Annual Securities Report

59th term (from April 1, 2022 to March 31, 2023)

Hitachi Construction Machinery Co., Ltd.

[Cover]

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Part I Information on the Company

I. Overview of the Company

1. Transition of the Key Financial Data

(1) Five-year financial data

(Millions of yen, unless otherwise stated)

Fiscal year	55th term	56th term	57th term	58th term	59th term
As of and years ended	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Revenue	1,033,703	931,347	813,331	1,024,961	1,279,468
Income before income taxes	102,702	67,103	25,578	110,869	112,661
Net income attributable to owners of the parent	68,542	41,171	10,340	75,826	70,175
Comprehensive income attributable to owners of the parent	57,445	9,874	47,844	111,929	75,515
Total equity attributable to owners of the parent	486,407	473,537	513,602	611,608	659,992
Total assets	1,185,256	1,167,567	1,219,882	1,409,560	1,627,003
Equity per share attributable to owners of the parent (Yen)	2,287.31	2,226.80	2,415.22	2,876.11	3,103.66
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	322.31	193.61	48.62	356.57	330.00
Net income per share (Diluted) (Yen)	322.31	193.61	48.62	356.57	330.00
Equity attributable to owners of the parent ratio (%)	41.0	40.6	42.1	43.4	40.6
Profit on equity attributable to owners of the parent (%)	14.7	8.6	2.1	13.5	11.0
Price earnings ratio (Times)	9.11	11.31	72.91	8.96	9.32
Net cash provided by (used in) operating activities	(25,693)	22,682	91,339	39,317	(26,135)
Net cash provided by (used in) investing activities	(30,339)	(34,749)	(32,281)	(6,854)	(42,647)
Net cash provided by (used in) financing activities	43,928	10,993	(46,011)	(25,615)	87,089
Cash and cash equivalents at end of period	67,347	62,165	80,330	94,257	111,992
Employees (Number)	24,591	25,248	24,873	24,987	25,430
[The average number of temporary employees for the year]	[2,527]	[2,322]	[1,963]	[2,142]	[2,267]

(Notes)
1. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS").
2. The Group used to recognize an intangible asset in relation to the configuration or customization costs in a cloud computing arrangement based on IAS 38 "Intangible Assets." The Group changed its accounting policies from the beginning of the previous fiscal year to recognize the costs as an expense when it receives a configuration or customization service, taking into account the discussions held by the IFRS Interpretations Committee to finalize the agenda decision published in April 2021. As a result, the relevant key financial data for the 57th term have been retroactively adjusted to reflect the changes in accounting policies.

(2) Non-consolidated financial data

(Millions of yen, unless otherwise stated)

Fiscal year		55th term	56th term	57th term	58th term	59th term
As of and years ended		March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Revenue		545,949	482,571	392,842	551,859	726,894
Ordinary income		57,703	34,434	8,933	52,733	57,595
Net income		50,503	33,832	12,142	67,589	48,904
Common stock		81,577	81,577	81,577	81,577	81,577
Number of shares issued	(Shares)	215,115,038	215,115,038	215,115,038	215,115,038	215,115,038
Net assets		281,616	295,232	300,991	356,424	382,237
Total assets		634,437	608,967	609,918	715,436	883,465
Net assets per share	(Yen)	1,324.29	1,388.33	1,415.42	1,676.10	1,797.50
Dividends per share	(Yen)	100.00	60.00	20.00	110.00	110.00
[Of the above, interim dividends per share]		[43.00]	[36.00]	[10.00]	[45.00]	(50.00)
Net income per share	(Yen)	237.49	159.10	57.10	317.84	229.97
Net income per share after adjustment for dilution	(Yen)	237.49	159.10	57.10	317.84	229.97
Equity ratio	(%)	44.4	48.5	49.3	49.8	43.3
Return on equity	(%)	18.9	11.7	4.1	20.6	13.2
Price earnings ratio	(Times)	12.37	13.76	62.08	10.05	13.37
Dividend payout ratio	(%)	42.11	37.71	35.03	34.61	47.83
Employees	(Number)	4,341	5,527	5,455	5,496	5,621
[The average number of temporary employees for the year]		[461]	[561]	[477]	[453]	(420)
Total shareholder return	(%)	74.0	57.2	90.7	84.9	84.7
[Comparative indicator: TOPIX (Dividend-included)]	(%)	[95.0]	[85.9]	[122.2]	[124.6]	(131.8)
Highest share price	(Yen)	4,410	3,390	3,835	3,785	3,450
Lowest share price	(Yen)	2,379	1,840	2,040	2,642	2,595

(Note) From April 4, 2022, the highest and lowest share prices are quoted market prices on the Prime Market of the Tokyo Stock Exchange and before that, they are the quoted market prices on the First Section of the Tokyo Stock Exchange.

2. History

The Company was originally established on October 1, 1970. In October 1973, the Company merged with Sagami Kogyo Co., Ltd. (established on January 30, 1951 with capital stock of ¥50 million) to change the par value of the shares from ¥500 to ¥50.

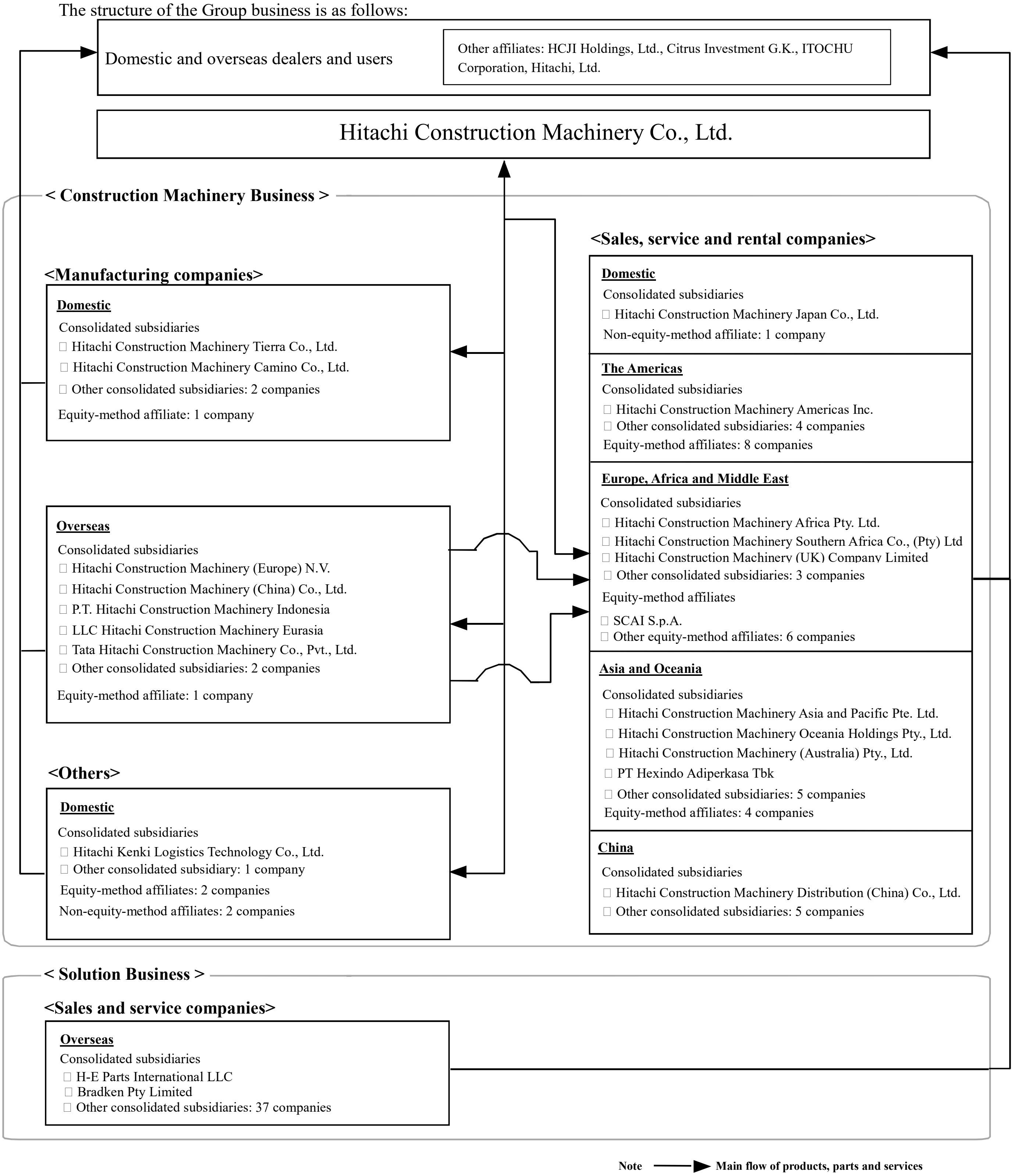
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi, Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions of Hitachi, Ltd.
November 1969	Split off Hitachi, Ltd.'s construction machinery manufacturing division from the Parent Company and established, with the Adachi and Tsuchiura works, Hitachi Construction Machinery Manufacturing Co., Ltd.
October 1970	Established Hitachi Construction Machinery Co., Ltd. through merger of Hitachi Construction Machinery Manufacturing Co., Ltd. and (former) Hitachi Construction Machinery Co., Ltd., with share capital of ¥3.8 billion.
August 1972	Established Hitachi Construction Machinery (Europe) N.V. in the Netherlands. (Currently a consolidated subsidiary)
October 1973	Merged with Sagami Kogyo Co., Ltd. (capital stock of ¥50 million). Par value of shares was changed from ¥500 to ¥50. Capital increased to ¥3.85 billion.
March 1974	Incorporated Adachi Works into Tsuchiura Works in order to strengthen the manufacturing ability based on the Government policy of plant relocation.
July 1979	Established Hitachi Construction Machinery Camino Co., Ltd. (Currently a consolidated subsidiary)
December 1981	Listed on the Second Section of the Tokyo Stock Exchange.
August 1984	Established Hitachi Construction Machinery Asia and Pacific Pte. Ltd. in Singapore. (Currently a consolidated subsidiary)
September 1989	Listed on the First Section of the Tokyo Stock Exchange.
January 1990	Acquired management rights of Hitachi Construction Machinery Tierra Co., Ltd. (Currently a consolidated subsidiary)
January 1990	Listed on the First Section of the Osaka Securities Exchange.
May 1991	Established P.T. Hitachi Construction Machinery Indonesia. (Currently a consolidated subsidiary)
December 1991	Acquired management rights of Niigata Material Co., Ltd.
April 1995	Established Hitachi Construction Machinery (China) Co., Ltd. (Currently a consolidated subsidiary)
June 1997	Invested in P.T. Hexindo Adiperkasa Tbk in Indonesia. (Currently a consolidated subsidiary)
October 1998	Acquired management rights of Hitachi Construction Truck Manufacturing Ltd. in Canada. (Currently a consolidated subsidiary)
July 2002	Established Sumitomo Heavy Industries Construction Cranes Co., Ltd. (Former Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.)
December 2007	Established Hitachi Construction Machinery Financial Leasing (China) Co., Ltd. (Former Hitachi Construction Machinery Leasing (China) Co., Ltd.) in China. (Currently a consolidated subsidiary)
April 2008	Established Hitachi Construction Machinery Japan Co., Ltd. (Currently a consolidated subsidiary)
September 2008	Established P.T. HEXA FINANCE INDONESIA.
October 2008	Merged Hitachi Kenki FineTech Co., Ltd. into the Company.
July 2009	Acquired management rights of Shintohoku Metal Co., Ltd. (Currently a consolidated subsidiary)
July 2009	Acquired management rights of Wenco International Mining Systems Ltd. in Canada. (Currently a consolidated subsidiary)
March 2010	Acquired management rights of Tata Hitachi Construction Machinery Co., Pvt., Ltd. in India. (Currently a consolidated subsidiary)
October 2010	Established Hitachi Construction Machinery Africa Pty. Ltd. in South Africa. (Currently a consolidated subsidiary)
March 2011	Established Hitachi Construction Machinery Middle East Corp. FZE in UAE. (Currently a consolidated subsidiary)
April 2011	Established LLC Hitachi Construction Machinery Eurasia in Russia. (Currently a consolidated subsidiary)
December 2011	Hitachi Construction Machinery Tierra Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)

April 2012	Merged Hitachi Kenki Business Frontier Co., Ltd. into the Company.
April 2012	Spun off and transferred the Company’s sales/service business in Japan to Hitachi Construction Machinery Japan Co., Ltd.
October 2012	Merged Tsukuba Tech Co., Ltd. into the Company.
April 2013	Hitachi Kenki Logistics Technology Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)
March 2014	Shintohoku Metal Co., Ltd. became a wholly owned subsidiary. (Currently a consolidated subsidiary)
March 2015	Transferred 70% of shares of P.T. HEXA FINANCE INDONESIA owned by the Company. (Currently an equity-method affiliate)
October 2015	KCM Corporation became a wholly owned subsidiary.
January 2016	Niigata Material Co., Ltd. became a wholly owned subsidiary through an exchange of shares.
April 2016	Spun off and transferred the Company’s wheel loader development/manufacturing business to KCM Corporation.
December 2016	H-E Parts International LLC became a wholly owned subsidiary. (Currently a consolidated subsidiary)
March 2017	Bradken Pty Limited (Former Bradken Limited) became a consolidated subsidiary through takeover offer. (Currently a consolidated subsidiary)
March 2017	Transferred a portion of shares of stock of Sumitomo Heavy Industries Construction Cranes Co., Ltd. held by the Company.
April 2017	Hitachi Construction Machinery Americas Inc. (Former Hitachi Construction Machinery Loaders America Inc.) became a wholly owned subsidiary. (Currently a consolidated subsidiary)
September 2018	Transferred all shares of Niigata Material Co., Ltd.
January 2019	Established Synergy Hire Limited in the U.K. (Currently a consolidated subsidiary)
April 2019	Established Hitachi Construction Machinery Oceania Holdings Pty., Ltd. in Australia. (Currently a consolidated subsidiary)
April 2019	Merged KCM Corporation into the Company.
July 2019	Established Hitachi Construction Machinery (Shanghai) Parts Manufacturing Co., Ltd. in China. (Currently a consolidated subsidiary)
August 2019	Transferred a portion of shares of stock of PEO Construction Machinery Operators Training Center Co., Ltd. (Former Hitachi Construction Machinery Operators Training Center Co., Ltd.) held by the Company. (Currently an equity-method affiliate)
August 2021	Dissolved the joint venture relationship with Deere & Company in North, Central and South America.
January 2022	Concluded a capital alliance agreement with HCJI Holdings, Ltd.
April 2022	Transferred from the First Section of the Tokyo Stock Exchange to the Prime Market due to the restructuring of the market segments of the Tokyo Stock Exchange.
August 2022	Became an equity-method affiliate of HCJI Holdings, Ltd. and Hitachi, Ltd.
November 2022	Started business operations of Hitachi Construction Machinery Distribution (China) Co., Ltd. (Currently a consolidated subsidiary)
December 2022	Transferred all shares of stock of Sumitomo Heavy Industries Construction Cranes Co., Ltd. held by the Company.

3. Description of Business

The consolidated group (hereinafter referred to as the “Group”) consists of the Company, its 79 consolidated subsidiaries and 26 affiliates. There are two reportable segments. The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large-sized hydraulic excavators, and wheel loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide development, production, distribution of parts and service solutions as part of the after-sales services for mining facilities and equipment that are not included in the Construction Machinery Business Segment.

The structure of the Group business is as follows:



4. Information on Subsidiaries and Affiliates

1. Other affiliates

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
HCJI Holdings, Ltd.	Chiyoda-ku, Tokyo	0.01	Shareholding in Hitachi Construction Machinery Co., Ltd.	26.0	The entity has entered into a capital alliance agreement with the Company. One Director of the Company concurrently holds the position of director or officer.
Citrus Investment G.K. (Note 2)	Minato-ku, Tokyo	0.01	Shareholding in HCJI Holdings, Ltd.	26.0 [26.0]	–
ITOCHU Corporation (Note 1) (Note 2)	Kita-ku, Osaka-city, Osaka	253,448	General trading company	26.0 [26.0]	There are transactions with the Company related to joint management of overseas operating companies and sales of products, etc.
Hitachi, Ltd. (Note 1)	Chiyoda-ku, Tokyo	462,818	Manufacture, sales and service of electric machinery, equipment and various products	25.4	The Company also pays brand value royalty.

2. Consolidated subsidiaries

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Hitachi Construction Machinery Tierra Co., Ltd. (Note 3)	Koka-city, Shiga	1,441	Construction Machinery Business	100.0	The entity manufactures and sells some of the Company's construction machinery products, and the Company purchases the products. The Company also lends and borrows money.
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	400	Construction Machinery Business	100.0	The entity manufactures some of the Company's construction machinery products. The Company lends money.
Hitachi Construction Machinery Japan Co., Ltd. (Note 3) (Note 4)	Soka-city, Saitama	5,000	Construction Machinery Business	100.0	The Company sells construction machinery products to the entity. The Company also lends and borrows money and leases land. One Director of the Company concurrently holds the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
LLC Hitachi Construction Machinery Eurasia	Tver, Russia	(Millions of Russian Ruble) 1,740	Construction Machinery Business	100.0	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in Russia-CIS region, and the Company sells products to the entity. One Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery (Europe) N.V. (Note 3)	Oosterhout, The Netherlands	(Thousands of Euro) 70,154	Construction Machinery Business	98.9	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in Europe, and the Company sells the construction machinery products to the entity. Three Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery (China) Co., Ltd. (Note 3)	Hefei, Anhui, China	(Thousands of RMB) 1,500,000	Construction Machinery Business	91.3	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in China, and the Company sells products to the entity. Three Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	Pioneer Walk, Singapore	(Thousands of US Dollars) 39,956	Construction Machinery Business	100.0	The entity organizes sales and services of construction machinery products of the Company in Southeast Asia region, and the Company sells products to the entity. One Director of the Company concurrently holds the position of director or officer.
P.T. Hitachi Construction Machinery Indonesia (Note 2)	Bekasi, Indonesia	(Thousands of US Dollars) 17,200	Construction Machinery Business	82.0 [33.9]	The entity manufactures and sells some of the Company's construction machinery products and parts in the ASEAN region, and the Company provides guarantees in respect of loans. Two Directors of the Company concurrently hold the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Hitachi Construction Machinery Distribution (China) Co., Ltd.	Shanghai, China	(Thousands of RMB) 200,000	Construction Machinery Business	100.0	The entity sells and provides services relating to construction machinery products of the Company in China, and the Company sells parts to the entity. The Company also borrows money. Four Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Financial Leasing (China) Co., Ltd. (Note 3)	Shanghai, China	(Thousands of RMB) 1,103,578	Construction Machinery Business	100.0	The entity leases construction machinery products of the Company in China. One Director of the Company concurrently holds the position of director or officer.
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Bangalore, Karnataka, India	(Millions of Indian Rupees) 1,143	Construction Machinery Business	60.0	The entity manufactures and sells construction machinery products of the Company in India. One Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 29,122	Construction Machinery Business	100.0	The entity organizes sales and service of the construction machinery products of the Company in the Oceania region. One Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery (Australia) Pty., Ltd. (Note 2) (Note 4)	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 22,741	Construction Machinery Business	80.0 [80.0]	The entity sells and provides services relating to construction machinery products of the Company in Australia, and the Company sells parts to the entity. The Company also borrows money. One Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery Americas Inc. (Note 3)	Atlanta, Georgia, U.S.A.	(Thousands of US Dollars) 8,000	Construction Machinery Business	100.0	The entity sells and provides services relating to construction machinery products of the Company in the Americas, and the Company sells parts to the entity. Two Directors of the Company concurrently hold the position of director or officer.
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	–	Solution Business	100.0	The entity provides services related to mining and construction machinery of the Company. Two Directors of the Company concurrently hold the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Bradken Pty Limited (Note 3)	Newcastle, New South Wales, Australia	(Thousands of Australian Dollars) 653,215	Solution Business	100.0	The entity is engaged in a manufacturing business of metal casting parts for mining and infrastructure industries, a business for wear parts in mining, a maintenance service business, and others. One Director of the Company concurrently hold the position of director or officer.
63 other consolidated subsidiaries	–	–	–	–	–
[Equity-method affiliates]					
23 other affiliates	–	–	–	–	–

(*) In the column of principal business activities, the names of the Group's business segments are provided.

(Notes) 1. The entity issues an Annual Securities Report.

2. The percentages in square brackets under "Percentage of voting rights holding [held]" represent indirect ownership out of the total percentage noted above.

3. The entity is a Specified Subsidiary.

4. Revenue of the following subsidiaries (excluding revenue from intercompany transactions within the Group) exceeds 10% of the consolidated revenue.

Major financial information

Hitachi Construction Machinery Japan Co., Ltd.	(Millions of yen)
1) Revenue	207,646
2) Income before income taxes	8,111
3) Net income	6,507
4) Total equity	42,733
5) Total assets	192,353

Hitachi Construction Machinery (Australia) Pty., Ltd.	(Millions of yen)
1) Revenue	154,173
2) Income before income taxes	25,235
3) Net income	15,316
4) Total equity	67,700
5) Total assets	102,476

5. Employees

(1) Consolidated basis

(As of March 31, 2023)

Name of segment	Number of employees
Construction Machinery Business	21,801 (1,975)
Solution Business	3,629 (292)
Total	25,430 (2,267)

(Notes) 1. The number of employees is the number of full-time employees.

2. The numbers in parentheses represent the average number of temporary employees for the year, which is not included in the number of employees.

(2) The Company

(As of March 31, 2023)

Number of employees	Average age	Average length of service	Average annual salary
5,621 (420)	40.1	15.5 years	¥7,412,000

Name of segment	Number of employees
Construction Machinery Business	5,621 (420)
Total	5,621 (420)

(Notes) 1. The number of employees is the number of full-time employees.

2. Average annual salary includes bonuses and extra wages.

3. The numbers in parentheses represent the average number of temporary employees for the year, which is not included in the number of employees.

(3) Description of the labor union

The labor union of the Company, named as Hitachi Construction Machinery Labor Union, belongs to the Hitachi Group Workers Union Federation.

Certain entities within the Hitachi Construction Machinery Group have each labor union that was established independently and belongs to an upper organization of labor union. The relationship between management and the labor union has been stable and smooth.

(4) Ratio of female workers in management positions, male employees who took childcare leave, and wage differences between male and female employees

(i) The Company

Ratio of female workers in management positions (%) (Note 1)	Ratio of male employees who took childcare leave (%) (Note 2)	Wage differences between male and female employees (%) (Note 1)			Supplementary explanation
		All workers	Out of which regular workers	Out of which part-time and fixed-term workers	
2.5	26.2	75	79	72	The percentage of male workers taking childcare leave together with paternity leave (company system) was 71%.

(Notes) 1. Calculated in accordance with the provisions of the “Act on the Promotion of Women’s Active Engagement in Professional Life” (Act No. 64, 2015).

