0.8	4,777	124.1
Russia-CIS, Africa, and the Middle East	33,956	9.4	40,597	8.4	(6,641)	(16.4)
Asia	21,335	5.9	40,867	8.5	(19,532)	(47.8)
India	15,961	4.4	24,578	5.1	(8,617)	(35.1)
Oceania	69,445	19.2	76,307	15.9	(6,862)	(9.0)
Asia and Oceania	106,741	29.6	141,752	29.5	(35,011)	(24.7)
China	42,273	11.7	43,092	9.0	(819)	(1.9)
Sub-total	269,833	74.8	380,635	79.2	(110,802)	(29.1)
Japan	91,069	25.2	99,924	20.8	(8,855)	(8.9)
Total	360,902	100.0	480,559	100.0	(119,657)	(24.9)

(Rounded off to the nearest million)

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## **(2) Outlook for the Fiscal Year Ending March 2021**

In the fiscal year ending March 31, 2021, we forecast that demand for hydraulic excavators will be upwardly revised from the outlook announced on May 28, 2020, to approximately 19,5000 units worldwide (a decrease of 10% year-on-year), because demand decrease for hydraulic excavators during the cumulative 2Q was limited compared to the original forecast, although there are concerns about the second wave of COVID-19.

On the other hand, in the mining machinery, demand for new machinery is expected to decline as customers' new investment is becoming increasingly 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 some 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, 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, taking account of the impact of the reduction in demand caused by the prolonged effects of COVID-19 and other concerns.

As for foreign exchange rates for the 3Q onward, 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 ¥ 570,361 million, a decrease of 6.9%, or ¥ 42,418 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥ 38,649 million in trade receivables and contract assets and ¥ 4,648 million in inventories although there was an increase of ¥ 2,935 million in cash and cash equivalents. Non-current assets amounted to ¥ 571,172 million, an increase of 3.0%, or ¥ 16,384 million, from the previous fiscal year-end. This was due mainly to an increase of ¥ 14,261 million in property, plant and equipment.

As a result, total assets decreased by 2.2%, or ¥ 26,034 million, from the previous fiscal year-end to ¥ 1,141,533 million.

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

Current liabilities amounted to ¥ 352,012 million, a decrease of 5.2%, or ¥ 19,354 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥ 27,639 million in trade and other payables although there was an increase of ¥ 11,859 million in bonds and borrowings. Non-current liabilities decreased by 4.4%, or ¥ 11,912million, from the previous fiscal year-end to ¥ 259,178 million. This was mainly due to a decrease of ¥ 13,528 million in bonds and borrowings.

As a result, total liabilities decreased by 4.9%, or ¥ 31,266 million, from the previous fiscal year-end to ¥ 611,190 million.

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

Total equity increased by 1.0%, or ¥ 5,232 million, from the previous fiscal year-end to ¥ 530,343 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 ¥ 65,100 million, an increase of ¥ 2,935 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 second quarter based on ¥ 2,168 million in net income, and included ¥ 22,252 million in depreciation, a ¥ 42,719 million decrease in trade receivables and contract assets, a ¥ 11,394 million decrease in inventories, a ¥ 29,756 million decrease in trade payables, and a ¥ 7,810 million income tax paid as cash outflow.

As a result, net cash provided by operating activities for the second quarter totaled to an inflow of ¥ 37,764 million, an increase inflow of ¥ 47,496 million year on year.

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

Net cash used in investing activities for the second quarter amounted to ¥ 16,959 million, a decrease of ¥ 2,541 million year on year. This was mainly due to an outlay of ¥ 14,811 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 ¥ 20,805 million.

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

Net cash used in financing activities for the second quarter amounted to ¥ 18,673 million. This was due mainly to a decrease of ¥ 6,171 million in lease liabilities and ¥ 7,191 million dividends paid (including dividends paid to non-controlling interests) as cash outflow.

As a result, cash for financing activities for the second quarter produced a decreased inflow of ¥ 41,460 million year on year.



## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	Second quarter As of Sep. 30, 2020 (A)	Previous fiscal year-end As of Mar. 31, 2020 (B)	(A)-(B)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	65,100	62,165	2,935
Trade receivables	168,679	207,843	(39,164)
Contract assets	5,216	4,701	515
Inventories	296,574	301,222	(4,648)
Other financial assets	18,122	20,309	(2,187)
Other current assets	16,670	16,539	131
<b>Total current assets</b>	<b>570,361</b>	<b>612,779</b>	<b>(42,418)</b>
<b>Non-current assets</b>			
Property, plant and equipment	329,726	315,465	14,261
Right-of-use-asset	57,621	57,853	(232)
Intangible assets	40,032	37,883	2,149
Goodwill	32,580	30,538	2,042
Investments accounted for using the equity method	33,825	33,177	648
Trade receivables	36,781	39,572	(2,791)
Deferred tax assets	15,162	15,094	68
Other financial assets	16,587	16,394	193
Other non-current assets	8,858	8,812	46
<b>Total non-current assets</b>	<b>571,172</b>	<b>554,788</b>	<b>16,384</b>
<b>Total assets</b>	<b>1,141,533</b>	<b>1,167,567</b>	<b>(26,034)</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	146,233	173,872	(27,639)
Lease liabilities	11,969	12,996	(1,027)
Contract liabilities	6,852	6,593	259
Bonds and borrowings	172,306	160,447	11,859
Income taxes payable	3,413	4,756	(1,343)
Other financial liabilities	8,658	10,019	(1,361)
Other current liabilities	2,581	2,683	(102)
<b>Total current liabilities</b>	<b>352,012</b>	<b>371,366</b>	<b>(19,354)</b>
<b>Non-current liabilities</b>			
Trade and other payables	6,647	5,965	682
Lease liabilities	46,826	47,795	(969)
Contract liabilities	2,093	2,282	(189)
Bonds and borrowings	164,968	178,496	(13,528)
Retirement and severance benefit	17,014	17,084	(70)
Deferred tax liabilities	5,175	6,119	(944)
Other financial liabilities	4,471	3,255	1,216
Other non-current liabilities	11,984	10,094	1,890
<b>Total non-current liabilities</b>	<b>259,178</b>	<b>271,090</b>	<b>(11,912)</b>
<b>Total liabilities</b>	<b>611,190</b>	<b>642,456</b>	<b>(31,266)</b>
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Common stock	81,577	81,577	-
Capital surplus	80,395	80,475	(80)
Retained earnings	342,775	347,668	(4,893)
Accumulated other comprehensive income	(23,164)	(33,101)	9,937
Treasury stock, at cost	(3,084)	(3,082)	(2)
<b>Total Equity attribute to owners of the parent</b>	<b>478,499</b>	<b>473,537</b>	<b>4,962</b>
Non-controlling interests	51,844	51,574	270
<b>Total equity</b>	<b>530,343</b>	<b>525,111</b>	<b>5,232</b>
<b>Total liabilities and equity</b>	<b>1,141,533</b>	<b>1,167,567</b>	<b>(26,034)</b>

## (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, 2020 (A)	Second quarter Six months ended Sep. 30, 2019 (B)	(A)/(B)×100 (%)
Revenue	360,902	480,559	75
Cost of sales	(273,412)	(347,024)	79
Gross profit	87,490	133,535	66
Selling, general and administrative expenses	(76,551)	(88,570)	86
Adjusted operating income	10,939	44,965	24
Other income	1,688	5,429	31
Other expenses	(4,078)	(7,087)	58
Operating income	8,549	43,307	20
Financial income	1,139	1,242	92
Financial expenses	(4,975)	(5,449)	91
Share of profits of investments accounted for using the equity method	66	2,030	3
Income before income taxes	4,779	41,130	12
Income taxes	(2,611)	(12,687)	21
Net income	2,168	28,443	8
Net income attributable to			
Owners of the parent	211	25,196	1
Non-controlling interests	1,957	3,247	60
Total net income	2,168	28,443	8
EPS attributable to owners of the parent			
Net income per share (Basic) (yen)	0.99	118.48	1
Net income per share (Diluted) (yen)	0.99	118.48	1

(Rounded off to the nearest million)

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2020 (A)	Second quarter Six months ended Sep. 30, 2019 (B)	(A)/(B)×100 (%)
Net income	2,168	28,443	8
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	475	(2)	-
Remeasurements of defined benefit obligations	-	(243)	-
Other comprehensive income of equity method associates	(1)	1	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	11,249	(22,147)	-
Cash flow hedges	(68)	256	-
Other comprehensive income of equity method associates	(602)	(523)	115
Other comprehensive income, net of taxes	11,053	(22,658)	-
Comprehensive income	13,221	5,785	229
Comprehensive income attributable to			
Owners of the parent	10,148	6,176	164
Non-controlling interests	3,073	(391)	-

(Rounded off to the nearest million)

**(3) Consolidated Statements of Changes in Equity**  
**Consolidated cumulative quarter**  
**Second quarter six months ended Sep. 30, 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			211			
Other comprehensive income					474	(68)
Comprehensive income	-	-	211	-	474	(68)
Acquisition of treasury stock						
Dividends to stockholders of the Company			(5,104)			
Gains/losses on change in equity						
Transfer to retained earnings						
Change in liabilities for written put options over non-controlling interests		(80)				
Transaction with owners	-	(80)	(5,104)	-	-	-
Balance at end of period	81,577	80,395	342,775	(1,933)	6,174	160