2. Calculation of percentage of employees who took childcare leave, etc. pursuant to Article 71-4, item 1 of the "Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members" (Ordinance of the Ministry of Labor of No. 25 of 1991) based on the provisions of the "Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members" (Act No. 76 of 1991).

(ii) Domestic consolidated subsidiaries

Entity name	Ratio of female workers in management positions (%) (Note 1)	Ratio of male employees who took childcare leave (%) (Note 2)	Wage differences between male and female employees (%) (Note 1)		
			All workers	Out of which regular workers	Out of which part-time and fixed-term workers
Hitachi Construction Machinery Tierra Co., Ltd.	2.8	11.5	82	81	88
Hitachi Construction Machinery Camino Co., Ltd.	0.0	0.0	71	78	65
TadaKiko Co., Ltd.	7.1	0.8	72	74	72
Shintohoku Metal Co., Ltd.	0.0	0.0	117	114	–
Hitachi Kenki Logistics Technology Co., Ltd.	5.7	22.2	74	81	88
Hitachi Construction Machinery Leasing Co., Ltd.	0.0	0.0	53	–	68
Hitachi Construction Machinery Japan Co., Ltd.	0.3	8.0	62	68	74

(Notes) 1. Calculated in accordance with the provisions of the "Act on the Promotion of Women's Active Engagement in Professional Life" (Act No. 64, 2015).

2. Calculation of percentage of employees who took childcare leave, etc. pursuant to Article 71-4, item 1 of the "Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members" (Ordinance of the Ministry of Labor of No. 25 of 1991) based on the provisions of the "Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members" (Act No. 76 of 1991).

II. Business Overview

1. Management Policy, Operating Environment and Issues to be Addressed

Any forward-looking statements in this report are based on the judgment as of March 31, 2023.

(1) Management policy

The corporate vision of the Group is "Ensure a prosperous land and society for the future. We contribute toward realizing a safe and sustainable society." And under our spirit of "Challenge, Customer, and Communication," the Group-wide codes of conduct, all employees of the Group will continue creating new value together with our customers by meeting their expectations and co-creating innovative products, services, and solutions as a "close and reliable partner" to resolve customers' issues.

Through these efforts, the Group will pursue strengthening of business competitiveness and group management capabilities, raise profitability and generate cash while aiming to increase corporate value and further increase shareholder value by creating a sustainable society and achieving business growth with SDGs, ESG, etc., as its management issues.

(2) Formulation of a new medium-term management plan

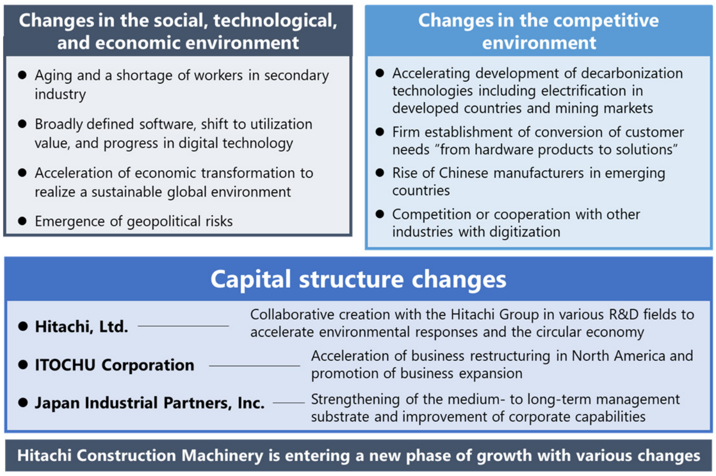
We have formulated a new medium-term management plan (BUILDING THE FUTURE 2025), commencing from FY2023.

Business environment

The competitive environment is rapidly changing as a result of changes in the social, technological, and economic environment that surrounds companies. Competition and collaboration with other industries is increasing, such as accelerated development of decarbonization technologies including electrification, digitalization of construction sites, and automated driving.

In August 2022, the Company's capital structure underwent a significant change. Hitachi, Ltd. transferred approximately half of its shares to HCJI Holdings, Ltd. established by ITOCHU Corporation and Japan Industrial Partners, Inc. resulting in a change in the largest shareholder.

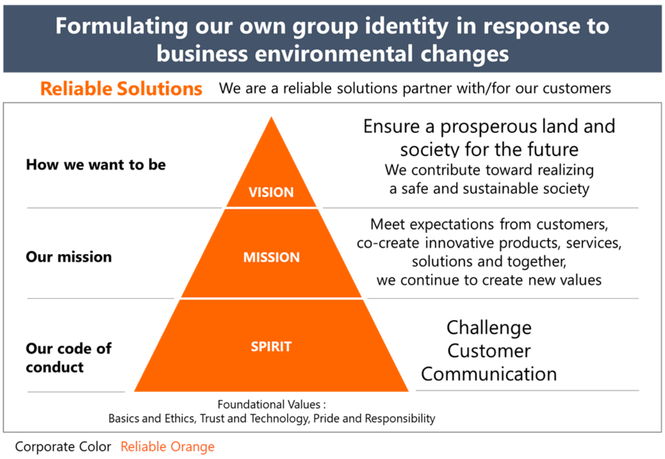
We have undergone a number of changes and are currently in a new phase of growth.



Group identity of Hitachi Construction Machinery

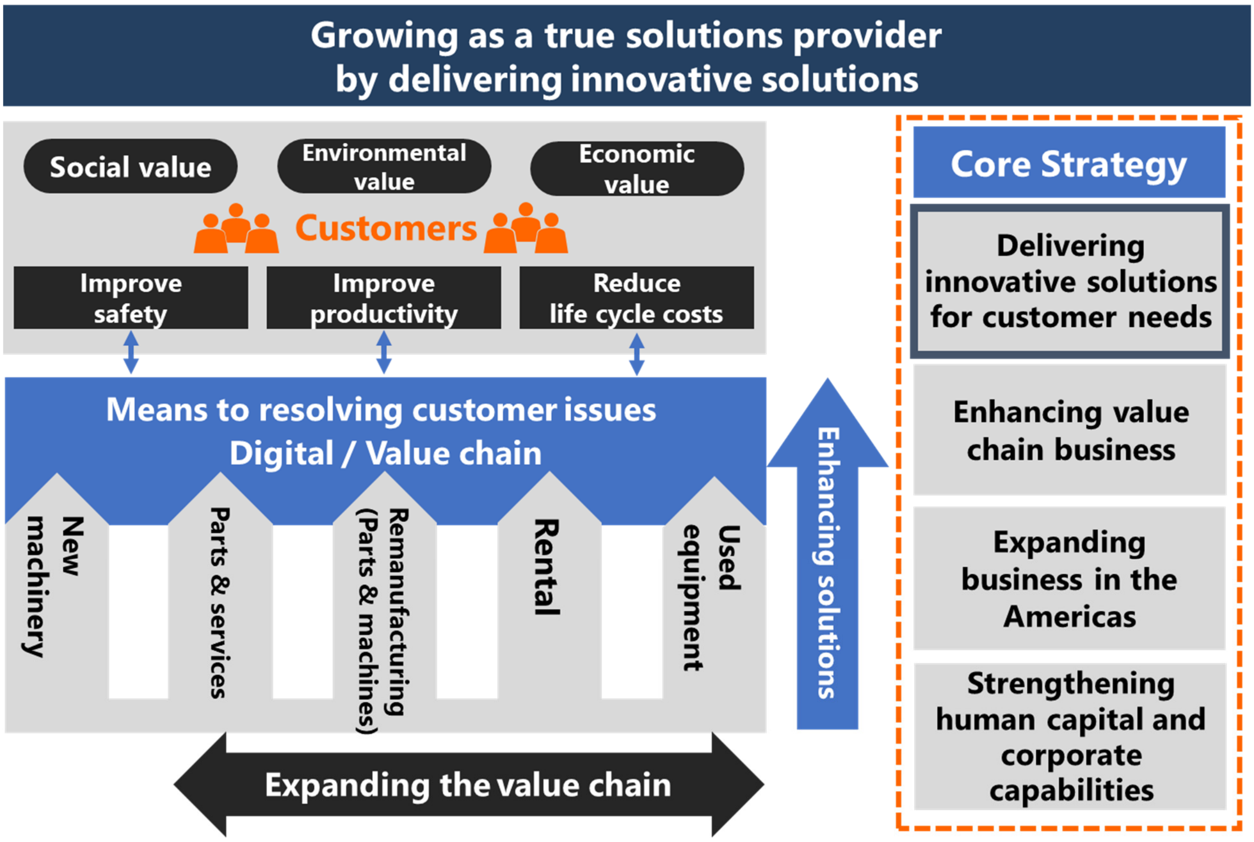
In response to the changes in the business environment, we have formed a unique group identity in 2022.

As stated in our mission in the image on the right, we will collaborate with our customers and collaborative partners to create innovative products, services, and solutions based on our outstanding technologies by promptly responding to customer expectations and challenges. Through this initiative, we will contribute to the realization of a safe and sustainable society by creating new value to connect our vision of "Ensure a prosperous land and society for the future."



Core of corporate strategies in the new medium-term management plan

"Improvement in safety and productivity, reduction in life cycle costs, and environmental response" are one of the business challenges that the customers are concerned with. These are current challenges that will also remain relevant after ten years from now. The solutions to these challenges, however, will be different in ten years from now. The Company will keep offering our customers cutting-edge solutions to deal with these shifting challenges. The Company's mission as defined in our group identity is to "continue creating new value together with our customers by meeting their expectations and co-creating innovative products, services, and solutions."



1) Delivering innovative solutions for customer needs

The first pillar of the new medium-term management plan is "delivering innovative solutions for customer needs."

"Improvement in safety and productivity," and "reduction in life cycle costs, and environmental response" are the challenges that the customers are concerned with and remain unchanged. However, solutions are becoming increasingly sophisticated as technology advances.

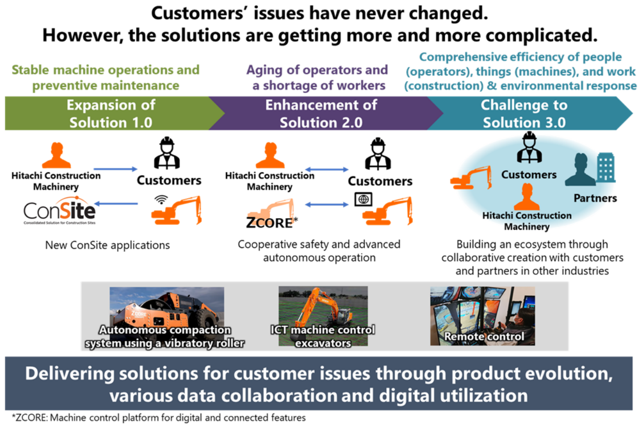
In order to respond to these challenges, the Company believes it is necessary to "link diverse data" and "evolve the products" by utilizing digital technology.

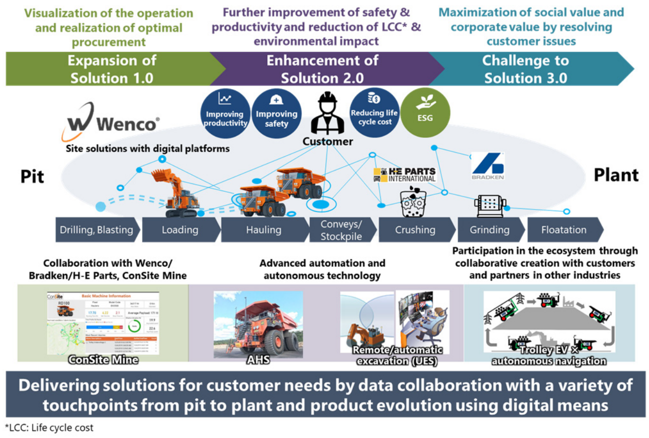
Solution 1.0 is defined as the provision of services using conventional data, and 2.0 is defined as the use of that information to evolve the product.

In the Compact Construction business, while further broadening Solution 1.0, we will continue to evolve our products, such as collaborative safety and advanced autonomous driving of Solution 2.0, to "delivering innovative solutions for customer needs."

With Solution 3.0, which provides added value through collaborative creation with different industries, we are leading the industry in collaborative creation with customers and partners, and will accelerate our efforts to commercialize our products.

In the mining business, we will collaborate with our group and partners in different industries at various touch points in our business area, from mining (Pit) to beneficiation area (Plant). Moreover, by evolving our products, we will strive to realize improvements in productivity and safety, reduction in life cycle costs, and environmental response, which are the challenges that the customers are concerned with.





2) Enhancing value chain business

In the value chain, the revenue-to-sales ratio was 40.6% in FY2022; we aim it to be 50% or more by FY2025.

In the parts and services business, we propose solutions to extend machine life, maximize uptime, and improve work efficiency through our "ConSite" service menu. Moreover, to increase sales in the remanufacturing business, we will strengthen our global production system in North America, Africa, and other regions. Furthermore, remanufacturing of the entire main unit will be fully implemented as a business by leveraging our past accomplishments and deploying our know-how at each of our bases. In the mining business, we will strengthen the mining value chain business from the mining (Pit) to beneficiation area (Plant), including the mineral processing area of Bradken/H-E Parts. In the rental and used equipment business, we plan to expand our rental business overseas, starting in France in FY2023. Moreover, we will offer a diverse set of options for customers by improving the value of used equipment by offering "PREMIUM USED" equipment with warranty.

3) Expanding business in the Americas

The business in the Americas has demonstrated stronger startup and growth potential than anticipated. We strive to stabilize earnings by expanding new vehicle sales and the value chain business, aiming for revenue of more than ¥300 billion in FY 2025 from our own operations alone.

In the compact construction business, we will build our own sales network in Central and South America, following the progress made in North America in FY2022.

In the mining business, we will expand sales of ultra-large hydraulic excavators for construction and quarry sites in North America. For South America, we will work to raise the bar of our service support system. Moreover, we will work to improve our dump truck system in the Americas.

In the value chain business, we will focus on the rental business.

We will expand the rental business through “Rental-To-Rental” of models not typically owned by large agencies and rental companies, as well as by supporting general rental companies of a smaller, regional scale.

4) Strengthening human capital and corporate capabilities

As part of our human capital strategy, we will place the highest priority on three items: people, organization, and culture.

In the “people” category, we provide facilities and opportunities for training domestic and overseas human resources to become active on a global scale.

In the “organization” category, we will deepen the business unit structure introduced in 2022, which integrates design, manufacturing, sales, and service by customer industry and product size, and enhance performance management on a global basis.

In the “culture” category, through the management planning and control system, we will instill a culture of accomplishment and promote human resource policies to execute management strategies and strengthen the management foundation.

With our research and development system, we will transform our corporate culture through agile development.

In terms of profit structure, we will continue to promote total cost reduction activities in all divisions, taking advantage of the ability to determine business efficiency through the business unit structure.

We will reinforce our business structure on a global basis, from research and development to production and supply, and to sales and service.

We will also continue our efforts to improve our profit structure so that we can cope with this drastic change in the business environment.

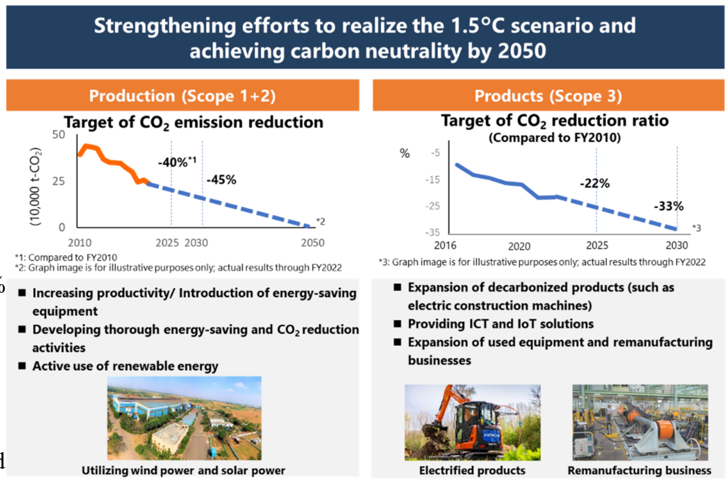
Working toward carbon neutrality

To become carbon neutral across the whole value chain by 2050, the Hitachi Construction Machinery Group is working to reduce CO_2 emissions in both product development and production activities.

With the COP26 agreement, the premise for TCFD scenario analysis has been changed from the previously set “2°C” to an even stricter standard of “1.5°C.” In comparison to FY 2010 levels, Scope 1+2 aim to reduce CO_2 emissions by 40% by 2025 and 45% by 2030, respectively. As a measure, we will reorganize cross-divisional internal task forces and actively introduce in-house power generation and renewable power energy through capital investment to promote reduction of CO_2 emissions.

In Scope 3, we aim for a 22% reduction by 2025 and a 33% reduction by 2030. In addition to reducing CO_2 emissions and fuel consumption across the entire product range from compact to mining, we will work to introduce electric construction machines to market as soon as possible.

Through these efforts, we will advance towards our goal of becoming carbon neutral by 2050.

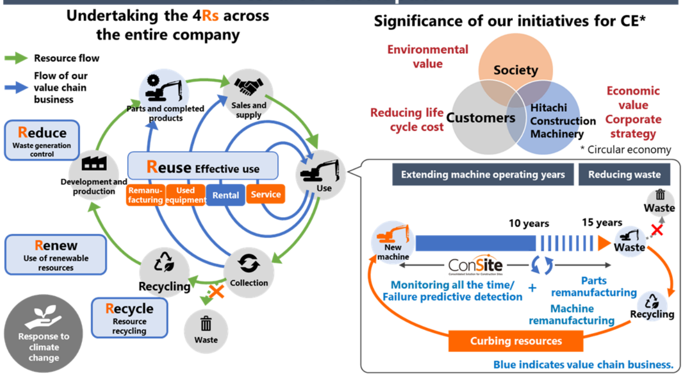


In addition, we aim to become a “recycling-oriented business.”

Through value chain businesses like remanufacturing, used machinery, rentals, and services as part of the 4 Rs (Reduce, Reuse, Renewable, and Recycle) strategy, the entire Hitachi Construction Machinery Group strives to reduce waste from a variety of angles.

In terms of initiatives in the product utilization process, we aim to extend the operating life of the vehicle body from 10 to 15 years by taking advantage of our strengths in ConSite, parts remanufacturing, and body remanufacturing. This contributes to the reduction of waste and curbing resources, ultimately leading to a reduction in CO_2 emissions. With this initiative, we aim to increase customer value, reduce resource consumption, and achieve our vision of a recycling-oriented business by growing our value chain business to 1.5 times the product life cycle.

Expanding value chain business to extend our product life cycle one and a half fold, and then maximizing customer value and minimizing resource consumption



Quantitative targets of the medium-term management plan

As a new goal for profitability, we have introduced an adjusted operating income ratio of 13% or higher and an EBITDA margin of 18% or higher as “an indicator of our ability to generate cash,” which is our earning power in relation to sales.

In terms of efficiency, we have included operating cash flow margin ratio and ROIC as new indicators. By assuming a comparative cost of capital (WACC) level of approximately 7%, setting the investors’ required spread at 2% or more, and setting a ROIC target at 9% or more, we will pursue business development with an eye on operational efficiency of invested capital and improve our return on capital.

Moreover, in order to return profits to shareholders, we aim to maximize shareholder returns by “maintaining a consolidated dividend payout ratio of 30% to 40% on a stable and continuous basis.”

In addition, ESG-related items have been added to goals. In addition to the environmental impact reduction and CO_2 reduction targets mentioned above, we have established diversity, equity, and inclusion indicators to give our diverse human resources worldwide the chance to maximize their abilities and characteristics, thereby increasing our business value.

KPI			Medium-term Management Plan FY2025 targets	Reference FY2022 results
Growth	・Value chain ratio		50% or more	40.6%
	・Own business revenue in the Americas		300.0 billion yen or more	182.0 billion yen
	・R&D/Revenue ratio		3% or more	1.9%
Profitability	・Adjusted operating income ratio		13% or more	10.6%
	・EBITDA margin[*1]		18% or more	14.2%
Safety	・Net D/E ratio		0.40 or less	0.60
Efficiency	・Operating cash flow margin[*1]		10% or more	-2.0%
	・ROE		13% or more	11.0%
	・ROIC[*1*3]		9% or more	8.4%
Shareholder return[*2]	・Consolidated dividend payout ratio		Stable and continuous implementation with a consolidated dividend payout ratio of 30%-40% as a guide	33.3%
ESG	• Reducing environmental impact and CO_2 (total)	Production (Scope 1+2)	-40% vs. FY2010	Scheduled to be published in “Integrated Report 2023”
		Product (Scope 3)	-22% vs. FY2010	
	• Diversity, equity & inclusion	• Localization ratio of GM or higher in overseas group companies[*1]	75%	72%[*4]
		• Ratio of managers by gender (consolidated)[*1]	Women 13% Men 15%	Women 10.4%[*5] Men 14.9%

*1: Newly established indicators in this medium-term management plan
*2: We aim to allocate one-third of operating cash flow to maintenance and strengthening investment, prior investment, and shareholder return & debt payment respectively, based on our fund allocation policy.
*3: The level of capital cost (WACC) to be compared in the ROIC target is recognized at about 7%.
*4: As of August 2022
*5: As of June 2022

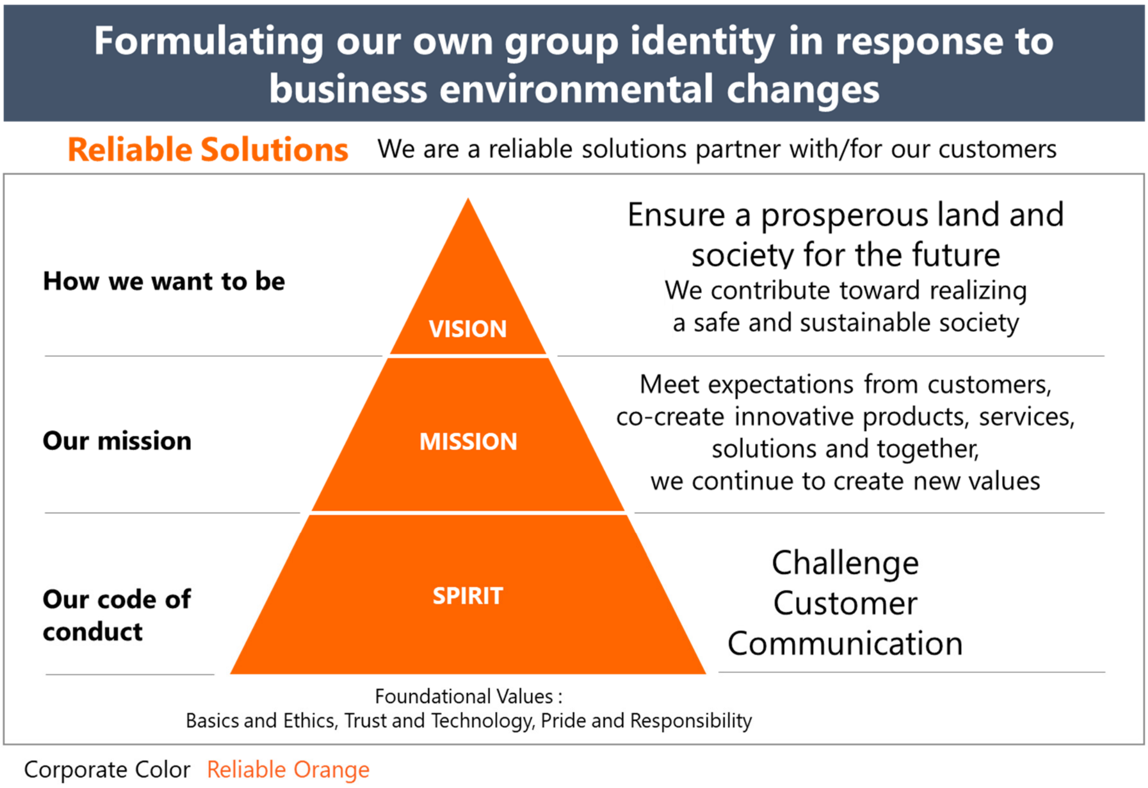
2. Approach to and Initiatives for Sustainability

Any forward-looking statements in this report are based on the judgment as of March 31, 2023.

(1) Introduction

The Hitachi Construction Machinery Group has formulated the "Group identity of Hitachi Construction Machinery," which defines how we want to be, our mission, etc.

Also, we have introduced the perspective of the "Group identity of Hitachi Construction Machinery" to our various initiatives to promote sustainability management.



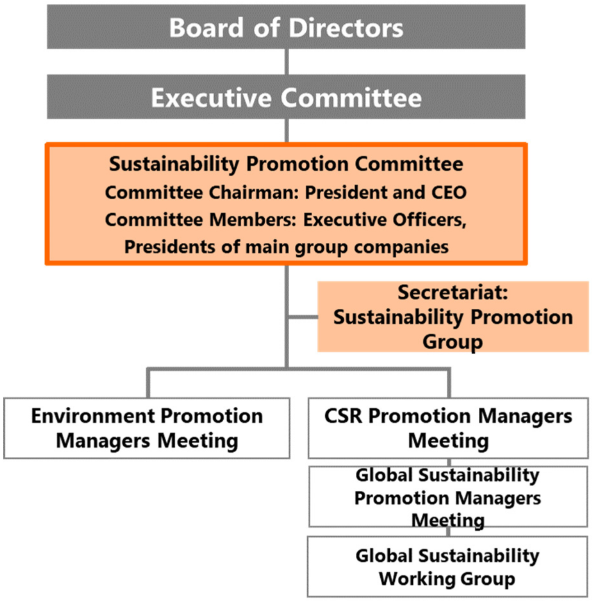
(2) Sustainability basic policy

The Sustainability Basic Policy was created by the Hitachi Construction Machinery Group with the intention of promoting sustainability and aiding in the creation of a sustainable society by putting our materialities (material issues) into practice. With the use of construction machinery, we will support society's sustainable growth while working to increase our company's value. Please refer to our website for details regarding "Sustainability Basic Policy."
https://www.hitachicm.com/global/en/sustainability/management/

* The Hitachi Construction Machinery Group joined the United Nations Global Compact in April 2023.
We will promote the ten principles of the United Nations Global Compact on a group and global basis.

(3) Governance

Important matters related to sustainability are discussed at the CSR Promotion Managers Meeting and the Environment Promotion Managers Meeting. The results of these discussions are then reported to the Sustainability Promotion Committee (held twice a year), which is composed of executive officers and presidents of main group companies. The President and Executive Officer, COO, chairs the Sustainability Promotion Committee, which deliberates and approves important management matters such as climate change and the circular economy. Important matters are deliberated, approved, duly monitored and supervised by the Executive Committee and the Board of Directors. The deliberations and approvals are also shared in the Global Sustainability Promotion Managers Meeting, which consists of overseas Group companies, and the Global Sustainability Working Group, a subordinate entity of the Global Sustainability Promotion Managers Meeting.



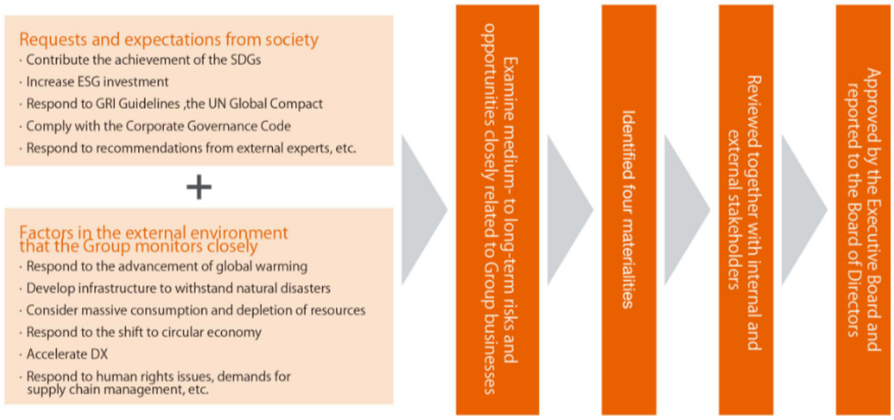
<Governance organization chart>

(4) Strategies

(i) Identifying materialities

Hitachi Construction Machinery Group has updated the materialities in FY2021, taking into account changes in social conditions and policies as well as regulations of various countries. In the identification process, four themes were defined by examining medium- to long-term risks and opportunities from both the perspective of social issues such as the SDGs and ESG and the perspective of the external environment, which can enhance or damage the company's corporate value. Following a series of discussions involving input from internal and external stakeholders, the plan was approved by the Executive Committee in July 2021 and reported to the Board of Directors. KPIs (Key Performance Indicators) are set for each materiality, and progress is managed under the sustainability governance system. The materialities will be reviewed from time to time based on changes in the external environment and other factors.

■ Materiality Identification Process



■ Major risks and opportunities associated with changes in the external environment

External Environment	Risks	Opportunities	Materialities
Respond to the advancement of global warming	· Suspension of operations due to natural disasters · Stricter environmental regulations in each country and region · Changes in industrial structure due to the transition to low-carbon economies	· Increased demand for environmentally conscious products and services · Attracting ESG investment	Development of products and technology contributing to climate change mitigation and adaptation
Develop infrastructure to withstand natural disasters	· Supply chain disruption due to lack of progress in infrastructure development · Market contraction due to decline of local economies	· Increased demand for infrastructure maintenance and upgrades	
Consider massive consumption and depletion of resources	· Damage to corporate value due to delays in implementation of initiatives · Increased costs for introducing resource-conserving machinery	· Expansion into new businesses · Improvement of productivity via AI and IoT	Conversion to recycling-oriented business model
Respond to the shift to circular economy	· Increase in initial investment for conversion · Increased product recovery and processing costs · Increased procurement costs	· Increase in new business opportunities, markets, and demand · Reduction of manufacturing costs	
Accelerate DX	· Expansion of competitors and new entrants	· Expansion of contacts with start-ups leading to deeper strategies	Creating innovative solutions for challenges faced by customers supporting social infrastructure
Respond to human rights issues, demands for supply chain management, etc.	· Loss of public trust due to human rights violations · Loss of trust in business partners	· Gain social credibility through appropriate human rights initiatives	Strengthening global governance

Based on the four materialities, we report on our "Environmental strategy," "Technology strategy," and "Human resources strategy" to address sustainability issues.

(ii) Environmental strategies

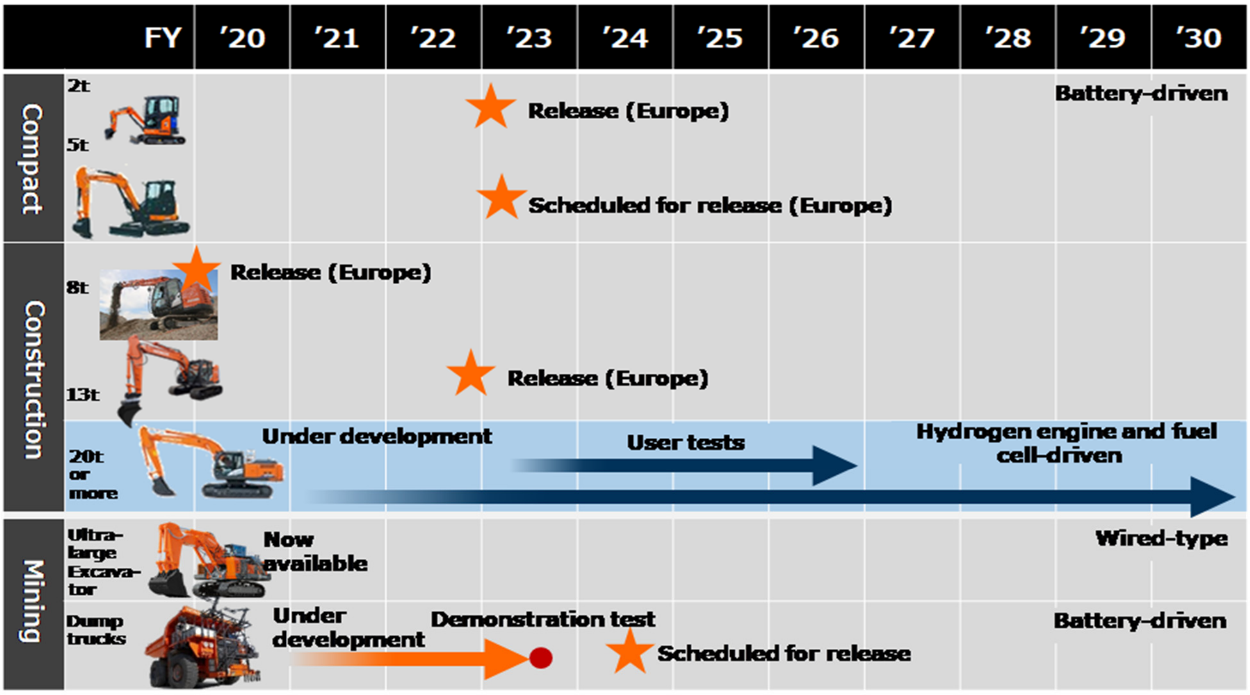
- Toward achieving carbon neutrality -

To achieve carbon neutrality across the whole value chain by 2050, we are working to reduce CO_2 emissions in both product development and production activities.

Looking at CO_2 emissions over the entire life cycle of construction machinery, 90% of emissions are generated during product operation, which is the direct emissions of customers (Scope 1), and lowering these emissions is important for reducing CO_2 emissions over the entire life cycle. As a part of our vision to achieve carbon neutrality, we have set and are promoting a target to reduce CO_2 emissions by 33% compared to FY2010 levels by FY2030 in order to provide customers and society with environmentally conscious products that emit less CO_2.

To achieve this goal, we are developing an entire product range, from compact to ultra-large mining machinery. In addition to reducing fuel consumption, we are making early market introductions of electric construction machines and assessing the technological aspects of hydrogen fuel products. Moreover, we are promoting the provision of solutions that realize CO_2 reduction at the stage of customer usage. In addition, major mining customers have set a goal of achieving net-zero emissions by 2050, and as part of these plans, they have a strong wish to achieve zero emissions for the numerous dump trucks that they own. To meet this demand, we are working with ABB of Switzerland to fully electrify our dump trucks, aiming to achieve net-zero emissions onsite for all our mining customers. We will be able to fully electrify our existing trolley-type dump trucks by switching their engines to batteries, which will enable them to use both trolley power feed and battery power feed. When our EH3500AC-3 rigid dump truck is fully electrically driven, a reduction of 6.8 tons of CO_2 emissions will be achieved based on 20 hour-per-day operation.

Meanwhile, in production processes, we are promoting the reduction of CO_2 emissions in terms of energy conservation, conversion to renewable energy (through in-house power generation achieved through capital investment, and introduction of renewable energy power supply), electrification, and switching to alternative fuels. Concerning energy conservation in particular, we are gaining results in terms of reducing energy costs, reducing the cost of purchasing renewable energy credits, and also reducing the carbon tax that is expected in the future. In addition, we will introduce new capital investment criteria utilizing Internal Carbon Pricing (ICP) and give priority to investment in facilities with a potential for large CO_2 reductions. We will proceed with applying this policy to all domestic and overseas production sites and group companies.



<Expanding environmentally conscious products and accelerating the development through open innovation>

- Response to TCFD recommendations -

In July 2020, we established an internal task force of division heads and key personnel from corporate and business divisions throughout the Group, and in October of the same year, we announced our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In 2022, we have been conducting scenario analyses for 1.5°C and 4°C, as well as assessments of the likelihood of climate change risks and financial impacts. Based on the TCFD Framework*[1], we disclose the risks and opportunities posed by climate change and our corresponding strategies, and strive to strengthen our promotion in line with these recommendations for the purpose of achieving sustainable business development.

In addition, in FY2022, we endorsed the basic policy of the Green Transformation (GX) League led by the Ministry of Economy, Trade and Industry, and have been participating in the GX League*[2] since May 2023.

Points strengthened from before

Scenario			Risks	Opportunities	Strategy	Targets	
1.5 °C scenario: Mitigation	Transition to a decarbonized society	Products, services, and solutions	Changing behavior related to reinforcing decarbonization regulations and to investment financing	Establishment of competitive superiority through advance development of decarbonization technologies	• Expanded investment in research and development • Expansion of decarbonized products (such as electric construction machines) • Increasing the penetration of ICT construction machinery • Providing ICT and IoT solutions • Expansion of used equipment and parts remanufacturing businesses	2050 carbon neutrality	Carrying out strategies to achieve resilient business operations
			Decline in demand for coal	Increasing demand for hard rock mining equipment	• Deployment of decarbonization technologies and new technologies • Expansion of the solutions business		
		Supply chain	Increasing external pressure and loss of reputation regarding the transition to decarbonization	Decarbonization tax shields	• Carrying out thorough energy-saving and CO_2 reduction activities • Active utilization of renewable energy		
4°C scenario: Adaptation	Rapid increase in disasters and abnormal weather	Products and services	Rapid increase in and intensification of natural disasters	Increase in demand for products and services that can contribute to disaster readiness and mitigation	• Providing optimal solutions to meet demand in disaster-affected areas • Conclusion of cooperation agreements for disaster management, contributing to rapid recoveries	Operating businesses that are resistant to disasters and abnormal weather	
		Supply chain	Stop of production due to supply chain stops and logistics disruption	Taking rapid action to construct a stable production system	• Reinforcing risk measures at our company • Optimizing product inventories, and constructing global production and procurement that are resistant to disasters		

*1 TCFD Framework ... Please refer to pages 41-46 in the Group's "Integrated Report 2022" for details on the initiatives of the TCFD recommendations.
*2 GX League ... The Green Transformation (GX) League was launched at the initiative of the Ministry of Economy, Trade and Industry as a forum for collaboration among industry, academia, government, and finance to work toward carbon neutrality by 2050 and to reform the entire economic and social system.

- Transition to a recycling-oriented business -

We aim to do a "recycling-oriented business."

Through value chain businesses like remanufacturing, used machinery, rentals, and services as part of the 4 Rs (Reduce, Reuse, Renewable, and Recycle) strategy, the entire Hitachi Construction Machinery Group strives to reduce waste from a variety of angles.

In terms of initiatives in the product utilization process, we aim to extend the operating life of the vehicle body from 10 to 15 years by taking advantage of our strengths in ConSite, parts remanufacturing, and body remanufacturing. This contributes to the reduction of waste and curbing resources, ultimately leading to a reduction in CO_2 emissions. With this initiative, we aim to maximize customer value, minimize resource consumption, and achieve our vision of a recycling-oriented business by growing our value chain business to 1.5 times the product life cycle.

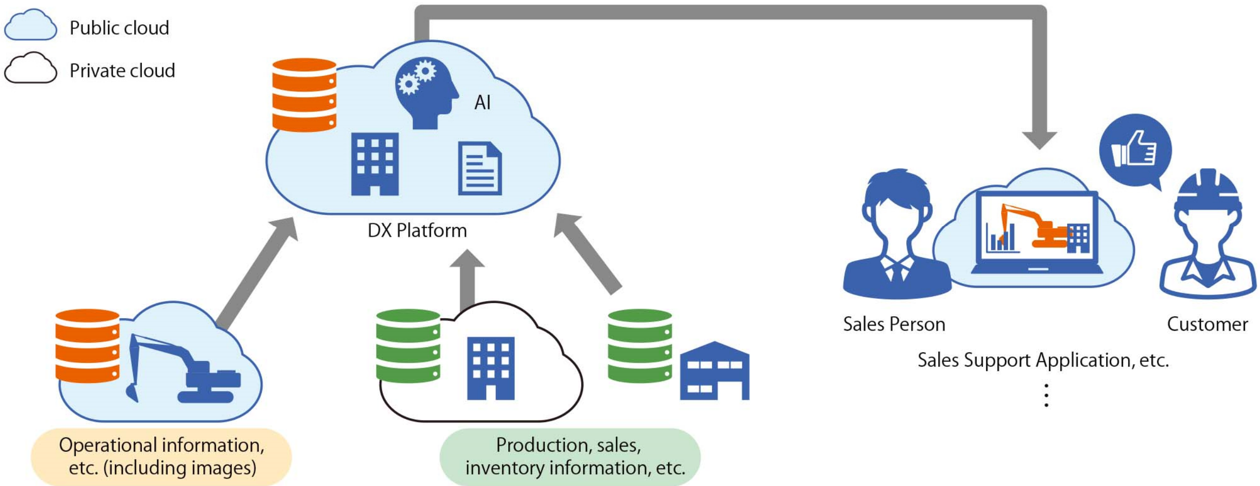
(iii) Technology strategies

- Digital Transformation (DX) promotion -

The Hitachi Construction Machinery Group aims to contribute to solving customers' issues by deepening the value chain and utilizing digital technology. In April 2020, the DX Promotion Group was established as an organization to lead company-wide DX, and it is developing various measures.

In January 2022, in a joint effort with Hitachi, Ltd., we established the "DX Platform," a platform for utilizing data on the operating status of construction machinery, or data related to production, sales and inventory. In the past, systems to utilize these types of data were built separately, but by utilizing the DX Platform, it will be possible to achieve more efficient collection, analysis, and utilization of data. As the first initiative using the DX Platform, we began operating a "Sales Support Application" in Japan in FY2022. The target users of this application are the various personnel (approximately 1,000 personnel at 243 sites nationwide) at Hitachi Construction Machinery Japan Co., Ltd., which operates the sales, parts and service business for construction machinery in Japan. This application offers one place to view such data as the operating status of machinery owned by customers, along with maintenance plans, transaction histories, etc. and the application can instantly display multiple patterns of proposals that AI determines based on related big data. We will utilize this application to create new value.

Overview of Data Utilization Platform "DX Platform" and Sales Support Application



- DX human resource development -

In order to take advantage of the DX Platform, it is necessary to develop human resources who can make full use of these capabilities.

The Hitachi Construction Machinery Group is implementing two programs to further strengthen its digital solutions business and business process reforms.

In the "Digital Basic Training," we broaden the horizons of digital human resources by improving their digital literacy, while in the "Digital Challenge Program," we are working to develop practical skills by taking into consideration the digital skills required for both front-line operations and manufacturing sites so that we can create DX businesses that are centered around customer value. The target number of participants in these programs is 1,000 by FY2023, and we will develop human resources to respond promptly to the increasing demand for digitalization in the future.

(iv) Human resources strategies

- Strategies for human capital -

In its "Second Start-up," the Hitachi Construction Machinery Group will not only expand its existing businesses, but also deepen its growth businesses centered on digital solutions and search for new businesses that will become future pillars of the Group.

Even during such a major transformation phase of the business structure described above, the Hitachi Construction Machinery Group considers its people to be assets and capital, or "human resource," and "human capital" that is indispensable to the company's growth. The name we give to our human assets is "Kenkijin." We believe that now is the time for change, and that it is essential to take a number of actions, such as strengthening training and fostering an organization and culture that is ready for change, so that our Kenkijin can maximize their individuality and strengths. We consider that "human capital management" in the Hitachi Construction Machinery Group is key to our efforts to transform the company and its businesses while creating new value for customers and enhancing corporate value.

We also place particular importance on two thoughts as our basic concept in promoting human capital management.

The first is that "the company and the individual stand on an equal footing." As the foundation of our philosophy, we believe that the relationship between employees and the company is a mutual one of "we choose them and they choose us," and the company aims to create new value and enhance corporate value by supporting the career development and growth of employees.

The second is "win as a team." We emphasize teamwork when taking on the challenges of such new initiatives as deepening growth businesses and exploring new businesses. Especially in solutions services, it is essential to have a team with a unified purpose regardless of section or position, in order for front-line employees to recognize and provide optimal services close to the customer. Therefore, we aim to "win as a team" through the combined efforts of diverse individuals, and we realize this by creating an environment where everyone can demonstrate their individuality and strengths.

(5) Risk management

The external factors affecting business in society are changing on a daily basis. Such factors include advancements in information and communication technology, geopolitical threats, and fluctuating economic conditions. The Hitachi Construction Machinery Group regularly comprehends and assesses such changes to the business environment. We implement risk management based on social issues, our competitive advantage, and management resources, and reflect these risks in management strategies while controlling them. We do this from the standpoint of both risks to be prepared for and opportunities for further growth. In April 2022, an Enterprise Risk Management (ERM) Committee was formed to handle company-wide risk management.

Under the leadership of the Chief Strategy Officer (CSO) and other management members, a system is in place to promptly support overall management and countermeasures when it comes to company-wide response policy based on business operations, risks requiring management decisions, and risks that could shake the very foundations of our global operations. In principle, ERM Committee meetings are held once every fiscal year, and extraordinary meetings are held in response to requests for unexpected company-wide risk responses, or at the request of the chairman, a committee, or a related department. Ethical and legal violations are discussed by the Compliance Management Committee, which raises awareness on preventing recurrence of such violations and implements measures to prevent such recurrence.

In FY2022, we established a Countermeasures Project for the situation in Russia and Ukraine, and quickly made decisions on policies and countermeasures, including those of group companies, to deal with the situation.