(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		-		211	1,957	2,168
Other comprehensive income	9,531	9,937		9,937	1,116	11,053
Comprehensive income	9,531	9,937	-	10,148	3,073	13,221
Acquisition of treasury stock		-	(2)	(2)		(2)
Dividends to stockholders of the Company		-		(5,104)	(2,805)	(7,909)
Gains/losses on change in equity		-		-		-
Transfer to retained earnings		-		-		-
Change in liabilities for written put options over non-controlling interests		-		(80)	2	(78)
Transaction with owners	-	-	(2)	(5,186)	(2,803)	(7,989)
Balance at end of period	(27,565)	(23,164)	(3,084)	478,499	51,844	530,343

**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

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

##### Consolidated cumulative quarter

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2020 (A)	Second quarter Six months ended Sep. 30, 2019 (B)
Net income	2,168	28,443
Depreciation	22,252	19,465
Amortization of intangible asset	2,325	2,127
Impairment losses	1,250	5,687
Gains on business restructuring	-	(3,105)
Income tax expense	2,611	12,687
Equity in net earnings of associates	(66)	(2,030)
(Gain) loss on sales of property, plant and equipment	143	(283)
Financial income	(1,139)	(1,242)
Financial expense	4,975	5,449
(Increase) decrease in trade receivables and contract assets	42,719	3,028
(Increase) decrease in lease receivables	4,563	4,205
(Increase) decrease in inventories	11,394	(17,586)
Increase (decrease) in trade payables	(29,756)	(24,085)
Increase (decrease) in retirement and severance benefit	(254)	195
Other	(16,511)	(23,722)
<b>Subtotal</b>	<b>46,674</b>	<b>9,233</b>
Interest received	934	1,088
Dividends received	676	3,236
Interest paid	(2,710)	(3,368)
Income tax paid	(7,810)	(19,921)
<b>Net cash provided by (used in) operating activities</b>	<b>37,764</b>	<b>(9,732)</b>
Capital expenditures	(14,811)	(17,059)
Proceeds from sale of property, plant and equipment	234	389
Acquisition of intangible assets	(2,282)	(4,366)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	-	1,620
(Increase) decrease in short-term loan receivables, net	-	(25)
Collection of long-term loan receivables	15	14
Other	(115)	(73)
<b>Net cash provided by (used in) investing activities</b>	<b>(16,959)</b>	<b>(19,500)</b>
Increase (decrease) in short-term debt, net	(8,135)	69,913
Proceeds from long-term debt and bond	15,434	15,010
Payments on long-term debt	(12,608)	(40,335)
Payments on lease payables	(6,171)	(6,290)
Dividends paid to owners of the parent	(5,145)	(12,129)
Dividends paid to non-controlling interests	(2,046)	(3,402)
Other	(2)	20
<b>Net cash provided by (used in) financing activities</b>	<b>(18,673)</b>	<b>22,787</b>
Effect of exchange rate changes on cash and cash equivalents	803	(2,625)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,953</b>	<b>(9,070)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>62,165</b>	<b>67,347</b>
<b>Cash and cash equivalents at end of period</b>	<b>65,100</b>	<b>58,277</b>

## **(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)

	Second quarter Six months ended Sep. 30, 2020	Second quarter Six months ended Sep. 30, 2019
Gain on sales of property, plants, and equipment	81	294
Subsidy income	178	413
Gain on business restructuring (note )	-	3,105
Other	1,429	1,617
Total	1,688	5,429

(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, 2020	Second quarter Six months ended Sep. 30, 2019
Loss on sales of property, plants, and equipment	224	11
Loss on disposal of property, plants, and equipment	254	244
Impairment losses (*1)	1,250	5,687
Business structure reform expenses (*2)	1,097	37
Other	1,253	1,108
Total	4,078	7,087

Note (\*1): Impairment

Impairment losses recognized for the year ended September 30, 2019, which 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 September 30, 2020 and for the year ended September 30, 2019 include a special severance payment and so forth.

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



(Segment Information)

## **1. Reportable segment information**

### 1) Overview of business segments

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

Taking into consideration the nature of products and services as well as categories, types of customers, and economic characteristics in a comprehensive manner, the company determines to classify two reportable segments as follows: The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle solutions related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large hydraulic excavators, and wheeled loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide services, production, and distribution parts that are not included in the Construction Machinery Business Segment.

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

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

For the second quarter six months ended Sep. 30, 2020

(Millions of yen)

	Reportable segment			Adjustments (*1,2)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	320,214	40,688	360,902	-	360,902
Intersegment transactions	2	1,383	1,385	(1,385)	-
Total revenues	320,216	42,071	362,287	(1,385)	360,902
Adjusted operating income	7,159	3,780	10,939	-	10,939
Operating income	7,287	1,262	8,549	-	8,549
Financial income	-	-	-	1,139	1,139
Financial expenses	-	-	-	(4,975)	(4,975)
Share of profits (losses) of investments accounted for using the equity method	66	-	66	-	66
Income (loss) before income taxes	7,353	1,262	8,615	(3,836)	4,779

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 second quarter six months ended Sep. 30, 2019

(Millions of yen)

	Reportable segment			Adjustments (*1,2)	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

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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