<Establishment of ERM Committee>

(6) Indicators and targets

The FY2030 targets for the materialities identified by the Hitachi Construction Machinery Group are as follows:

Materialities and KPIs

Materialities	Key Initiatives	KPIs			FY2021 Results	FY2022 Targets	FY2030 Goals
Development of products and technology contributing to climate change mitigation and adaptation	• Expand the development of decarbonization technologies such as electrification of machinery and hydrogen engines • Develop highly efficient Fleet Management System • Reduce CO_2 across the entire value chain • Introduce renewable energy and systematically invest in high-efficiency facilities • Provide optimal solutions for disaster prevention and mitigation, emergency response, and recovery and reconstruction	CO_2 Reduction	Products (Scope 3)	CO_2 Reduction (total): Compared toFY2010	-21.4%	-20.0%	-33.0%
			Production (Scope 1 + 2)	CO_2 Reduction (total): Compared toFY2010	-27.1%	-25.0%	-45.0%
			Value Chain	Reduce CO_2 via used equipment, parts remanufacturing	19,686t	23,800t	Minimize environmental load across the entire value chain
		Disaster-response, recovery, reconstruction support		Convert to a recycling-oriented business model	114	155	Partnerships and support for major municipalities and industry groups
Convert to a recycling-oriented business model	• Expand parts remanufacturing business that performs on par with new products • Develop branded used equipment that is well-maintained and include warranties • Utilize data to differentiate in high-quality rental equipment	Resource recycling		Waste reduction	7,868t	9,500t	Minimize environmental load across the entire value chain
				Recycling rate (Japan)	83.9%	99.5%	Aiming for 99.5% or higher
				Water usage reduction (intensity): Compared to FY2010	-40.2%	-28.0%	Water reclamation advancements and minimization of impact on communities
		Parts remanufacturing, used equipment business		Expand parts reclamation business sales revenue: Compared to FY2010	402%	420%	Spread the adoption of services that meet local needs
				Expand used equipment business sales revenue: Compared to FY2010	104%	280%	Spread the adoption of products that meet local needs
Create innovative solutions for challenges faced by customers, supporting social infrastructure	• Contribute to cooperative construction machinery, operation support systems, and site safety • Expand machines, systems and solutions that improve construction efficiency • Develop and provide labor-saving machines using unattended and robotized technology • Reduce life cycle costs through stable machine operations	Improve safety		Functions to reduce accidents caused by Hitachi Construction Machinery products	Develop operation support systems that contribute to reduced accidents	Create human-machine cooperative control technology	Contribute to zero overturns and fatal accidents
		Increase productivity		Number of ICT machines adopted at target work sites)	1,160 units (total; 3,704 work sites)	2,800 units (total; 5,000 worksites)	Standardize autonomous and labor-saving construction machinery
		Reducing life cycle costs		Adoption rate of machinery status management systems (ConSite)	72%	90%	Aim for zero downtime
		Research and development system		Research and development cost Ito sales ratio	2.5%	3.0%	3.0% or higher
Strengthen global governance	• Respect human rights • Global occupational safety and health management • Develop diverse human resources locally and globally • Establish fair sales partnerships • Ensure management transparency • Compliance	Respect for Human Rights		Business and Human Rights e-learning course attendance	81.4%	100%	100%
		Occupational Accidents		0 incidents (vs. prior year)	157% (vs. FY2020; Japan)	-50% (vs. FY2021; Japan)	Aim for 0 accidents
		Global Leadership		Leadership training attendance (global)	88% (cumulative)	100% (cumulative)	100% (cumulative)
		Diversity		Ratio of women in managerial positions (global)	10.4% (male 14.9%)	9.4% (male 13.3%)	Aim for gender parity
				Ratio of local managers in general managerial positions at overseas group companies (global)	71%	72%	87%
		Fair procurement		Conduct supplier sustainability survey	66%	Standardize to improve collection rates	Aim for 100% recovery through stable operations
		Eradicate corruption and bribery		Number of violations of corruption and bribery laws -	0	0	0
		Corporate governance		Outside directors, female directors, non-Japanese directors	Outside directors: 4 out of 10 Women, non-Japanese: 2	Outside directors: More than one-third of all directors Women, non-Japanese directors: 2 or more in total	Toward a structure suitable for strengthening business and improving governance

* We plan to disclose various results for FY2022 on the Company's website and in the Integrated Report, etc.

3. 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 Group are affected by a wide range of factors, including market conditions, exchange rates, and finance.

Major business risks that are anticipated to be incurred to the extent foreseeable as of March 31, 2023 are as follows.

	Item	Risks	Countermeasures
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.	To mitigate impact of demand trends and changing market conditions in each region (disasters, laws and regulations, and others), future outlook is obtained from each site every month, and arrangement of production is made in cooperation with production plants based on the latest plan. In stock control, the monthly number of basic stocks is set for each company, and production and supply control looking toward the future is conducted for adequate inventory volume to avoid opportunity loss and excess inventory. If any unexpected, abrupt change occurs, a special sales and production meeting is held, and a measure to promptly facilitate production arrangement is taken with approval of Executive Officer in charge of each operation.
2	Foreign currency exchange rate fluctuations	Foreign currency exchange rate fluctuations affect sales in foreign currencies and procurement cost for raw materials. In addition, such fluctuations also affect the yen equivalent amounts in financial statements of overseas consolidated subsidiaries for consolidated accounts. Generally, if the yen gets stronger against foreign currencies, financial position and operating results are affected negatively.	To mitigate these foreign currency exchange risks, the Group conducts local production and enters into forward exchange contracts. Despite these activities, however, exchange rate fluctuations may adversely affect financial position and operating results.
3	Fluctuation in financial markets	The Group has interest-bearing debt, and an increase in market interest rates has the risk of increasing interest expense and reducing profits. As for pension assets, fluctuations in the fair value of marketable securities and interest rates could have an adverse impact on financial position and operating results.	To respond to these financial market fluctuations, the Group uses fixed-rate funding to mitigate the impact of interest rate fluctuation risk. In addition, for pension assets, the Group always monitors investment performance, aiming for safe and stable asset management.
4	Production and procurement	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 respond to rising material costs by reducing costs through VEC activities, and are also striving to reduce costs in production by enhancing productivity through automation and utilization of digital technologies. In addition to this, we will respond to rising material costs by striving to ensure appropriate sales prices in line with the increase in manufacturing costs. Moreover, at the time of shortages of parts and materials, we will avoid impact on production by switching to substituting goods.
5	Credit management	Construction machinery, which is the main product of the Group, is engaged in sales finance, such as installment sales and finance leases. There is a risk that the deterioration of the customer's financial position may cause a loan loss, which may affect earnings.	We manage receivables by establishing a specialized department and thoroughly ensure credit management and management of receivables in arrears to avoid extreme concentration of receivables.

	Item	Risks	Countermeasures
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, 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 are applied. Strengthening or changing these regulations may have an impact on earnings due to increased costs and taxes paid.	The legal department researches each country's laws and regulations and effects on the Group's business and products in cooperation with each department for intellectual property, environment, etc. and each group company's legal department. The Group has in place the system where if any effect is detected, the information is provided to necessary departments to take measures.
7	Environmental regulations and climate changes	Construction machinery handled by the 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 requirements, it is necessary to invest in the development, and in organizing systems for service, sales, production and procurement. There is a risk that this will have a financial impact on management.	Recognizing that environmentally conscious business management is a challenge to be addressed by the Group proactively, the Group strives to equalize financial impact by formulating a medium- to long-term plan for securing up-front research and resources (securing human resources, introducing facilities, etc.) aimed at developing more advanced environmental technologies and by introducing TCFD risk assessment and management process.
8	Product liability	In the unlikely event of an unexpected defect in a product, the Group may face product liability or other obligations, and there is a risk of reducing profits.	The Group strives to maintain and improve quality and reliability in its businesses and products based on strict internal standards. In case of an accident, sufficient insurance has been taken to mitigate financial impact caused by expenses incurred and exposure to liability.
9	Alliances and collaborative relationships	In order to strengthen its international competitiveness, the Group works with distributors, suppliers, companies in same business area, 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 as a result of conflict, dispute, etc., there is a risk of impacting the Group's business results.	The Group has in place the system and standards to make decisions thoroughly after prior research and detailed checking of contract conditions, etc. in building a partnership or cooperative relationship. The Group has in place the system where if a problem or the need for dissolution, etc. arises in a partnership or cooperative relationship, the legal department and relevant departments cooperate to take measures to diminish effects on operating results as much as possible.
10	International trade regulations	Security trade control laws and ordinances as well as international regulations apply to domestic and overseas transactions. Changes in laws and ordinances and international regulations applicable to the products, customers, applications, etc., of the Group could result in the inability to continue transactions and could have an impact on the Group's business performance.	For domestic and overseas transactions, the Group carefully assesses laws and ordinances as well as international regulations applicable to the products, customers, applications, etc., of the Group. The Group has established a system for ensuring legal compliance and risk management by constantly collecting information on changes in laws, ordinances, and international regulations and communicating information to the Group.

	Item	Risks	Countermeasures
11	Information security	The Group is exposed to customer information and personal information in its business activities, and possesses confidential business and technical information. 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. In addition, the Group has established bases in many countries for development, production, sales, etc., and is developing its business globally through these bases and networks. There is a risk of damage, etc., from cyberattacks, which have been on the rise in recent years.	We have established a management system and rules for handling and confidentiality of such information, and have taken appropriate safety measures such as implementing reasonable technical measures to protect such information from unauthorized access, tampering, destruction, leakage, and loss. In addition, in order to improve resilience to cyberattacks, the Group has been promoting the robustness of servers and has put in place measures to segregate factory networks, as well as formulating a business continuity plan for information security (IT-BCP).
12	Intellectual property	If a product or service offered by the Group violates a third party's intellectual property right (such as patent) there is a risk of the third party instituting legal action against the Group. In addition, if a third party's technical information is obtained or used illegally, there is a risk of the third party instituting legal action against the Group.	Under the policy of respecting intellectual property rights of third parties, the Group has set up a department specialized in intellectual property, monitors third parties' intellectual property rights, and take measures not to infringe intellectual property rights of third parties. Furthermore, the Group has in place the system where in obtaining and using technical information of third parties, prior examination and appropriate management after the acquisition are carried out thoroughly.
13	Natural and man-made disasters	The 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. Uncertainty over the impact on economic activities of the current situation in Russia and Ukraine may pose a risk of affecting the Company's business activities.	The Group has in place the system where if any possibility that procurement of materials and parts, production activities, and sales and service activities may be affected by a disaster, etc. is detected in advance, delay and interruption are minimized in cooperation with each group company and business partners. Regarding the situation in Russia and Ukraine, the Group constantly obtains the latest information and takes measures to ensure the safety of its employees as a top priority while taking steps to ensure the smooth continuation of the business activities of the Company in accordance with the policies and regulations of respective countries.

4. Management Analysis of Financial Condition, Results of Operations and Cash Flows

1. Summary of Results of Operations

(1) Business results

1) Revenue

Revenue for the fiscal year under review amounted to ¥1,279,468 million, a 24.8% increase from the previous fiscal year.

2) Cost of sales, selling, general and administrative expenses

Cost of sales for the fiscal year under review was ¥901,520 million, a 21% increase from the previous fiscal year. The ratio of cost of sales to revenue decreased by 2.2 percentage points to 70.5%.

Selling, general and administrative expenses were ¥242,247 million, a 29.9% increase from the previous fiscal year.

3) Operating income

Operating income increased by 25.1% from the previous fiscal year to ¥133,310 million. The ratio of operating income to revenue was 10.4%, which was unchanged from the previous fiscal year.

4) Financial income and financial expenses

Financial income and expenses were a net loss of ¥15,112 million for the fiscal year under review, an increase in loss of ¥13,167 million from the net loss of ¥1,945 million recorded in the previous fiscal year. This was mainly because foreign exchange losses increased by ¥9,366 million, from ¥1,382 million in the previous fiscal year to ¥10,748 million in the fiscal year under review.

5) Income before income taxes

Income before income taxes was ¥112,661 million, a 1.6% increase from the previous fiscal year.

6) Income tax expense

Income tax expense for the current fiscal year amounted to ¥36,939 million, a 19.1% increase from the previous fiscal year.

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year totaled ¥111,992 million, an increase of ¥17,735 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

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

Net cash provided by operating activities for the fiscal year based on ¥75,722 million in net income ¥55,022 million in depreciation and included a ¥15,477 million increase in trade payables, while a ¥31,391 million increase in trade receivables and contract assets, a ¥75,384 million increase in inventories, a ¥53,479 million payments for performance of guarantee obligation and a ¥37,236 million income tax paid as cash outflow. As a result, net cash provided by operating activities for the fiscal year totaled to an outflow of ¥26,135 million, a decrease inflow of ¥65,452 million year on year.

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

Net cash used in investing activities for the fiscal year amounted to ¥42,647 million, an increase in the amount of cash outflow by ¥35,793 million year on year. This was mainly due to an outlay of ¥52,839 million for capital expenditures and ¥6,301 million for acquisition of intangible assets.

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

Net cash provided by financing activities for the fiscal year amounted to ¥87,089 million. This was mainly due to a ¥135,589 million increase in short-term borrowings, which was partly offset by ¥33,766 million in dividends paid (including dividends paid to non-controlling interests) and ¥19,022 million in payments for acquisition of shares of subsidiaries from non-controlling interests. As a result, cash for financing activities for the fiscal year produced an increased inflow of ¥ 112,704 million year on year.

(3) Production, orders received and sales

1) Production results

The production results for the fiscal year under review were as follows.

Segment name	Production output (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	1,241,064	125
Solution Business	–	–
Total	1,241,064	125

(Notes) 1. Amounts above are based on selling prices.

2. Businesses in the Solution Business Segment primarily intend to provide development, production, distribution of parts and service solutions as part of the after-sales services for mining facilities and equipment. The information has been omitted as it does not fit with provision of production results by the nature of the businesses.

3. During the fiscal year under review, there were significant changes in production results. For details, please refer to "II. Business Overview 4. Management Analysis of Financial Condition, Results of Operations and Cash Flows, 2. Analysis of Financial Condition, Results of Operations and Cash Flows, (2) Analysis of operating results for the fiscal year under review."

2) Orders received

Information on orders received is omitted since most of the products of the Group are manufactured based on sales estimations.

3) Sales results

Sales results for the fiscal year under review were as follows.

Segment name	Sales (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	1,154,103	124
Solution Business	125,365	138
Total	1,279,468	125

(Note) There are no customers with sales exceeding 10% of the total sales.

2. Analysis of Financial Condition, Results of Operations and Cash Flows

(1) Significant accounting policies and estimates

In preparing the consolidated financial statements, the Management has made a number of estimates that could affect the financial condition amounts and results of operations based on various factors that are considered to be reasonable based on past performance and circumstances. In particular, the following significant accounting policies may have material effects on estimates in the preparation of the consolidated financial statements of the Company.

Any forward-looking statements in this report are based on the judgment as of March 31, 2023.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2023. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

1) Inventories

Inventories of the Group are valued at the lower of cost or net realizable value, and write-downs may be required if actual future demand or market conditions deteriorate.

2) Property, plant and equipment and intangible assets

The Group determines any indications of impairment with respect to property, plant and equipment and intangible assets, and conducts an impairment test when there are indications that the carrying value is not recoverable. If the recoverable amount declines due to deterioration of earnings or cash flows from future operating activities, a recognition of additional impairment loss may be required.

Also, goodwill and intangible assets with indefinite lives are tested for impairment annually, generally in the fourth quarter, regardless of any indications of impairment by estimating the recoverable amount of each cash-generating unit to which such assets are allocated. In case of a decline in the excess earning power of a consolidated subsidiary with goodwill, a recognition of additional impairment loss may be required.

3) Trade receivables and other financial assets

Impairment loss on financial assets may be recognized when there is objective evidence of impairment after initial recognition and when the estimated future cash flows from the financial asset fall below their respective carrying amounts.

In addition, impairment losses on trade receivables are recorded based on future recoverable amounts calculated with consideration of potential risks associated with the business environment including specific business practices of the country or region in which the business is carried out. When there are expected losses that have not been reflected in the current carrying amount, or when the carrying amount is not recoverable due to deterioration in future market conditions or performance of customers, an impairment loss may be recognized.

4) Deferred tax assets

Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized. Additional write-down of deferred tax assets may be required if earnings and taxable income fall below projections in the future.

5) Retirement and severance benefits

The Group measures defined benefit obligations and plan assets under retirement benefit plans based on the actuarial assumptions. These actuarial assumptions include a discount rate, a rate of increase in salary, retirement rate and mortality rate, etc. If the actual results differ from such assumptions or if the assumptions are changed in the future, there may be effects on retirement and severance benefits, retirement benefit costs, and remeasurements of retirement benefit obligations.

The viewpoint for the impact of the Russia-Ukraine conflict in making accounting estimates is as follows:

Impact of the Russia-Ukraine conflict

The consolidated statement of financial position as of March 31, 2023 includes components of the non-consolidated statement of financial position of LLC Hitachi Construction Machinery Eurasia (hereinafter referred to as "HCMR"), which is a consolidated subsidiary of the Company located in Russia.

Main items in HCMR's non-consolidated statement of financial position include trade receivables from sales agents of ¥7,705 million and inventories of ¥7,121 million. Although an allowance for doubtful receivables on trade receivables has been recorded by estimating their lifetime expected credit losses, such estimate is based on an assumption that the most recent conditions will be maintained over the collection period, in light of the financial conditions of sales agents, circumstances of industries to which their clients belong, recent status of collections, and other factors. While inventories have also been evaluated upon taking into account future sales plans based on orders received.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2023. However, the impact of the Russia-Ukraine conflict on economic activities contains uncertainties. If the actual progress of economic activities and other developments differ from the estimates, accounting estimates in and after the next fiscal year may be affected, posing a risk of significant changes to the evaluations on allowance for doubtful receivables and inventories.

(2) Analysis of operating results for the fiscal year under review

Any forward-looking statements in this report are based on the judgment as of March 31, 2023.

In our three-year medium-term management plan "Realizing Tomorrow's Opportunities 2022," which ends in the fiscal year ended March 31, 2023, the Consolidated Group strives for sustainable growth and improvement of corporate value based on the four corporate strategies of 1) strengthen the value chain business, 2) provide enhanced solutions at every point of contact with customers, and 3) form a highly flexible corporate structure, as well as newly added 4) implement strategy in all regions of North, Central and South America.

During the fiscal year under review (April 1, 2022 to March 31, 2023), demand for hydraulic excavators remained strong year-on-year in major regions other than China. Demand was particularly strong in the developed countries. In the mining machinery, demand for or overhauls due to strong investment motivation from customers against the backdrop of high resource prices and high operating rates, and demand for regular maintenance, etc. continued, and the overall global market, excluding Russia, remains strong.

Under such circumstances, revenue increased significantly year-on-year in sales of new construction mining products and parts service business in the Americas, where full-scale independent development began in March 2022, and the efforts we have been focusing resulted in record revenues in the mining business and value chain business.

In addition to the above, affected by exchange rates and other factors, overall revenue increased significantly to a record high of ¥1,279,468 million (up 24.8% of the previous year's level).

As for the consolidated income items, the adjusted operating income (a performance indicator, calculated by subtracting the sum of cost of sales and selling, general and administrative expenses from revenue) increased significantly to a record high of ¥135,701 million (up 45.1% of the previous year's level) as the Company proceeded to price pass-on the costs of products and parts to the selling prices of products and parts in major regions, due to increase in revenue and the impact of foreign exchange rates, despite the impact of an increase in costs, mainly steel prices and logistics costs. Net income attributable to owners of the parent amounted to ¥70,175 million (down 7.5% of the previous year's level) due to temporary losses due to revisions to realize a sustainable pension system, impairment losses on investments accounted for using the equity method. Furthermore, when compared to the previous fiscal year, the fourth quarter was affected by a gain on transfer of shares in an equity-method affiliate following the dissolution of a joint venture with Deere & Company.

1) Construction Machinery Business

During the fiscal year under review (April 1, 2022 to March 31, 2023), the revenue amounted to ¥1,154,136 million (up 23.6% of the previous year's level) and adjusted operating income was ¥123,954 million (up 44.2% of the previous year's level).

The impact on business due to delays in procurement and logistics that occurred in the first quarter improved significantly since the second quarter, and business in the Americas, which started full-fledged independent development, got off to a better start than expected. Sales of new vehicles for construction mining as well as the value chain business centered around parts service performed well, resulting in significant year-on-year growth.

2) Solution Business

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

During the fiscal year under review (April 1, 2022 to March 31, 2023), revenue was ¥131,164 million (up 38.3% of the previous year's level) due to the strong performance of the mining market environment and adjusted operating income increased significantly to ¥11,747 million (up 55.0% of the previous year's level) due to the increase in revenue and effects of exchange rates.

(Note) The segment name "Solutions Business" was changed to "Specialized Parts and Services Business" from April 2023. There will be no impact on segment information due to the change in segment name.

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

The status of achievement and progress in the medium-term management plan for three years starting from April 2020, which was formulated to promote the establishment of corporate structure with high adaptability to changes and the reaping of fruit of the growth strategy, is as follows:

Indicators	Targets for the fiscal year ended March 31, 2023	Results for the fiscal year ended March 31, 2023	Year-on-year change
Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 10%	10.6%	Up 1.5% pts
Efficiency	Aim to achieve ROE of over 10%	11.0%	Down 2.5% pts
Net D/E ratio	Aim to achieve 0.5 or less	0.60	Up 0.18
Shareholder return	Aim to achieve consolidated dividend payout ratio of 30% or more	33.3%	Up 2.4% pts

(Note) The assumed foreign exchange rates for the targets of the fiscal year ended March 31, 2023 are ¥130 for one US dollar, ¥130 for one Euro, ¥18.1 for one Chinese yuan, and ¥84 for one Australian dollar.

(3) Factors that have material effects on operating results

Please refer to 3. "Business Risks" for factors that have material effects on the operating results of the Group as well as effects of changes in political and economic environments in Japan and abroad and changes in demands.

(4) Analysis of financial condition

[Assets]

Current assets amounted to ¥908,905 million, an increase of 18.9%, or ¥144,550 million, from the previous fiscal year-end. This was mainly due to an increase of ¥82,515 million in inventories and ¥39,648 million in trade receivables.

Non-current assets amounted to ¥718,098 million, an increase of 11.3%, or ¥72,893 million, from the previous fiscal year-end. This was mainly due to an increase of ¥52,941 million in other financial assets and ¥32,913 million in property, plant and equipment.

As a result, total assets increased by 15.4%, or ¥217,443 million, from the previous fiscal year-end to ¥1,627,003 million.

[Liabilities]

Current liabilities amounted to ¥614,870 million, an increase of 35.0%, or ¥159,565 million, from the previous fiscal year-end. This was mainly due to an increase of ¥136,607 million in bonds and borrowings and ¥21,193 million in trade and other payables.

Non-current liabilities amounted to ¥311,093 million, an increase of 8.7%, or ¥24,769 million, from the previous fiscal year-end. This was mainly due to an increase of ¥17,753 million in bonds and borrowings.

As a result, total liabilities increased by 24.9%, or ¥184,334 million, from the previous fiscal year-end to ¥925,963 million.

[Equity]

Total equity increased by 5.0%, or ¥ 33,109 million, from the previous fiscal year-end to ¥701,040 million. This was mainly due to an accumulation of retained earnings.

(5) Details of analysis and examination of cash flows, and information related to capital resources and liquidity

1) Cash flows

Please refer to (2) "Cash flows" of 1. "Summary of Results of Operations," for details of analysis and examination of cash flows.

2) Capital resources and liquidity

To implement growth investment, and improvement of financial soundness and shareholder return in an optimal balance, the Group strives to maintain an adequate level of liquidity while increasing capital efficiency, and diversify financing instruments.

In fundraising, the Group obtains loans from financial institutions and issues corporate bonds in consideration of the balance of long-term and short-term, and direct and indirect borrowings, and works to diversify financing instruments through liquidation of receivables and other means. In addition, the Group tries to secure an adequate level of liquidity by concluding commitment line agreements.

5. Important Business Contracts, etc.

(1) Business alliance contracts

Name of contracting party	Name of counterparty	Country	Items under contract	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	KUBOTA Corporation	Japan	Mini excavator	OEM purchase	From April 19, 1995 to May 16, 2005 and it is automatically renewed for next two years
Hitachi Construction Machinery Co., Ltd.	Bell Equipment Limited	South Africa	Articulated dump truck sugarcane forest trimmer	OEM purchase	Five years from September 5, 2000 and it is automatically renewed for next one year
Hitachi Construction Machinery Co., Ltd.	Deere & Company	The United States	Hydraulic excavators and associated parts	OEM supply	Five years from March 1, 2022, extendable upon request of the counterparty.

(2) Technical collaboration contracts

Name of contracting party	Name of counterparty	Country	Items under contract	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	Nakayama Iron Works, Ltd.	Japan	Crawler-mounted crusher	1. Joint development 2. Complementary supply of parts	1. Two years from September 1, 1993 and it is automatically renewed for next one year 2. From July 25, 1995 to December 1, 1995 and it is automatically renewed for next one year

(3) Stock transfer agreements

Name of contracting party	Name of counterparty	Country	Nature of the contract	Date of stock transfer
Hitachi Construction Machinery Co., Ltd.	Sumitomo Heavy Industries, Ltd.	Japan	Sold all shares of stock of Sumitomo Heavy Industries Construction Cranes Co., Ltd. held by the Company and terminated joint venture agreement.	December 31, 2022

(4) Other contract

Name of contracting party	Name of counterparty	Country	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	Hitachi, Ltd.	Japan	Transition service agreement	In principle, one year from August 23, 2022
Hitachi Construction Machinery Co., Ltd.	Hitachi, Ltd.	Japan	Licensing on the use of Hitachi brand	Until the last day of the month containing the day on which one year has elapsed since August 23, 2022
Hitachi Construction Machinery Co., Ltd.	HCJI Holdings, Ltd.	Japan	Capital alliance agreement	Indefinite periods from January 14, 2022

(Note) The license agreement with Hitachi, Ltd. for the use of Hitachi brand, which was effective from April 1, 2015, was terminated during the second quarter of the fiscal year under review due to a new license agreement for the same brand concluded with the counterparty.

6. Research and Development Activities

The Group actively promotes development of new technologies and products for the purpose of creating newly added value and improving quality and reliability. Mainly led by the Advanced Development Center of the Research & Development Group, the Research & Development, Production & Procurement and Corporate Quality Assurance Groups, and research and development staff of group companies pursue research and development activities in close cooperation. In addition, consignment research and collaborative research with Hitachi, Ltd. and universities in Japan and abroad are conducted to acquire a broad range of advanced technologies, and at the same time, the Group promotes development of human resources with expertise in advanced technologies through these research activities.

Research and development expenditures for the fiscal year under review totaled ¥24,443 million.

Research and development activities by segment are as follows:

(1) Construction Machinery Business

In addition to mainstay products such as hydraulic excavators and ultra-large-sized excavators, technologies to support anticipated emission regulations are being developed for mini excavators and wheel loaders, etc., and products that are clean energy-friendly and energy conservation-friendly are being developed, with the keyword "Low-carbon." We have been developing medium-sized hydraulic excavators, wheel loaders and road machinery that conform to Japan's standards for exhaust emissions (the Off-road Act).

In April 2022, the Company started sales of Ultra Small Swing Tail ICT hydraulic excavator ZX135USX-7 in Japan. We are strengthening the lineup of ICT hydraulic excavators with the new ZAXIS-7 series of hydraulic excavators, and by taking advantage of the features of the 13-ton class Ultra Small Swing Tail models, we will be able to propose optimal products that suit our customers' sites, including urban civil engineering such as construction foundations and residential land development.

In April 2022, sales of four models of medium-sized hydraulic excavators, ZX120-7, ZX135US-7, ZX200-7, and ZX330-7, as the new hydraulic excavators ZAXIS-7 series, which meet the 2014 standards of the "Act on Regulations for Emissions from Non-Road Vehicles (Off-road Act)" were started in Japan. The ZX120-7 and ZX135US-7 use a urea water-free engine, proven in automobiles and the ZH120-6 hybrid hydraulic excavator, eliminating the need to manage and replenish urea water and helping customers reduce life cycle costs. The ZX200-7 and ZX330-7 are equipped with the latest hydraulic system "TRIAS III," which achieves low fuel consumption and high workability through optimal hydraulic control according to the work load and operator's operating volume. All models feature a newly designed operator's seat (cab) with expanded spaciousness, and improved layout of the lock lever, multi-monitor, and various switches to enhance operator comfort and operability. In addition, "AERIAL ANGLE®," an ambient visibility device that allows the operator to check overhead images of the excavator's surroundings on a monitor inside the cab, is installed as standard equipment, contributing to improved safety.

In June 2022, we began selling the ZX55U-6EB battery-powered mini excavator to the European market to meet the growing demand for electrification. There are increasing expectations for electric construction machines that does not emit carbon dioxide and other emissions during operation, and by expanding our product lineup to meet these needs, we will contribute to the realization of zero-emission construction sites.

In June 2022, sales of the ZC120S-6 earthmoving vibratory roller that complies with the 2014 standards of the "Act on Regulations for Emissions from Non-Road Vehicles (Off-road Act)" were started in Japan. This product is expected to be used for compaction of roadbeds, which are the foundation of roads and painting, and for large-scale infrastructure development such as dams, airports, harbors, and residential land development, as well as for disaster mitigation and disaster prevention in efforts to strengthen the land around the country.

In July 2022, the ZX225USR-7 and the ZX225US-7 Ultra Small Swing Tail ICT hydraulic excavators were launched in Japan. By taking advantage of the features of the Ultra Small Swing Tail models, we will be able to propose optimal products that suit our customers' sites, including urban civil engineering such as construction foundations and residential land development. The ZX225USR-7 and ZX225US-7 are equipped with the latest hydraulic system "TRIAS III," which achieves high operability through optimal hydraulic control according to the work load and operator's operating volume.

In February 2023, sales of the ZX135USOS-7 a 13-ton class Ultra Small Swing Tail hydraulic excavator with offset boom 1 specification that complies with the 2014 standards of the "Act on Regulations for Emissions from Non-Road Vehicles (Off-road Act)" were started in Japan. This product is equipped with the latest hydraulic system "HIOS V" that realizes reduced fuel consumption and high workability, a feature of the ZAXIS-7 series of hydraulic excavators, and uses an engine that does not require urea water. A new feature is the "blade front range limit function" that stops the bucket before it contacts the blade. In addition, the "Auto Martino System," a function that automatically avoids contact between the bucket and the cab, "Area Control (Front Range Restriction System)," which pre-sets the front moving range, and a system that displays the bucket position on a monitor in the cab are also installed. In addition, the wide excavation area makes it versatile, allowing it to be used at a variety of sites.

The Company will promote collaboration through open innovation with various business partners. As a close and reliable partner, the Company will create and provide "Reliable Solutions," which are solutions to resolve social challenges, in collaboration with customers, and work to generate environmental value and corporate value.

For the Construction Machinery Business, research and development expenditures for the fiscal year under review totaled ¥23,978 million.

Major achievements in the fiscal year under review are as follows:

ZX135USX-7 and ZX225US-7 Ultra Small Swing Tail ICT Hydraulic Excavators

ZX120-7, ZX135US-7, ZX200-7, and ZX330-7 Medium-Sized ICT Hydraulic Excavators

ZX55U-6EB Battery-Powered Mini Excavator

ZC120S-6 Earthmoving Vibratory Roller

ZX225USR-7 Ultra Small Swing Tail ICT Hydraulic Excavator

ZX135USO-7 Ultra Small Swing Tail Hydraulic Excavator with offset boom specification

(2) Solution Business

In the business for mining equipment, we develop competitive tips of bucket consumables and undercarriage products for mining excavators with exchangeability, wear life and safety in mind.

In addition, we also develop, for commercialization, highly efficient buckets reflecting characteristics of hydraulic excavators and customers' excavation conditions to contribute to customers' productivity.

In the business for fixed plants and mine processing, we optimize design of products using electronic thickness measurement devices, laser scanning technologies and discrete device modeling software, and carry out development to extend life of mill liner and surface wear and increase processing capacities. Furthermore, we also pursue research on offering of product solutions utilizing IoT.

For the Solution Business, research and development expenditures for the fiscal year under review totaled ¥465 million.

III. Property, Plant and Equipment

1. Overview of Capital Investment

With respect to capital investment for the fiscal year under review, the Group made investments mainly in Construction Machinery Business Segment to streamline domestic and overseas hydraulic excavators manufacturing sites as well as to maintain the sales/service facilities of the Group.

Consequently, total capital investment for the fiscal year under review amounted to ¥119,338 million.

2. Major Property, Plant and Equipment

There are two reportable segments: the Construction Machinery Business Segment and the Solution Business Segment.

The figures below do not include construction in progress.

(1) Construction Machinery Business

1) The Company

(As of March 31, 2023)

Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
Tsuchiura Works/ Kasumigaura Works (Tsuchiura-city, Ibaraki and other) Note 1	Construction machinery manufacturing facility, etc. of hydraulic excavators, etc.	12,576	11,602	5,629 (4,963)	5,809	1,964	37,329	3,505
Hitachinaka Works (Hitachinaka-city, Ibaraki)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	4,962	4,950	1,980 (66)	3	553	12,447	379
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	10,547	3,617	9,043 (259)	–	244	23,450	571
Ryugasaki Works (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loaders, etc.	6,602	1,320	2,204 (270)	–	322	10,449	377
Banshu Works (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loaders, etc.	2,593	1,604	547 (130)	–	337	5,082	247
Headquarter (Taito-ku, Tokyo and other) Note 1	Facilities, etc. in the registered office of the Company	765	33	17,613 (619)	2,647	278	21,336	497

2) Domestic subsidiaries

(As of March 31, 2023)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
TadaKiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,413	748	2,292 (45)	–	68	4,521	274
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini excavator	4,877	3,690	938 (172)	748	903	11,156	709

3) Overseas subsidiaries

(As of March 31, 2023)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
P.T. Hitachi Construction Machinery Indonesia	Factory (Cibitung, Indonesia)	Assembly plant of construction machinery	3,811	1,344	0 (0)	1,591	812	7,558	1,026
Hitachi Construction Machinery (China) Co., Ltd.	Headquarter/ Factory (Hefei, Anhui, China)	Assembly plant of construction machinery	2,051	3,114	0 (0)	577	12	5,753	2,079
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Factory (Kharagpur, India)	Assembly plant of construction machinery	5,417	4,588	0 (0)	819	50	10,875	896
LLC Hitachi Construction Machinery Eurasia	Factory (Tver, Russia)	Assembly plant of construction machinery	2,062	589	4 (400)	27	25	2,707	239

(Note) 1. Land of Tsuchiura Works is presented including the land of the product durability testing facilities of 4,277 thousand m^2 costing ¥522 million located in Urahoro, Tokachi district, Hokkaido. The land of the headquarter is presented including the land with an area of 554 thousand m^2 costing ¥16,655 million which is leased to Hitachi Construction Machinery Japan Co., Ltd. (for its headquarter, Kansai and Shikoku branch office and other bases).

(2) Solution Business

There was no information on major property, plant and equipment to be disclosed for the fiscal year under review.

3. Plan for New Capital Investment and Disposal, etc. of Property, Plant and Equipment

(1) Significant capital investment, etc.

Not applicable.

(2) Disposal, etc. of significant property, plant and equipment

Not applicable.

IV. Information on the Company

1. Information on the Company's Stock, etc.

(1) Total number of shares, etc.

1) Total number of shares

Class	Total number of shares authorized to be issued (shares)
Common stock	700,000,000
Total	700,000,000

2) Issued shares

Type	Number of shares issued as of March 31, 2023 (Shares)	Number of shares issued as of June 27, 2023 (Filing Date) (Shares)	Stock exchange on which the Company is listed	Description
Common stock	215,115,038	215,115,038	Prime Market of the Tokyo Stock Exchange	Standard stock of the Company with full voting rights and no restrictions on rights. The number of shares per one unit is 100 shares.
Total	215,115,038	215,115,038	–	–

(2) Information on subscription rights to shares, etc.

1) Details of stock option plans

Not applicable.

2) Information on shareholder rights plans

Not applicable.

3) Other information on subscription rights to shares, etc.

Not applicable.

(3) Information on moving strike convertible bonds, etc.

Not applicable.

(4) Changes in the total number of issued shares and the amount of common stock and other

Date	Change in the total number of issued shares (Thousands of shares)	Balance of the total number of issued shares (Thousands of shares)	Change in common stock (Millions of yen)	Balance of common stock (Millions of yen)	Change in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From April 1, 2007 to March 31, 2008	19,020	215,115	38,941	81,577	38,941	81,084

(Notes) 1. Changes are due to issuance of 19,000,000 new shares with an issue price of ¥4,184 through a public offering and third-party allotment as of August 15, 2007, resulting in increases in common stock of ¥38,937 million and legal capital surplus of ¥38,937 million, as well as increases due to the exercise of warrants and subscription rights to shares.

2. The most recent changes in the total number of issued shares, common stock and legal capital surplus are presented since there were no changes in the last 5 fiscal years.

(5) Composition of shareholders

(As of March 31, 2023)

Category	Stock condition (Number of shares per unit: 100 shares)								Number of shares less than one unit (Shares)
	Government and municipality	Financial institution	Financial instruments business operator	Other institution	Foreign corporations, etc.		Individual and others	Total	
					Other than individual	Individual			
Number of shareholders	–	42	46	343	574	15	20,362	21,382	–
Share ownership (units)	–	459,562	101,390	1,122,315	326,621	100	139,947	2,149,935	121,538
Ownership percentage of shares (%)	–	21.4	4.7	52.2	15.2	0.0	6.5	100.0	–

(Notes) 1. Of treasury stock of 2,465,562 shares, 24,655 units are included in the total units held by “Individual and others” and 62 shares are included in the “Number of shares less than one unit.”

2. The number of units under “Other institution” includes 16 share units registered in the name of Japan Securities Depository Center, Inc.

(6) Major shareholders

(As of March 31, 2023)

Name	Address	Share ownership (Thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury stock) (%)
HCJI Holdings, Ltd.	2-1-1, Marunouchi, Chiyoda-ku, Tokyo	55,290	26.00
Hitachi, Ltd.	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	54,062	25.42
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	31,342	14.74
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	12,409	5.84
JPMorgan Securities Japan Co., Ltd.	Tokyo Building, 2-7-3, Marunouchi, Chiyoda-ku, Tokyo	4,906	2.31
Goldman Sachs Japan Co., Ltd. BNYM (Standing Proxy: MUFG Bank, Ltd., Transaction Services Division)	10-1, Roppongi 6-chome, Minato-ku, Tokyo (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	2,277	1.07
STATE STREET BANK WEST CLIENT-TREATY 505234 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	2,047	0.96
JP MORGAN CHASE BANK 385781 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,402	0.66
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	2-4, RUE EUGENE RUPPERT, L-2453 LUXEMBOURG, GRAND DUCHY OF LUXEMBOURG (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,275	0.60
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing Proxy: MUFG Bank, Ltd., Transaction Services Division)	PETERBOROUGH COURT 133 FLEET STREET LONDON EC4A 2BB UNITED KINGDOM (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	1,249	0.59
Total	—	166,258	78.19

(Notes) 1. The 2,466 thousand shares of treasury stock held by the Company are excluded from the number of shares held by the major shareholders above.

2. Of the above number of shares held, the number of shares in association with fiduciary activities is as follows:

The Master Trust Bank of Japan, Ltd. (Trust Account)	31,342 thousand shares
Custody Bank of Japan, Ltd. (Trust Account)	12,409 thousand shares

3. A report of possession of large volume below was provided for public inspection on July 20, 2020. However, the information in the report is not included in the above major shareholders since the Company cannot confirm the actual status of shareholdings as of the record date for exercise of voting rights.
   The content of the report is as follows:

Holders	Nomura International plc and one other person
Date on which the duty to file report arose	July 15, 2020
Number of shares, etc. held	14,122,655 shares
Ownership ratio	6.57%

4. A report of possession of large volume below was provided for public inspection on May 10, 2022. However, the information in the report is not included in the above major shareholders since the Company cannot confirm the actual status of shareholdings as of the record date for exercise of voting rights.
   The content of the report is as follows:

Holders	Sumitomo Mitsui Trust Asset Management Co., Ltd. and one other person
Date on which the duty to file report arose	April 29, 2022
Number of shares, etc. held	10,860,200 shares
Ownership ratio	5.05%

(7) Information on voting rights

1) Issued shares

(As of March 31, 2023)

Category	Number of shares (Shares)	Number of voting rights	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury stock, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 2,465,500	–	–
Shares with full voting rights (others)	Common stock 212,528,000	2,125,280	–
Shares less than one unit	Common stock 121,538	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,280	–

(Notes) 1. The “Shares with full voting rights (others)” includes 1,600 shares (representing 16 voting rights) registered in the name of Japan Securities Depository Center, Inc.

2. The “Shares less than one unit” includes 62 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of March 31, 2023)

Name of shareholder	Address	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	Ownership percentage to the total number of issued shares (%)
(Treasury stock) Hitachi Construction Machinery Co., Ltd.	2-16-1, Higashiueno, Taito-ku, Tokyo	2,465,500	–	2,465,500	1.15
Total	–	2,465,500	–	2,465,500	1.15

2. Information on Acquisition, etc., of Treasury Stock

Class of shares, etc.

Acquisition of shares of common stock under Article 155, paragraph (7) of the Companies Act.

(1) Acquisition of treasury stock resolved at the Shareholder's Meeting

Not applicable.

(2) Acquisition of treasury stock resolved at the Board of Directors meetings

Not applicable.

(3) Details of acquisition of treasury stock not based on the resolutions at the Shareholder's Meeting or the Board of Directors meetings

Acquisition of shares of common stock under Article 155, paragraph (7) of the Companies Act.

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury stock acquired during the fiscal year ended March 31, 2023	1,247	3,699,579
Treasury stock acquired during the period after the reporting period to the filing date of this annual securities report (Note)	81	265,530

(Note) The number of shares of treasury stock acquired during the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased during the period from June 1, 2023 to the filing date of this annual securities report.

(4) Status of the disposition and holding of acquired treasury stock

Classification	Fiscal year ended March 31, 2023		Period after the reporting period to the filing date of this annual securities report	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Acquired treasury stock which was offered to subscribers	–	–	–	–
Acquired treasury stock which was cancelled	–	–	–	–
Acquired treasury stock which was transferred due to merger, share exchange, share issuance and company split	–	–	–	–
Others (sale of shares less than one unit due to request for additional purchase of shares less than one unit) (Note)	–	–	–	–
Others (disposal of treasury stock through restricted share-based compensation)	–	–	25,072	31,459,845
Total number of shares of treasury stock held	2,465,562	–	2,440,571	–

(Note) The "Total number of shares of treasury stock held" for the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased or sold during the period from June 1, 2023 to the filing date of this annual securities report.

3. Dividend Policy

The Company will work to bolster its internal reserves while giving well-balanced consideration to the 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 fiscal year as interim and fiscal year-end dividends and aim to maximize shareholder returns based on a stable and continuous dividend payout ratio of 30% to 40% on a consolidated basis.

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.

The Company provides in its Articles of Incorporation that the dividends of surplus will be made to shareholders of record as of March 31 and September 30 of each year based on the resolution at the Board of Directors meeting pursuant to Article 459 of the Companies Act.

Based on the above policy, the following dividends of surplus were decided for the fiscal year under review.

Date of resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)
Resolution of the Board of Directors meeting held on October 26, 2022	10,632	50
Resolution of the Board of Directors meeting held on May 22, 2023	12,759	60

4. Corporate Governance, etc.

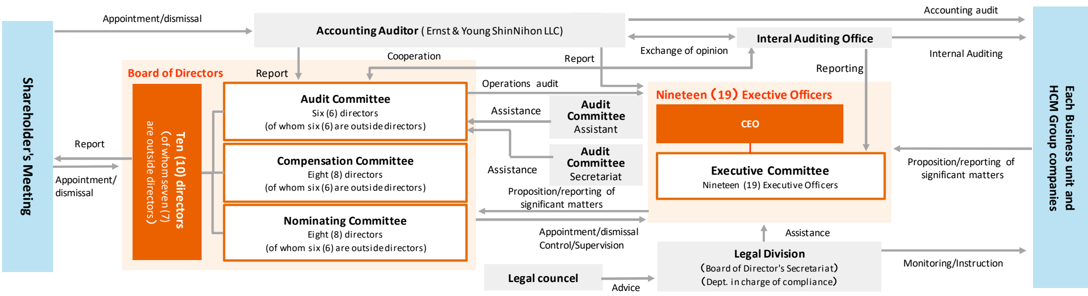
(1) Corporate governance

1) Basic concept on corporate governance

The Company recognizes sustainability as an important management issue. Further, the Company firmly recognizes that the purpose of corporate governance is not only to improve the Company's business performance but also to deepen the understanding that corporations are members of society while ensuring fair and transparent corporate activities, thereby increasing corporate value and further enhancing shareholder value.

To this end, the Company has established an executive structure that allows for robust and agile development of its management strategies. In addition, the Company has adopted an organizational structure of a company with nominating committee, etc. as stipulated in Article 2, Item 12 of the Companies Act, with the aim of strengthening corporate governance by separating management oversight functions from business execution functions to achieve fair and highly transparent management. In addition, the Company positions the Hitachi Construction Machinery Group's Code of Conduct as the basis for brand and sustainability promotion activities, and shares an understanding of the social responsibilities that companies should fulfill.

Corporate governance system (as of the filing date)



2) Overview of corporate governance system and reason for its adoption

Aiming to build a management execution system that facilitates the strong and swift execution of management strategy while realizing fair and highly transparent management, the Company is dedicated to strengthening the corporate governance system through separation of management oversight from business operations. Accordingly, the Company has adopted a corporate organizational system of a company with nominating committee, etc. as defined in Article 2, paragraph (12) of the Companies Act to provide the means to thoroughly separate oversight from execution and work on realizing even swifter management decision-making and improving the effectiveness of management oversight.

The Company has the following corporate governance structure:

a. Board of Directors

The Board of Directors determines the basic management policy, and oversees business operations conducted by Executive Officers. Also, the decision-making authority on business matters based on such basic policy is significantly delegated to Executive Officers.

The majority of the Board of Directors of the Company are Outside Directors, and lively discussions are held at each meeting. The Board deliberates in a vigorous and open manner and its Outside Directors, who have professional knowledge, ample experience, and an international outlook, ask questions and provide advice from various perspectives regarding the execution of operations by Executive Officers.

As of the filing date of this annual securities report, the Board of Directors comprises ten persons in total: Executive Officer Kotaro Hirano, who is the chair, seven Outside Directors made up of Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi, Takatoshi Hayama, Hidemi Moue, Toshinori Yamamoto and Joseph P. Schmelzeis, Jr., two Directors concurrently serving as Executive Officers made up of Keiichiro Shiojima and Masafumi Senzaki.

The activities of the Board of Directors in FY2022 are as follows:

Category	Name	Number of meetings attended/Number of meetings held	Attendance rate
Outside Director	Toshiko Oka	13/13	100%
Outside Director	Kazushige Okuhara	13/13	100%
Outside Director	Maoko Kikuchi	13/13	100%
Outside Director	Haruyuki Toyama	13/13	100%
Outside Director (Note 1)	Yoshinori Hosoya	11/13	85%
Outside Director	Hidemi Moue	11/11 (Note 2)	100%
Director	Tetsuo Katsurayama	13/13	100%
Director	Keiichiro Shiojima	13/13	100%
Director	Hideaki Takahashi	2/2 (Note 3)	100%
Director	Michifumi Tabuchi	13/13	100%
Director	Kotaro Hirano	13/13	100%

(Note 1) Since Hitachi, Ltd. is no longer the parent company of the Company due to the equity change on August 23, 2022, Yoshinori Hosoya was appointed as an Outside Director.

(Note 2) The number of Board of Directors meetings held from April 2022 to March 2023 was 13, and the number of Board of Directors meetings held since the appointment of Outside Director Hidemi Moue was 11.

(Note 3) The number of Board of Directors meetings held until the resignation of Hideaki Takahashi, who resigned at the conclusion of the Annual Shareholder's Meeting of the Company held on June 27, 2022, was two, and he attended both of those meetings.

Major matters deliberated on:

In addition to statutory resolutions, the Board of Directors deliberated M&A projects, discussed the executive structure, formulated the three-year medium-term management plan starting from FY2023, and received reports on the status of activities and medium- to long-term plans in each business divisions in accordance with the Board of Directors Rules. The Company conducts an annual self-assessment of the effectiveness of the Board of Directors, and in FY2022, in addition to a questionnaire, the Company commissioned a third-party organization to conduct interviews.

b. Nominating Committee

The Nominating Committee has the authority to determine proposals to be submitted to the shareholder's meetings for the election and dismissal of the Directors.

As of the filing date, the Nominating Committee comprises eight persons in total: Outside Director Kazushige Okuhara, who is the chair, five Outside Directors made up of Toshiko Oka, Maoko Kikuchi, Hidemi Moue, Toshinori Yamamoto, and Joseph P. Schmelzeis, Jr. and two Directors concurrently serving as Executive Officers made up of Kotaro Hirano and Masafumi Senzaki.

The activities of the Nominating Committee in FY2022 are as follows:

Category	Name	Number of meetings attended/Number of meetings held	Attendance rate
Outside Director	Toshiko Oka	6/6	100%
Outside Director	Kazushige Okuhara	6/6	100%
Outside Director	Maoko Kikuchi	6/6	100%
Outside Director	Haruyuki Toyama	6/6	100%
Outside Director	Hidemi Moue	6/6	100%
Director	Kotaro Hirano	6/6	100%

Major matters deliberated on:

The committee reviewed the ideal composition of the Board of Directors, as well as reviewing and confirming the expertise and experience of the candidates for Director, utilizing the skill matrix established by the Company. Based on these deliberations, the committee determined proposals to be submitted to the shareholder's meeting for the election and dismissal of the Directors. In addition, the committee received reports from the President and Executive Officer on plans (training and selection) for executives and the candidates Executive Officer, and supervised those plans.

c. Audit Committee

The Audit Committee has the authority to audit the execution of duties by Directors and Executive Officers and to determine proposals to be submitted to the shareholder's meeting for the election and dismissal, etc. of accounting auditors. As of the filing date, the Audit Committee comprises six persons in total: Outside Director Toshiko Oka, who is the chair, and five other Outside Directors made up of Kazushige Okuhara, Maoko Kikuchi, Takatoshi Hayama, Toshinori Yamamoto, and Joseph P. Schmelzeis, Jr.

The activities of the Audit Committee for FY2022 and other information are described in "(3) Status of audit."

d. Compensation Committee

The Compensation Committee has the authority to determine compensation for individual Directors and Executive Officers.

As of the filing date, the Compensation Committee comprises eight persons in total: Outside Director Kazushige Okuhara, who is the chair, five other Outside Directors made up of Toshiko Oka, Maoko Kikuchi, Hidemi Moue, Toshinori Yamamoto, and Joseph P. Schmelzeis, Jr. and two Directors concurrently serving as Executive Officers made up of Kotaro Hirano and Masafumi Senzaki.

The activities of the Compensation Committee in FY2022 are as follows:

Category	Name	Number of meetings attended/Number of meetings held	Attendance rate
Outside Director	Toshiko Oka	4/4 (Note)	100%
Outside Director	Kazushige Okuhara	5/5	100%
Outside Director	Maoko Kikuchi	4/4 (Note)	100%
Outside Director	Haruyuki Toyama	5/5	100%
Outside Director	Hidemi Moue	4/4 (Note)	100%
Director	Kotaro Hirano	5/5	100%

(Note) The number of Compensation Committee meetings held from April 2022 to March 2023 was five, and the number of Compensation Committee meetings held since the appointment of Outside Directors Toshiko Oka, Maoko Kikuchi and Hidemi Moue was four.

Major matters deliberated on:

The committee identified issues and matters to be reviewed regarding officer compensation, and deliberated on making revisions to the policy for the determination of compensation of Directors and Executive Officers, and on introducing a restricted share-based compensation plan as a long-term incentive for Executive Officers.

e. Executive Officer and Executive Committee

In accordance with segregation of duties stipulated by resolutions at the Board of Directors meetings, Executive Officers make decisions on business matters and execute the business. Any matters that may affect the overall business are deliberated from various points of view in the Executive Committee consisting of Executive Officers. Decisions of the Executive Committee are reported to the Board of Directors.

The Company stipulates in its Articles of Incorporation that the Company shall have not more than 30 Executive Officers. As of the filing date, the Executive Committee comprises 19 persons in total: Chairman and Executive Officer Kotaro Hirano, who is the chair, President and Executive Officer Masafumi Senzaki, Executive Vice President and Executive Officers Michifumi Tabuchi and Naoyoshi Yamada, Senior Vice President and Executive Officers Sonosuke Ishii and Yusuke Kajita, Vice President and Executive Officers Keiichiro Shiojima, Seishi Toyoshima, Kazunori Nakamura, Eiji Fukunishi, and Hidehiko Matsui, and Executive Officers Hiroshi Kanezawa, Toru Sugiyama, Seimei Toonishi, Yoshihiro Narukawa, Tetsuya Hamabe, Masaaki Hirose, Satoshi Yamanobe, and Sandeep Singh.

3) Internal control system and risk management system

Pursuant to provisions of laws and regulations, the Company, by resolutions of the Board of Directors, determines an overall system of internal controls of the Company and complies with such resolutions. The situation as of the filing date is as follows:

a. Matters concerning Directors and employees to assist in duties of the Audit Committee of the Company

The Audit Committee Bureau has been provided as an organization to assist in the duties of the Audit Committee. One personnel member, who works exclusively for the Bureau and is not subject to orders and instructions of Executive Officers, and two personnel members, who also serve for the Internal Auditing Office in the internal audit department, have been assigned to the Bureau from the perspective of BCP. In addition, the

Company appoints one Assistant who assists in the duties of the Audit Committee. The internal audit department and legal / general affairs department also assist the Audit Committee in addition to the above.

There are no Directors with the explicit duty of assisting the duties of the Audit Committee.

b. System for ensuring the independence of the Directors and the personnel in a. above from Executive Officers as well as the effectiveness of instructions to such Directors and personnel from the Audit Committee

In order to ensure independence of the personnel who belong to the Audit Committee Bureau and Assistants from Executive Officers, the Audit Committee shall be informed in advance of planned transfers of such personnel and Assistants, and may request a change to the Executive Officer in charge of human resources as necessary, by providing reasons thereof.

c. System for reporting to the Audit Committee and ensuring no disadvantageous treatment on account of reporting

• Executive Officers shall report to the Audit Committee matters related to the Company and its subsidiaries that were brought up to or reported to the Executive Committee.

• Results of internal audits of the Company and its subsidiaries performed by the internal audit department shall be reported to the Audit Committee without delay.

• When Executive Officers become aware of facts that may have adverse effects on the Company, they shall immediately report such facts to the Audit Committee.

• The compliance department, which is the secretariat of the "Compliance Reporting System," shall report to the Audit Committee the status of reporting through the Compliance Reporting System available for employees of the Company and its subsidiaries. Also, the Company stipulates in its regulations that a whistleblower shall not be treated disadvantageously due to such reporting, and the compliance department thoroughly ensures its implementation of such regulations.

• Reports from Executive Officers and employees of the Company as well as directors, corporate auditors and employees of the subsidiaries shall be directed to the Members designated by resolution of the Audit Committee or Assistants.

d. Policies related to advance payments and/or reimbursements of expenses incurred for execution of the duties of the Audit Committee of the Company and processing of other expenses and liabilities incurred for execution of duties

The general affairs department is in charge of payment of expenses and other administrative matters related to execution of the duties of the Audit Committee. When there is a request from the Audit Committee for advance payments or other payments for expenses, the general affairs department shall immediately process the requests unless it is clearly evident that such expenses or liabilities are not required for execution of the duties of the Audit Committee.

e. Other systems to ensure the effectiveness of audits by the Audit Committee of the Company

The Audit Committee effectively audits the following matters based on annual audit policies and audit plans.

• The Audit Committee Members attend important meetings, make inquiries to Executive Officers and employees regarding the status of the execution of their duties, and review approval documents, etc. on significant matters.

• The Audit Committee Members observe operations and inspect the assets of the Company's headquarters, major offices and subsidiaries, and make inquiries as necessary.

• In order to ensure the effectiveness of the accounting audits by accounting auditors, the Audit Committee receives the audit plans and audit priority items of the accounting auditors in advance, and receives the results along with the accounting audit results. Also, in order to endure independence of the accounting auditors, compensation for accounting auditors and non-guaranteed services requested from accounting auditors shall require the prior consent of the Audit Committee.

f. System for ensuring that execution of duties by Executive Officers and employees is in compliance with laws and regulations and the Articles of Incorporation

The following business management system ensures compliance with laws and regulations on an ongoing basis.

• Same as j. "System for ensuring that execution of duties by employees of the Company and directors and employees of the subsidiaries is in compliance with laws and regulations and the Articles of Incorporation" below.

• In addition to the above, for ensuring that the execution of duties by Executive Officers is in compliance with laws and regulations and the Articles of Incorporation, the Company has implemented a system which enables employees of the Company to report issues through an external agency.

g. System for saving and maintaining the information pertaining to the execution of duties by Executive Officers of the Company

Information pertaining to the decisions and the execution of duties of the Executive Officers are stored and maintained in accordance with the company regulations.

h. Regulations and other systems for management of the risk of losses to the Company and its subsidiaries

- A system shall be established in which each relevant shall department establishes rules and guidelines, conduct training, and prepare and distribute manuals, etc. with respect to risks such as health and safety, compliance, information security, quality assurance, export control, environment, and disaster. Subsidiaries of the Company shall also establish the same system depending on the size, etc. of the respective subsidiaries.

- Efforts shall be made to identify possible new risks through periodic reports, etc. from Executive Officers on the status of business operations of the Company and its subsidiaries. Should it become necessary to take measures for a new risk, the President and Executive Officer instructs each relevant department and promptly appoints an Executive Officer responsible for taking measures therefor.

i. System for ensuring that duties of Executive Officers of the Company and directors of the subsidiaries are executed efficiently

The following business management system ensures the efficiency of the execution of duties by Executive Officers of the Company and directors of the subsidiaries.

- For any important matters that may affect the Company or the Group, Executive Committee regulations, etc. require such matters to be deliberated from various points of view by the Executive Committee and at policy meetings, etc. before a decision is made by an Executive Officer in charge.

- Performance of the Company and its subsidiaries is managed using a matrix framework, i.e., by each component unit responsible for its financial performance and by each component unit responsible for its managerial performance.

- Rules for internal audit shall be established and a system shall be implemented to audit each department in the Company and its subsidiaries regularly in order to understand the status of and improve business operations of the Company and its subsidiaries.

- The Audit Committee oversees the accounting auditors. Also, for ensuring the independence of accounting auditors from Executive Officers, the duties of the Audit Committee include receiving reports in advance about audit plans of accounting auditors and prior approval of the fees to be paid to the accounting auditors.

- A documented business process for matters to be reflected in financial reports shall be executed and examined by internal auditors, or external auditors when necessary, within the Company and its subsidiaries.

- The Company dispatches Directors and corporate auditors to subsidiaries and establishes a support desk to respond to inquiries from its subsidiaries regarding corporate matters, including legal, accounting, and general administrative issues, research and development activities, and management of intellectual property such as patents, in order to operate properly and efficiently as the Group.

j. System for ensuring that execution of duties by employees of the Company and directors and employees of the subsidiaries is in compliance with laws and regulations and the Articles of Incorporation

The following business management system ensures compliance with laws and regulations on an ongoing basis.

- Internal audits by the Internal Auditing Office, other relevant departments of the Company and its subsidiaries are conducted to ensure compliance and to deter violations of laws and regulations. In addition, various committees may be established in accordance with regulations of the Company or a decision by relevant departments in order to achieve cross-functional management regarding compliance.

- The Company has implemented a “Compliance Reporting System” that enables employees of the Company and its subsidiaries to internally report any illegal activities, etc. to the relevant departments of the Company. Further, the compliance department, which is in charge of this system, carries out necessary investigations, etc., replies to the whistleblower, and also ensures that the whistleblower is not treated disadvantageously.

- As compliance education, the Company and its subsidiaries conduct training using educational materials such as handbooks, for the applicable laws and regulations related to their business activities.

- To ensure implementation and effectiveness of the overall internal control systems, Executive Officers, as their duties, establish various policies and company regulations with primary focus on compliance with laws and regulations applicable to operations of the Group, including information security, environmental matters, quality control, export control, and prohibition of anti-social transactions. Establishment, amendment or abolishment of regulations that stipulate matters relating to internal controls shall be approved by the Board of Directors. An Executive Officer shall be appointed to approve establishment and abolishment of other company regulations depending on their materiality.

- Policies and regulations, etc. that should be formulated as common across the Group are informed to the subsidiaries, and subsidiaries shall establish their own rules that are in conformity with such policies and regulations, etc.

k. System for reporting on the execution of duties by Directors of the subsidiaries to the Company

- Any significant operational matters regarding a subsidiary shall be deliberated by the Executive Committee of the Company.
- In the medium-term management plan and budget system, performance targets and measures, etc. are determined and evaluations are performed on a consolidated basis including subsidiaries. Subsidiaries will report the status to the Company through this system.

l. System for ensuring the appropriateness of operations of the corporate group consisting of the Company and subsidiaries

- The Company positions the Hitachi Construction Machinery Group's Code of Conduct as the basis for brand and sustainability promotion activities, and shares an understanding of the social responsibilities that companies should fulfill.
- The Company shall inform its subsidiaries of the Hitachi Construction Machinery Group's Code of Conduct and the policies, rules, etc. based on it, and work to maintain them.
- The Company and its subsidiaries have a policy to conduct transactions within the Hitachi Construction Machinery Group fairly based on market prices.

4) Agreements to limit liability

The Company enters into an agreement with each Director (excluding those who are Executive Directors, etc.) to limit his or her liability as provided in Article 423, paragraph (1) of the Companies Act. The overview of the agreement is as follows:

a. In the event of liability for damages to the Company caused by failure to perform duties as a Director (excluding those who are Executive Directors, etc.), the aggregate amount shall be limited to the amount stipulated in each item under Article 425, paragraph (1) of the Companies Act.

b. The aforementioned limitation of liability is admitted only when the Director (excluding those who are Executive Directors, etc.) acts in good faith and there is no gross negligence with regard to the execution of duties that caused the liability.

5) Directors and officers liability insurance policy

To ensure that Directors and Executive Officers are fully able to execute their expected duties and to attract highly qualified individuals, the Company has entered into a directors and officers liability insurance ("D&O insurance") policy as provided for in Article 430-3 of the Companies Act that includes Directors and Executive Officers as insured persons. The insurance premiums, including those for special clauses, are fully borne by the Company, and there are no insurance premiums actually borne by the insureds. This insurance policy covers losses that may arise from the insured's assumption of liability incurred in the course of the performance of duties as a Director or an Executive Officer, or receipt of claims pertaining to the pursuit of such liability. However, there are certain reasons for coverage exclusion, such as performance of an illegal act with full knowledge of its illegality, where the losses will not be covered.

6) Number of Directors

The Company stipulates in its Articles of Incorporation that the Company shall have not more than 15 Directors.

7) Resolution requirements for appointment of Directors

The Company stipulates in its Articles of Incorporation that "shareholders representing one-third or more of the voting rights of all the shareholders who are entitled to exercise their votes shall be present at a shareholder's meeting," and that "the resolution shall not be made by cumulative voting."

In addition, except as otherwise provided by laws and regulations or in the Articles of Incorporation of the Company, it stipulates that "the resolution shall be made by a majority of the voting rights of the shareholders who are present in such meeting and are entitled to vote."

8) Matters to be resolved by the Board of Directors without resolution at the shareholder's meeting pursuant to the provisions of the Articles of Incorporation

a. Exemption from liability of Directors and Executive Officers

The Company stipulates in its Articles of Incorporation that "it may, by resolution of the Board of Directors, exempt any Director (including former Directors) and Executive Officer (including former Executive Officers) from liabilities as provided in Article 423, paragraph (1) of the Companies Act to the extent as provided in laws or regulations" so that Directors and Executive Officers are fully able to execute their expected duties.

b. Decision for dividends of surplus

The Company stipulates in its Articles of Incorporation that “the Board of Directors may, except as otherwise provided by laws and regulations, decide each item provided in Article 459, paragraph (1) of the Companies Act without resolution at the shareholder’s meeting,” in order to enable timely implementation of capital strategies.

9) Requirements for special resolution of the shareholder’s meeting

With the objective of facilitating the smooth conduct of a general shareholder’s meeting by easing the quorum for a special resolution at the shareholder’s meeting, the Company stipulates in its Articles of Incorporation that “any resolution as provided in Article 309, paragraph (2) of the Companies Act shall be adopted at a shareholder’s meeting where shareholders representing one-third or more of the voting rights of all the shareholders are present, and by a majority of two-thirds or more of the voting rights of the shareholders who are present at such meeting and are entitled to vote.”

(2) Directors and Executive Officers

1) Lists of Directors and Executive Officers

The Company has adopted the system of a company with a nominating committee, etc.

Directors and Executive Officers include 24 males and 2 females. (The ratio of female Directors and Executive Officers is 7.7% of the total.)

a. Directors

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Outside Director Nominating Committee Member Audit Committee (Chair) Compensation Committee Member	Toshiko Oka	March 7, 1964	4/1986 7/2000 4/2005 4/2016 6/2016 6/2018 6/2019 6/2020 4/2021 6/2021	Joined Tohmatsu Touche Ross Consulting Limited Joined Asahi Arthur Anderson Limited President and Representative Director, ABeam M&A Consulting Ltd. Partner, PwC Advisory LLC Outside Director, Hitachi Metals, Ltd. Outside Director, Sony Group Corporation (to present) Outside Director, Happinet CORPORATION (to present) Outside Director, ENEOS Holdings, Inc. (to present) Professor, Graduate School of Global Business, Meiji University (to present) Outside Director, the Company (to present)	(Note 1)	0
Outside Director Nominating Committee (Chair) Audit Committee Member Compensation Committee (Chair)	Kazushige Okuhara	January 27,1948	4/1970 10/1999 6/2001 6/2003 4/2005 6/2006 6/2006 6/2010 6/2011 6/2013 6/2016	Joined Fuji Heavy Industries Ltd. Senior Managing Director, TOKYO SUBARU Inc. Corporate Vice President, Senior General Manager, Japan Region, Subaru Sales & Marketing Div., Chief General Manager, Subaru Parts & Accessories Div. and General Manager, Customer Service Center, Fuji Heavy Industries Ltd. Corporate Senior Vice President, Chief General Manager, Subaru Japan Sales & Marketing Div. and Chief General Manager, Subaru Marketing Div. Corporate Senior Vice President and General Manager, Human Resources Dept. Director, Corporate Executive Vice President and General Manage, Human Resources Dept. President and Chairman, the Business Reforms Promotion Committee, Subaru System Service Co., Ltd. Representative Director of the Board and Deputy President, Fuji Heavy Industries Ltd. Representative Director of the Board and President, Subaru Kosan Co., Ltd. Retired from Subaru Kosan Co., Ltd. Outside Director, the Company (to present)	(Note 1)	8

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Maoko Kikuchi	July 14, 1965	4/1992 8/1997 3/1999 4/2004 4/2014 6/2016 6/2020 7/2020	Joined the Ministry of Justice Public Prosecutors Office as a Public Prosecutor Joined Paul Hastings, LLP, Los Angeles Office Joined Nagashima Ohno & Tsunematsu Joined the General Secretariat of the Japan Fair Trade Commission Executive Officer, in charge of Legal and Policy Planning Supervision, Microsoft Japan Co., Ltd. Standing Outside Audit & Supervisory Board Member, MITSUI-SOKO HOLDINGS Co., Ltd., Corporate Auditor of MITSUI-SOKO Co., Ltd., and Audit & Supervisory Board Member of MITSUI-SOKO Supply Chain Solutions, Inc. Outside Director, MITSUI-SOKO HOLDINGS Co., Ltd. (to present) Outside Audit and Supervisory Board Member, KADOKAWA CORPORATION Outside Director, the Company (to present)	(Note 1)	–
Outside Director Audit Committee Member	Takatoshi Hayama	October 12, 1966	4/1992 4/2016 4/2021 4/2023 6/2023	Joined Hitachi, Ltd. General Manager, Government & Public Solutions Dept. III, Government & Public Corporation Information Systems Div., Government & Public Corporation Business Unit General Manager, Government & Public Corporation Information Systems Div., Social Infrastructure Systems Business Unit Senior Officer and COO of Social Infrastructure Systems Business Unit (to present) Outside Director, the Company (to present)	(Note 1)	–
Outside Director Nominating Committee Member Compensation Committee Member	Hidemi Moue	October 1, 1955	4/1979 6/1996 2/1998 10/2000 11/2002 6/2010 6/2022 8/2022	Joined The Industrial Bank of Japan, Limited General Manager, Capital Markets Group 2, IBJ Securities Co., Ltd. General Manager, Business Development, Capital Markets Group, IBJ Securities Co., Ltd. General Manager, Corporate Finance Dept., Capital Markets Group, Mizuho Securities Co., Ltd. President and CEO, Japan Industrial Partners, Inc. (to present) Auditor, Mobile Internet Capital, Inc. (to present) Outside Director, the Company (to present) Representative Director and President, HCJI Holdings, Ltd. (to present)	(Note 1)	–

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Toshinori Yamamoto	June 21, 1955	4/1979 6/2007 6/2009 6/2011 6/2012 6/2013 6/2015 3/2016 6/2016 3/2022 6/2022 6/2023	Joined Tosoh Corporation Senior Officer and Senior General Manager, Chlor-alkali Div. Director Managing Director, President, Chlor-Alkali Group and President, Petrochemical Group Managing Director and President of Chlor-Alkali Group Managing Director, President, Chlor-Alkali Group and Representative, Oversee China Operations Representative Director, Managing Director and President, Chlor-Alkali Group Representative Director, President Representative Director, President and Executive Officer Director and Corporate Adviser Corporate Adviser Corporate Consultant (to present) Outside Director, the Company (to present)	(Note 1)	–
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Joseph P. Schmelzeis, Jr.	November 2, 1962	7/1984 7/1988 4/1998 12/1999 11/2001 6/2011 6/2015 2/2018 3/2021 6/2022 6/2023	Joined Bain & Company Vice President, American Express International Chief Operating Officer, Fontworks International Interim CEO, Crimson Ventures Representative Director, JPS International, Inc. (to present) Corporate Director and Division Manager, SEGA CORPORATION Senior Advisor, SEGA SAMMY HOLDINGS INC. Senior Advisor to the Ambassador, U.S. Embassy in Tokyo Executive Manager, Cedarfield Godo Kaisha (to present) Outside Director, DENSO CORPORATION (to present) Outside Director, the Company (to present)	(Note 1)	–
Director	Keiichiro Shiojima	November 24, 1965	4/1988 4/2011 4/2014 4/2016 4/2019 4/2020 6/2021 4/2022	Joined the Company General Manager, Credit Management Department, Finance Div. Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. General Manager, Finance Dept., Finance Div., Corporate Management Group, the Company Deputy General Manager, Finance Div., Corporate Management Group Executive Officer and General Manager, Financial Strategy Group (to present) Director (to present) Vice President and Executive Officer (to present)	(Note 1)	6

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Director Nominating Committee Member Compensation Committee Member	Masafumi Senzaki	July 16, 1965	4/1991 4/2017 4/2018 4/2021 4/2022 4/2023 6/2023	Joined the Company General Manager, Russia and CIS Business Div., the Company Director and President, LLC Hitachi Construction Machinery Eurasia Executive Officer, the Company General Manager, Marketing Div. Vice President and Executive Officer General Manager, Corporate Strategy Group and General Manager, Operations Management Group Senior Vice President, Executive Officer and General Manager, Corporate Strategy Group Representative Executive Officer, President and Executive Officer (to present) Director (to present)	(Note 1)	6
Director Nominating Committee Member Compensation Committee Member	Kotaro Hirano	June 4, 1958	4/1981 4/2013 4/2014 4/2016 4/2017 6/2017 4/2023	Joined the Company Deputy General Manager, Production & Procurement Div. Executive Officer Vice President and Executive Officer Representative Executive Officer, President and Executive Officer Director (to present) Representative Executive Officer, Chairman and Executive Officer (to present)	(Note 1)	18
Total						38

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder's Meeting for the fiscal year ended March 31, 2023 to the conclusion of the Annual Shareholder's Meeting for the fiscal year ending March 31, 2024.

2. Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi, Takatoshi Hayama, Hidemi Moue, Toshinori Yamamoto and Joseph P. Schmelzeis, Jr. are Outside Directors.

b. Executive Officers

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Representative Executive Officer, Chairman and Executive Officer CEO	Kotaro Hirano	June 4, 1958	See (1)		(Note)	18
Representative Executive Officer, President and Executive Officer COO	Masafumi Senzaki	July 16, 1965	See (1)		(Note)	6
Representative Executive Officer, Executive Vice President and Executive Officer Officer responsible for "MONOZUKURI" (manufacturing), Officer responsible for Export Regulation General Manager, Production & Procurement Group	Michifumi Tabuchi	November 16, 1958	4/1984 4/2004 4/2012 4/2015 4/2016 4/2017 4/2020 7/2020 10/2021	Joined the Company General Manager, Manufacturing Dept., Component Div., Tsuchiura Works President and Director, Hitachi Construction Machinery (China) Co., Ltd. Executive Officer, the Company Vice President and Executive Officer Senior Vice President and Executive Officer Representative Executive Officer, Executive Vice President and Executive Officer (to present) Officer responsible for "MONOZUKURI" (manufacturing), General Manager, Production & Procurement Group and General Manager, Corporate Export Regulation Group Director Officer responsible for "MONOZUKURI" (manufacturing), Officer responsible for Corporate Export Regulation and General Manager, Production & Procurement Group (to present)	(Note)	13
Executive Vice President and Executive Officer CSO	Naoyoshi Yamada	January 21, 1958	4/1982 4/2012 6/2013 10/2013 4/2016 4/2017 4/2019 4/2020 4/2022	Joined the Ministry of International Trade and Industry Director-General, Tohoku Bureau of Economy, Trade and Industry Retired from the Ministry of Economy, Trade and Industry Joined the Company Executive Officer Vice President and Executive Officer Senior Vice President and Executive Officer, General Manager, Corporate Strategy Group General Manager, Operations Management Group Executive Vice President and Executive Officer (to present)	(Note)	5

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Senior Vice President and Executive Officer President, Mining Business Unit General Manager, America Business Div.	Sonosuke Ishii	December 22, 1958	4/1982 8/2010 4/2011 4/2015 4/2017 4/2018 4/2019 4/2020 10/2021 4/2022	Joined the Company President and Director, Hitachi Construction Machinery Eurasia Sales LLC Deputy General Manager, Europe and Russia Business Div., the Company General Manager, Russia and CIS Business Div. Executive Officer President, Mining Group Vice President and Executive Officer Senior Vice President and Executive Officer (to present) General Manager, America Business Div. (to present) Chairman, Hitachi Construction Machinery Americas Inc. (to present) President, Mining Business Unit, the Company (to present)	(Note)	1
Senior Vice President and Executive Officer President, Construction Business Unit	Yusuke Kajita	October 7, 1961	4/1987 4/2013 4/2016 4/2017 4/2018 4/2021 4/2022 4/2023	Joined the Company General Manager, Application, New Product & Construction Equipment Div. Deputy General Manager, China Business Div. President and Director, Hitachi Construction Machinery (China) Co., Ltd. Executive Officer, the Company General Manager, China Business Div. Vice President and Executive Officer General Manager, Research & Development Group President, Construction Business Unit (to present) Senior Vice President and Executive Officer (to present)	(Note)	9
Vice President and Executive Officer CFO General Manager, Finance Div.	Keiichiro Shiojima	November 24, 1965	See (1)		(Note)	6

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Vice President and Executive Officer CHRO General Manager, Human Capital Group	Seishi Toyoshima	August 30, 1960	4/1984 10/2011 4/2012 4/2016 4/2017 4/2018 4/2019 6/2019	Joined Hitachi, Ltd. General Manager, Corporate Administration Div., Corporate Sales & Marketing Div. General Manager, Human Resources and Corporate Administration Div., Information & Telecommunication Systems Company CHRO, ICT Business Group and General Manager, Human Resources and Corporate Administration Div. Director, General Manager, General Affairs Div., Hitachi Appliances, Inc. Director, Hitachi Consumer Marketing, Inc. Executive Managing Director, General Manager, General Affairs Div., CHRO and CRO, Hitachi Appliances, Inc. Director, CHRO and CRO, Hitachi Consumer Marketing, Inc. Vice President and Executive Officer, the Company (to present), General Manager, Human Capital Group (to present), and General Manager, Compliance & Risk Management Group Director	(Note)	4
Vice President and Executive Officer CTO General Manager, Power & Information Control Platform Business Unit General Manager, Research & Development Group	Kazunori Nakamura	February 19, 1963	4/1987 4/2016 4/2018 4/2019 4/2022 4/2023	Joined the Company General Manager, Application, New Product & Construction Equipment Div., Development & Production Group President and Director, Hitachi Construction Machinery Tierra Co., Ltd. Executive Officer, the Company Vice President and Executive Officer (to present) General Manager, Research & Development Group, General Manager, Development Strategy Office and General Manager, Power & Information Control Platform Div. General Manager, Power & Information Control Platform Business Unit and General Manager, Research & Development Group (to present)	(Note)	7
Vice President and Executive Officer President of Spare Parts and Service Business Unit	Eiji Fukunishi	December 21, 1961	10/1982 4/2016 4/2017 4/2021 4/2022 4/2023	Joined the Company General Manager, Sales Promotion Dept., Customer Support Div., Life Cycle Support Operations Div., Marketing Group Director and CEO, PT Hexindo Adiperkasa Tbk Executive Officer, the Company General Manager, Life Cycle Support Operations Div. President, Spare Parts and Service Business Unit (to present) Vice President and Executive Officer (to present)	(Note)	1

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Vice President and Executive Officer CMO President, Rental & Used Machine Business Unit President, Global Marketing Group	Hidehiko Matsui	April 19, 1961	4/1986 4/2016 4/2018 4/2019 4/2020 4/2021 4/2022 4/2023	Joined the Company Deputy General Manager, Marketing Div., Marketing Group General Manager, Asia Business Div., Marketing Div., Marketing Group Chairman and President and Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. Executive Officer, the Company General Manager, Asia Business Div. General Manager, Marketing Div. President, Rental & Used Machine Business Unit, President, Global Marketing Group (to present) Vice President and Executive Officer (to present)	(Note)	7
Executive Officer General Manager, Mining Development & Production Div., Mining Business Unit	Hiroshi Kanezawa	May 16, 1966	4/1989 4/2020 4/2022	Joined the Company General Manager, Mining Development & Production Div., Mining Group Executive Officer (to present) General Manager, Mining Development & Production Div., Mining Business Unit (to present)	(Note)	1
Executive Officer Vice President, Mining Business Unit	Toru Sugiyama	September 16, 1961	4/1984 4/2018 4/2022	Joined the Company General Manager, Corporate Quality Assurance Div., Development & Production Group Executive Officer (to present) Vice President, Mining Business Unit (to present)	(Note)	7
Executive Officer CDIO President, New Business Creation Unit	Seimei Toonishi	February 5, 1962	3/1980 4/2019 4/2020 4/2021 4/2023	Joined the Company General Manager, IT Promotion Div., Corporate Management Group President, DX Promotion Group Executive Officer (to present) President, New Business Creation Unit (to present)	(Note)	1
Executive Officer CPO Deputy General Manager, Production & Procurement Div.	Yoshihiro Narukawa	February 23, 1967	4/1990 7/2020 4/2022	Joined the Company General Manager, Production & Procurement Div. Executive Officer (to present) Deputy General Manager, Production & Procurement Div. (to present)	(Note)	1

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, Corporate Strategy Group	Tetsuya Hamabe	January 22, 1964	4/1987 6/2018 6/2021 9/2021 1/2022 4/2022 4/2023	Joined the Ministry of International Trade and Industry Senior Managing Director, Japan Finance Corporation Deputy Director-General for Strategy and Public Relations for Small and Medium Enterprise Policy, Commissioner's Secretariat, Small and Medium Enterprise Agency Retired from the Ministry of Economy, Trade and Industry Joined the Company Deputy General Manager, Corporate Strategy Group Executive Officer (to present) General Manager, Corporate Strategy Group (to present)	(Note)	1
Executive Officer General Manager, Japan Business Div.	Masaaki Hirose	July 30, 1959	10/1990 4/2008 4/2013 4/2017 4/2018 4/2019 4/2020 4/2022	Joined the Company Executive Vice President and Director, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd CEO and Director, PT Hexindo Adiperkasa Tbk President and Director, Hitachi Construction Machinery Loaders America Inc. Executive Officer, the Company (to present) Chairman and Director, Hitachi Construction Machinery Loaders America Inc. Associate General Manager, America Business Div., the Company General Manager, Japan Business Div. (to present) President and Director, Hitachi Construction Machinery Japan Co., Ltd. (to present)	(Note)	3
Executive Officer General Manager, China Business Div.	Satoshi Yamanobe	April 4, 1963	4/1987 4/2010 4/2014 4/2018 4/2020 7/2020 1/2021 4/2021	Joined Hitachi, Ltd. Joined the Company General Manager, Production Management Center, Production & Procurement Div. Deputy General Manager, Production & Procurement Div., Development & Production Div. Executive Officer (to present) General Manager, Production & Procurement Div. Deputy General Manager, China Business Div. Executive Vice President, Hitachi Construction Machinery (China) Co., Ltd. Director, Hitachi Construction Machinery (China) Co., Ltd. General Manager, China Business Div., the Company (to present) President and Director, Hitachi Construction Machinery (China) Co., Ltd. (to present)	(Note)	–

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, India Business Div.	Sandeep Singh	January 21, 1961	1/2003 7/2008 4/2012 4/2014 8/2015 4/2020	Joined J.C. Bamford Excavators Limited Executive Vice President Joined Toyota Kirloskar Motors Deputy Managing Director Chief Operating Officer Joined Toyota Motor Asia Pacific Engineering and Manufacturing Company Executive Managing Coordinator Joined Tata Hitachi Construction Machinery Co., Pvt., Ltd. President and Director (to present) Executive Officer, the Company (to present) General Manager, India Business Div. (to present)	(Note)	–
				Total		92

(Note) The term of Executive Officers is from April 1, 2023 to March 31, 2024.

2) Status of Outside Directors

There are 7 Outside Directors of the Company. Toshiko Oka and Kazushige Okuhara hold shares of the Company. Takatoshi Hayama serves concurrently as COO of the Social Infrastructure Systems Business Unit of Hitachi, Ltd. The Company and Hitachi, Ltd. have entered into a license agreement related to the Hitachi brand. Hidemi Moue serves concurrently as Representative Director and President of HCJI Holdings, Ltd. The Company and HCJI Holdings, Ltd. have entered into a capital alliance agreement. Besides this, the Company has no particular personal, capital or business relationship or other conflict of interest with Outside Directors.

3) Functions and roles played by Outside Directors in corporate governance of the Company

The Company separates management oversight from business operations and achieves prompt management with clear responsibilities, along with further strengthening the oversight functions of the Board of Directors by putting in place 3 committees, namely the Nominating Committee, Audit Committee, and Compensation Committee, each of which consists of Directors of which the majority are Outside Directors, and has been formed as a company with a nominating committee, etc., for realizing highly objective and transparent management.

4) Requirement for independence from the Company in appointing an Outside Director

The Company has established criteria for independence of Outside Directors, and considers the Outside Director to be independent unless:

- his or her immediate family member within the second degree of kinship is, or has been within the last three years, a Director or an Executive Officer of the Company or any of its subsidiaries;
- he or she is currently an Executive Director, an Executive Officer or an employee of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeded 2% of any of the companies' consolidated gross revenues;
- he or she has received during any of the last three fiscal years more than ¥10 million in direct compensation from the Company for his or her service as a specialist in law, accounting or tax, or as a consultant, other than director compensation of the Company; or
- he or she serves as an Executive Officer or Director of a not-for-profit organization, and the Company's discretionary charitable contributions to the organization in any of the last three fiscal years were more than ¥10 million and 2% of that organization's annual gross revenues.

Also, Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi, Toshinori Yamamoto and Joseph P. Schmelzeis, Jr. are registered as independent directors under the rules of the Tokyo Stock Exchange.

5) Election of and qualification for Outside Directors

The Company has appointed 7 Outside Directors in accordance with the requirement for independence from the Company in appointing an Outside Director as described in 4) above. The Company believes that the further strengthening of the Board of Directors shall be achieved through implementing supervision of the business execution of the Executive Officers from an independent standpoint by utilizing Toshiko Oka's knowledge and deep insight on M&A based on her abundant experience as a top executive of consulting firms, Kazushige Okuhara's knowledge and deep insight on personnel and labor policy based on abundant experience as the business manager of an international company, Maoko Kikuchi's extensive experience and knowledge in the field of law and her experience and deep insight as a corporate manager and corporate auditor, Takatoshi Hayama's operational experience in the information and communication systems field in the Hitachi Group and abundant experience and deep insight as a corporate manager, Hidemi Moue's abundant experience as a corporate manager of a fund management company and knowledge and deep insight into finance and M&A areas, Toshinori Yamamoto's knowledge and deep insight in business planning and domestic/overseas manufacturing based on his abundant experience as an international corporate manager, and Joseph P. Schmelzeis, Jr.'s extensive experience not only management experience in international companies but also including his experience in launching venture business, as a strategic consultant, and as Senior Advisor to the Ambassador at the U.S. Embassy in Tokyo.

6) Mutual cooperation of oversight or audit performed by Outside Directors with internal audit, the Audit Committee audit and accounting audit, as well as relationship with the internal control department

The Audit Committee is made up of 6 Outside Directors. The Committee role in mutual cooperation in internal audit and accounting audit, as well as its relationship with the internal control department are as described in "(3) Status of audit."

(3) Status of audit

1) The audit by the Audit Committee and internal audit

a. Audit by the Audit Committee

As an internal organization of the Board of Directors, the Audit Committee audits whether the execution of duties by Directors and Executive Officers is in compliance with laws and regulations, Articles of Incorporation, and the basic management policies, and whether it is being carried out effectively. Specifically, in addition to deliberations at committee meetings, the Audit Committee inspected domestic group companies in FY2022, monitoring financial and accounting conditions and the status of improvement and operation of the internal control system, to audit execution of business operations and management appropriateness of subsidiaries, and utilized online tools to make inquiries in light of the impact of COVID-19 on overseas group companies.
In addition to making inquiries from the internal audit department, financial and accounting department, and legal department, or each department such as the departments managing product quality, sustainability, and ESG, the committee made inquiries on the status of execution of duties to all 19 Executive Officers, including exchange of opinions with Representative Executive Officer, and discussed and examined the appropriateness of the execution of business operations.
Beyond legal responsibility for consideration, the committee has closely worked with the accounting auditors on matters such as the reporting of quarterly review, reporting of an annual accounting audit, and inquiries on audit findings.

The activities of the Audit Committee in FY2022 are as follows:

Category	Name	Number of meetings attended/Number of meetings held	Attendance rate
Outside Director	Toshiko Oka	21/21	100%
Outside Director	Kazushige Okuhara	21/21	100%
Outside Director	Maoko Kikuchi	21/21	100%
Outside Director	Haruyuki Toyama	21/21	100%
Outside Director	Yoshinori Hosoya	19/21	90%
Director	Tetsuo Katsurayama	21/21	100%

(Note) As of the filing date, the Audit Committee consists of 6 Outside Directors, 5 of whom are Independent Outside Directors under the rules of the Tokyo Stock Exchange, appointed by a resolution of the Board of Directors. In April 2023, the Company worked to strengthen the audit system by appointing one Assistant to the Audit Committee, who assists exclusively in the duties of the Audit Committee, and newly adding one personnel member who also serves in the Internal Auditing Office in the internal audit department to two personnel members who also serves in the office in the Audit Committee Bureau.
The Assistant to the Audit Committee and the Audit Committee Bureau Member are not under the supervision of any Executive Officer, and report to the Audit Committee.

- Monitoring status of group companies

In FY2022, the Audit Committee conducted on-site inspections at four domestic group companies and used online tools to make inquiries and hold question-and-answer sessions with two overseas group companies regarding their management conditions. In addition, during on-site inspections at domestic group companies, the Audit Committee exchanged opinions with full-time auditors of two companies equivalent to large companies under the Companies Act, and through interviews regarding the status of the execution of duties of the Executive Officers who also serve as representatives, worked to understand the management conditions of one domestic and three overseas group companies and conduct appropriate monitoring.

- Specific matters to be examined by the Audit Committee

These matters include audit policy, audit plan, the content of audit implementation, status of improvement and operation of the internal control system, appropriateness of execution of the duties of Executive Officers, election and dismissal of accounting auditors, legality of business reports and supplementary schedules, audit approach of accounting auditors, and reasonableness of audit results of the Company and the Group. In FY2022, in addition to risk management, including responses to the impact of COVID-19, and the formulation status of the next medium-term management plan as well as the implementation status of various measures for sustainability and ESG and the status of achievement of targets, the monitoring of the restructuring of internal control pertaining to business development in the Americas and the transition to a business unit structure were designated as emphasized audit items.

- Activities of the full-time member of the Audit Committee

  As a full-time Audit Committee Member, Director Tetsuo Katsurayama, who retired due to the expiration of his term of office as of the conclusion of the 59th Annual Shareholder's Meeting held on June 26, 2023, attended important internal meetings and reviewed approval documents, etc. on significant matters, made individual inquiries to the internal audit department, the accounting auditors, other departments in the Company and the Group, and performed monitoring of the establishment and operation of the internal control system where appropriate. In addition, as for matters for which he considered it necessary to share information with part-time Audit Committee Members among the items that he found on his own, the members have further improved the effectiveness of activities of the Audit Committee by sharing the information and seeking opinions where necessary, and by other means.

  As of the filing date, the Audit Committee is a system in which all members are Outside Directors in order to ensure objective and transparent management. In April 2023, the Company has newly appointed a full-time Assistant to the Audit Committee, who assists the execution of duties of the Audit Committee, in order for the Audit Committee to smoothly and efficiently carry out audit services. The Audit Committee reviewed matters such as the candidate's duties, and the appointment was made based on the approval of the Audit Committee.
- Duties of the Assistant to the Audit Committee

  Assistants to the Audit Committee shall assist the Audit Committee in conducting audits and on-site audits, and assist in all activities of the Audit Committee, such as investigating, analyzing, reporting, and expressing opinions on matters to be audited in cooperation with related departments.

b. Internal audit

The Company has established the Internal Auditing Office, which directly reports to the President, as a department in charge of internal audits. The Internal Auditing Office chooses subjects to be audited with priority before the evaluation of ten items based on a risk-based approach and audits whether the operations of each business unit, department and group company are being processed accurately, legitimately, and reasonably.
In FY2022, the Company utilized both practical on-site audits on domestic group companies by some auditors and remote audits using online tools due to the impact of COVID-19. Although on-site inspection activities for overseas group companies were limited, the Company performed audits by continuing to utilize remote audits in FY2021, and commissioning audits to firms specialized in internal audits in partnership with the Company for certain overseas group companies.

- Internal audit system

  As of the filing date, the Internal Auditing Office consists of the Internal Auditing Department, which is in charge of internal audits, and the Internal Control Department, which is in charge of internal control, for a total of 15 staff members.

  The Internal Auditing Office has two reporting lines, as it reports directly to the President within the organizational structure while also reporting on audit plans, audit results, etc. to the Audit Committee.

  In addition, a group company with a large business scale has a designated internal audit department, which is responsible for internal audits of the group company and internal audits within the regional business department to which the group company belongs, in cooperation with the Internal Auditing Office of the Company.

- Status of conducting internal audit

  In FY2022, the Company performed internal audits of four domestic companies and eight overseas companies, for a total of 12 companies.

  The scope of the internal audit covers accounting, revenue recognition, inventory management, procurement, export control, company control, governance, compliance, IT management, etc., in general operations. The Company commissions internal audit work in a timely manner to not only the Internal Auditing Office but also the departments that oversee credit management, procurement, legal, and IT, and is working to improve the effectiveness of internal audits.

  In addition, the Company obtains audit plans and audit reports from group companies that have departments dedicated to internal audits, and works to improve the quality of internal audits of the entire Group in addition to introducing evaluations in accordance with the standards of the Institute of Internal Auditors Japan.

- Status of utilizing internal audit results

  The importance ranking of audit issues is determined based on the level of risk and frequency of occurrence, and the priority for responding to internal audit issues is clearly indicated to the audit subjects to promote business improvement.

  In addition, the Internal Auditing Office follows up on the progress of improvements with the Group companies every six months for matters pointed out by the audit and systematically supports improvement measures.

  The audit results are reported separately to the Company’s Chief Financial Officer, President, and Audit Committee Chair, as well as the audit subjects concerned.

  In addition, the status of improvement of matters pointed out through the audit are reported every six months to Executive Committee and Audit Committee, and the Company undertake initiatives for rectifying such matters.

c. Cooperation between Audit Committee and accounting auditors

Along with receiving the annual audit plan and emphasized audit items from the accounting auditors, the Audit Committee thoroughly deliberates and is also informed of the results of the audits in a timely manner to exchange questions and answers actively. A report is also received on the status of the effectiveness of the internal control system, as understood by the accounting auditors through an audit; risk assessment; emphasized audit items; Key Audit Matters (KAM), etc., for discussion and examination.

The accounting auditor reports to the Committee on the status of accounting and internal control audits of overseas group companies with the use of its network of accounting auditors as a global firm. The Audit Committee and the accounting auditors worked together to grasp the status of overseas group companies, such as receiving reports from accounting auditors and confirming the matters pointed out by the audit.

In FY2022, the accounting auditors attended meetings of the Audit Committee six times, and discussed the audit status of each Audit Committee Member and the Internal Auditing Office, and exchanged opinions on global governance.

In response to the revision of the Japanese Institute of Certified Public Accountants’ ethical regulations, the Company has decided to commission an audit firm to carry out non-guaranteed services from FY2023 after obtaining prior approval from the Audit Committee.

d. Cooperation between Audit Committee and internal audit department

The Audit Committee receives the audit policy and audit plan for the fiscal year from the Internal Auditing Office, which is the internal audit department, and is timely informed of the results of the internal audits. It also exchanges opinions about the status of the effectiveness of the internal control system, as understood through internal audit; risk assessment; and audit items pointed out, to maintain and improve the audit accuracy.

In addition, the Audit Committee may instruct the Internal Auditing Office whenever necessary about specific offices to be audited and emphasized audit items, etc.

In FY2022, the Internal Auditing Office reported and provided explanations to the Audit Committee four times, and exchanged information and opinions closely with the full-time Audit Committee Members.

e. Cooperation between the internal audit department and the accounting auditors

The Internal Auditing Office, which is the internal audit department, shares and exchanges opinions with the accounting auditors on matters pointed out through internal audits in each business unit and department of the Company and each group company at a frequency of at least once a quarter. Additionally, the accounting auditors share with the Internal Auditing Office matters identified through on-site inspection and matters pointed out for proposals to improve governance, internal controls, etc. (management letter) communicated to domestic and overseas group companies through the audit of accounting and internal control, with the aim of grasping and mitigating the risks in accounting and operation management through cooperation between the Internal Auditing Office and accounting auditors.

During FY2022, the Internal Auditing Office and the accounting auditors had eight opportunities for consultation.

f. Internal control department

At the Company, the Internal Auditing Office, which is responsible for internal control, compiles the status of the operation and evaluation of the internal control system of the entire Group, and provides instructions on the promotion of improvements. Each group company has an internal control committee and persons who are in charge of internal control and promotes the development, operation, evaluation, and improvement of each company’s internal control system.

Furthermore, the Company established the J-SOX Committee as an organization that oversees internal control concerning financial reporting, with the Chief Financial Officer serving as the chair. The committee consists of the head of each department in charge of DX (IT system information management), legal, accounting, and audits, and full-time Audit Committee Members also attended the meetings of the committee as observers.

The J-SOX Committee is a deliberation body for determining management policies and evaluating the effectiveness of internal control concerning financial reporting of the Company and group companies. It met four times in FY2022, and the content and results of the deliberations are reported to the Company’s Executive Committee and Audit Committee four times and two times, respectively.

g. Relationship between internal control department and accounting auditors

The internal Auditing Office in the internal audit department acts as a point of contact for internal control audits by the accounting auditors and receives explanations about the results of the audits in response to an audit of each step of the development, operation, and evaluation of internal control. If an internal control defect is reported by the accounting auditors, the Internal Auditing Office and the J-SOX Committee will confirm improvement support and correction of the internal control deficiencies of the group company subject to the reporting, thereby maintaining and improving the internal control system's effectiveness.
In addition, the Internal Auditing Office of the Company provides, where necessary, the results of deliberations by the J-SOX Committee, etc., as well as communicates the status of the development, operation, and evaluation of internal control system at each group company to the accounting auditors.
The Internal Auditing Office and the accounting auditors engage in consultation on a daily basis and exchange information closely.

h. Relationship between internal control department and Audit Committee

In order to ensure the effectiveness and reasonableness of internal control, the Audit Committee proactively exchanges information and opinions with the Internal Auditing Office, which is the internal control department, regarding the results of the J-SOX Committee's evaluation of the development, operation, and effectiveness of internal control, and works to maintain and improve the internal control system.

i. Relationship between internal control department and internal audit department

The Internal Auditing Office of the Company has the internal control department and the internal audit department, and the internal control department has an internal control oversight function and the Secretariat of the J-SOX Committee. The J-SOX Committee receives reports on the results of the internal control evaluation from the Secretariat, and improves and assists the internal control system through the Secretariat. The Internal Audit Department periodically conducts audits of the operations of each business unit, department and group company, which were selected based on the risk-based approach. The deficiencies detected in internal controls and the content pointed out by internal audits are shared between the departments in a timely manner, and both departments work closely together to maintain and improve the internal control system and internal audit quality of the entire Group.

(ii) Status of accounting audit

a. Name of audit corporation

Ernst & Young ShinNihon LLC

b. Continuous auditing period

47 years

c. Certified Public Accountant who executed accounting audit

Kazuhiro Ishiguro
Takuto Miki
Kaori Onuma

d. Composition of assistants involved in the auditing work

Seven Certified Public Accountants and 35 other people are involved in the auditing work of the Company.

e. Policy and reasons for the election of the audit corporation

With regard to the election of the audit corporation, it is necessary for the auditor to be well-versed in accounting standards and tax regulations not only in Japan but also in various other countries, to be capable of performing global accounting audits and audits of internal controls, and to have high audit quality, taking into account International Financial Reporting Standards (IFRS) adopted by the Company and the Group's high ratio of overseas business.
The selected audit corporation conducts global accounting audits, has a high level of expertise as accounting auditors with a global network, and has a system in place to ensure that accounting audits are carried out internationally in compliance with laws and in an appropriate manner. As a result of comprehensively considering that there are no problems with independence, etc., the Group has determined that Ernst & Young ShinNihon LLC is an appropriate audit corporation to serve as accounting auditors.

f. Evaluation of the accounting auditors by the Audit Committee

The Audit Committee has set out comprehensive accounting auditors' evaluation criteria for the accounting auditors, such as the audit system, audit implementation guidelines, including emphasized audit item, audit quality, the details of communication with the Audit Committee and executives, etc., and audit fees, etc., and evaluations are conducted every fiscal year.
Based on the policy regarding decisions on the dismissal or non-reappointment of the accounting auditors described in g. below, the Audit Committee makes a resolution on reappointment of the accounting auditors every fiscal year.

g. Policy regarding decisions on the dismissal or non-reappointment of the accounting auditor

If the Audit Committee considers that the accounting auditors fall under any of the provisions of Article 340, paragraph (1) of the Companies Act and judges it necessary to dismiss the accounting auditors immediately, the Audit Committee shall dismiss the accounting auditors, having obtained unanimous consent of the Audit Committee Members. In such case, an Audit Committee Member appointed by the Audit Committee will report on the decision of dismissal and its reasons at the first shareholder's meeting convened after the dismissal.
In addition to the cases mentioned above, the Audit Committee shall, when deemed necessary to change the accounting auditor, such as in cases where the accounting auditor is recognized to have difficulty in properly fulfilling its auditing duties, decide the contents of a proposal to be submitted to the general shareholder's meeting related to the dismissal or non-reappointment of the accounting auditor.

3) Audit fees, etc.

a. Fees of Certified Public Accountants, etc.

Category	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	125	–	130	–
Consolidated subsidiaries	37	–	39	–
Total	162	–	169	–

Description of non-audit services

Not applicable for both the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023.

b. Details of fees paid to Ernst & Young and its group firms which belong to the same network as the Company's Certified Public Accountants, etc. (excluding a.)

(Fiscal year ended March 31, 2022)

Fees paid by the Company and its consolidated subsidiaries to the Company's accounting auditor, Ernst & Young ShinNihon LLC Group (including Ernst & Young and its group firms which belong to the same network as Ernst & Young ShinNihon LLC), were ¥577 million (of which ¥577 million was paid by consolidated subsidiaries) for audit services and ¥229 million (of which ¥47 million was paid by the Company and ¥182 million by consolidated subsidiaries) for non-audit services.

(Fiscal year ended March 31, 2023)

Fees paid by the Company and its consolidated subsidiaries to the Company's accounting auditor, Ernst & Young ShinNihon LLC Group (including Ernst & Young and its group firms which belong to the same network as Ernst & Young ShinNihon LLC), were ¥675 million (of which ¥675 million was paid by consolidated subsidiaries) for audit services and ¥265 million (of which ¥29 million was paid by the Company and ¥236 million by consolidated subsidiaries) for non-audit services.

Description of non-audit services

In the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023, non-audit services rendered for the Company and its consolidated subsidiaries were mainly tax related services.

c. Description of other fees for important audit services

Not applicable for both the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023.

d. Policy for determining audit fees

At the time of the audit plan formulation, the accounting auditors formulate the audit plan time in consultation with the accounting department and reports it to the Audit Committee, and the Audit Committee reports the time spent for the quarterly review and accounting audit every quarter.
The Audit Committee makes thorough inquiries to both the accounting auditors and the accounting department and conducts an examination of the content of the audit, etc. In addition, fees for accounting auditors is determined based on the approval of the Audit Committee.

e. Reasons for approval of the audit fees, etc. to be paid to accounting auditors by the Audit Committee

The Audit Committee confirmed the content of the audit plan of the Financial Auditor, status of development of the quality control structure, status of performance of accounting audit and others, and analyzed and examined the basis for calculation and determination of estimates of audit fees, etc. Consequently, the Audit Committee has determined that the fees, etc. of the Financial Auditor are appropriate, and given the consent in accordance with Article 399, paragraph (1) of the Companies Act.

(4) Compensation to Directors and Executive Officers

1) Method of determination of policies

The Company sets forth the policy on the determination of the details of compensation for individual Directors and Executive Officers pursuant to the provision of the Companies Act applicable to companies with a nominating committee, etc.

2) Overview of the policy

a. Matters relating to both Directors and Executive Officers

Compensation will be commensurate with the scope and range of the Company's business, the ability required of, and the responsibilities and risks to be borne by, the Company's Directors and Executive Officers, taking into consideration compensation packages at other companies.

b. Matters relating to Directors

Compensation for Directors consists of monthly compensation. Monthly compensation shall be set as a fixed amount in light of the duty that is the supervisory function. The level of payment is determined in accordance with a full-time or part-time basis, basic salary, allowance for committee members for committees to which the Director belongs and his or her position.

In case of Directors who also serve as Executive Officers, compensation as a Director is not paid.

c. Matters relating to Executive Officers

Compensation for Executive Officers consists of monthly compensation and performance-linked compensation.

- Monthly compensation is set to standard amounts according to job positions.
- The breakdown of monthly compensation and performance-linked compensation for Executive Officers is as follows:

Category	Monthly compensation	Performance-linked compensation	
		Performance-linked bonus	Restricted share-based compensation
Chairman and President	60%	30%	10%
Executive Officer	70%	20%	10%

- The standard amount for performance-linked bonuses is determined within a range that varies between 0% and 200% depending on the degree of achievement of standard performance targets and achievement of individual roles. As a general rule, the evaluation method is carried out according to the following ratio.

Category	Company-wide performance	Departmental performance	Individual/ departmental mission
Chairman and President	80%	–	20%
Executive Officer	50%	30%	20%

- The evaluation indicators and composition ratios of performance-linked bonuses are as follows.

Category	Evaluation indicator	Composition ratio			
		Chairman and President		Executive Vice President - Executive Officer	
1) Company-wide performance	Adjusted operating income ratio	32%	80%	20%	50%
	Consolidated operating cash flows	16%		10%	
	Consolidated value chain sales	16%		10%	
	ESG assessment	16%		10%	
2) Departmental performance targets		–		30%	
3) Individual/departmental targets (management issues of 3 indicators, including organizational health level)		20%		20%	

3) Overview of organization and procedures for determining the policy on determining the amount of compensation for Directors and Executive Officers and calculation method thereof

The Company's Compensation Committee determines the amount of compensation for individual Directors and Executive Officers through discussions in accordance with 1) and 2) above. As of the filing date, the Compensation Committee consists of a total of eight members, comprising two Directors and six Outside Directors. The Committee discusses and examines basic policies for compensation for Executive Officers and Directors, the details and appropriateness of individual compensation amounts, and other matters.

Financial indicators such as the adjusted operating income ratio and targets, etc. in the medium-term management plan were set as performance indicators used to calculate the performance-linked compensation, to calculate the amount of compensation based on the business plan and outcome of the business for the relevant fiscal year within a certain range stipulated in the "Basic Policy for Compensation to Directors and Executive Officers." As for the method of calculating the performance-linked compensation, the amount was determined within a certain range, depending on the degree of achievement of targets and outcome of business operations of which each person is in charge. The results of the performance indicators for performance-linked compensation paid to the Company's Executive Officers for FY2022 were adjusted operating margin of 10.6%, consolidated operating cash outflow of ¥26,100 million, and consolidated value chain sales of ¥5,200 million, etc. In terms of ESG evaluation, we improved our CO_2 reduction rate concerning emissions, for both those from production activities and those associated with use of the Company's products.

4) Total amount of compensation, total amount for each type of compensation, and the number of eligible Directors and Executive Officers by category

Category	Total amount of compensation (Millions of yen)	Total amount for each type of compensation (Millions of yen)		Number of eligible Directors and Executive Officers
		Monthly salary	Performance-linked compensation for Executive Officers	
Directors (excluding Outside Directors)	29	29	–	2
Executive Officers	841	551	290	19
Outside Directors	73	73	–	6

(Notes) 1. Amounts are rounded to the nearest millions of yen.
2. The above table includes the compensation for one Director who retired as of the conclusion of the 58th Annual Shareholder's Meeting held on June 27, 2022, for the fiscal year under review.
3. Directors who concurrently serve as Executive Officers receive only compensation as Executive Officers.
4. Since Hitachi, Ltd. is no longer the parent company of the Company due to the equity change on August 23, 2022, Yoshinori Hosoya was appointed as an Outside Director. Yoshinori Hosoya's compensation is included in the Outside Directors.

(5) Information on shareholdings

1) Criteria of and approach to the classification of investment securities

The Company classifies investment securities as shares held for purposes other than pure investment (strategic shareholdings) when such securities are deemed to contribute to stable procurement of materials, strengthening of sales route and an improvement in its other corporate value in the medium to long term. Other shares are classified as held for pure investment.

2) Investment securities held for purposes other than pure investment

a. Shareholding policy, method of verification of the reasonableness for shareholdings, and details of verification by the Board of Directors, etc. of the appropriateness of shareholdings in individual issues

The Company specifically examines individual issues of all investment securities at the Board of Directors meeting each fiscal year for the reasonableness and necessity of the continued shareholding, in light of capital cost in addition to the criteria and approach stated in 1) above. At the Board of Directors meeting held on January 27, 2023, it was confirmed that the holding of each issue was appropriate, by checking the status of sale of issues subject to sale, and examining each of the other individual issues.

b. Numbers of stock names and total amounts recorded in the balance sheet

	Number of stock names (Stock names)	Total amount recorded in the balance sheet (Millions of yen)
Unlisted stocks	12	230
Other than unlisted stocks	10	7,907

(Stocks increased in the fiscal year ended March 31, 2023)

	Number of stock names (Stock names)	Total purchase price for the shares increased (Millions of yen)	Reasons for increase of shares
Unlisted stocks	–	–	–
Other than unlisted stocks	–	–	–

(Stocks decreased in the fiscal year ended March 31, 2023)

	Number of stock names (Stock names)	Total selling price for the shares decreased (Millions of yen)
Unlisted stocks	–	–
Other than unlisted stocks	–	–

c. Information on the number of shares and balance sheet amounts, etc. of specified investment securities and deemed holdings of investment securities by stock name

Specified investment securities

Stock name	Fiscal year ended March 31, 2023 Number of shares (Shares) Carrying amount in the balance sheet (Millions of yen)	Fiscal year ended March 31, 2022 Number of shares (Shares) Carrying amount in the balance sheet (Millions of yen)	Purpose of holding, overview of business alliances, etc., quantitative holding effect, and reasons for the increase in the number of shares (Note)	Shareholding of the Company
KYB Corporation	892,000 3,586	892,000 2,654	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company's revenue.	No
Wakita & Co., LTD.	1,200,000 1,460	1,200,000 1,200	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
Kanamoto Co., Ltd.	344,581 751	344,581 690	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
KOKEN BORING MACHINE CO., LTD.	983,000 434	983,000 455	• Purpose of holding: Strengthening of service response capability for underground excavation equipment • Quantitative holding effect: As a result of strengthened mutual cooperation, certain effects were seen on the Company's revenue.	No
IJTT Co., Ltd.	1,300,000 693	1,300,000 699	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company's revenue.	No
Nippon Chuzo K. K.	718,921 614	718,921 586	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company's revenue.	No
NISHIO RENT ALL CO., LTD.	66,000 205	66,000 185	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	No

Stock name	Fiscal year ended March 31, 2023 Number of shares (Shares) Carrying amount in the balance sheet (Millions of yen)	Fiscal year ended March 31, 2022 Number of shares (Shares) Carrying amount in the balance sheet (Millions of yen)	Purpose of holding, overview of business alliances, etc., quantitative holding effect, and reasons for the increase in the number of shares (Note)	Shareholding of the Company
NANYO Corporation	72,600 164	72,600 137	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes

(Note) Because actual results of individual transactions are affected by economic trends, such results are not stated as quantitative holding effect.

V. Financial Information

1. Basis for Preparation of the Consolidated and Non-Consolidated Financial Statements

(1) The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976; hereinafter referred to as the “Regulation on Consolidated Financial Statements”).

(2) The non-consolidated financial statements of the Company are prepared based on the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; hereinafter referred to as the “Regulation on Financial Statements”).

The Company is qualified as a company submitting financial statements prepared in accordance with special provisions and prepares the financial statements in accordance with the provision of Article 127 of the Regulation on Financial Statements.

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements of the Company for the fiscal year ended March 31, 2023 were audited by Ernst & Young ShinNihon LLC.

3. Particular Efforts to Secure the Appropriateness of the Consolidated Financial Statements and Development of a System for Fair Preparation of the Consolidated Financial Statements in Accordance with IFRS

The Company takes special approaches to secure the appropriateness of its consolidated financial statements. Specifically,

(1) the Company joined the Financial Accounting Standards Foundation and has maintained understanding of accounting standards, etc., in a timely manner, in order to be appropriately kept updated on the contents of accounting standards, etc., and to maintain a system to manage financial statements appropriately. In addition, the Company attends various seminars, etc., provided by the Financial Accounting Standards Foundation; and

(2) in order to prepare appropriate consolidated financial statements based on IFRS, the Company obtains press releases and standards publicly issued by the International Accounting Standards Board (IASB) as appropriate to understand the latest standards and prepares the Group Accounting Policy in compliance with IFRS.

1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

1) Consolidated statements of financial position

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and cash equivalents (note 22)	94,257	111,992
Trade receivables (notes 6, 23 and 24)	261,448	301,096
Contract assets (note 17)	4,816	4,221
Inventories (notes 8 and 24)	368,267	450,782
Income tax receivables (note 11)	1,884	974
Other financial assets (note 23)	25,262	29,863
Other current assets	8,421	9,977
Total current assets	764,355	908,905
Non-current assets		
Property, plant and equipment (notes 4, 9 and 24)	384,164	417,077
Right-of-use assets (notes 4 and 7)	58,740	65,305
Intangible assets (notes 4 and 10)	42,008	39,704
Goodwill (notes 4 and 10)	39,071	40,421
Investments accounted for using the equity method (note 18)	26,972	16,508
Trade receivables (notes 6 and 23)	42,747	39,253
Deferred tax assets (note 11)	16,099	21,349
Other financial assets (notes 18 and 23)	20,450	73,391
Other non-current assets	14,954	5,090
Total non-current assets	645,205	718,098
Total assets	1,409,560	1,627,003
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 23)	222,841	244,034
Lease liabilities (note 7)	10,714	11,649
Contract liabilities (note 17)	11,527	13,320
Bonds and borrowings (notes 22 and 23)	174,337	310,944
Income taxes payable (note 11)	15,059	19,215
Other financial liabilities (note 23)	18,810	12,883
Other current liabilities	2,017	2,825
Total current liabilities	455,305	614,870
Non-current liabilities		
Trade and other payables (notes 12 and 23)	8,495	7,562
Lease liabilities (note 7)	50,717	60,149
Contract liabilities (note 17)	9,353	9,611
Bonds and borrowings (notes 22 and 23)	178,770	196,523
Retirement and severance benefits (note 13)	17,622	20,715
Deferred tax liabilities (note 11)	8,865	6,882
Other financial liabilities (note 23)	4,986	5,649
Other non-current liabilities	7,516	4,002
Total non-current liabilities	286,324	311,093
Total liabilities	741,629	925,963

	As of March 31, 2022	As of March 31, 2023
		(Millions of yen)
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	78,397	75,724
Retained earnings (note 14)	414,541	463,174
Accumulated other comprehensive income (note 15)	40,183	42,611
Treasury stock, at cost (note 14)	(3,090)	(3,094)
Total equity attributable to owners of the parent	611,608	659,992
Non-controlling interests	56,323	41,048
Total equity	667,931	701,040
Total liabilities and equity	1,409,560	1,627,003

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Fiscal Years ended March 31, 2022 and 2023 (Millions of yen)

	2022	2023
Revenue (notes 4 and 17)	1,024,961	1,279,468
Cost of sales	(744,973)	(901,520)
Gross profit	279,988	377,948
Selling, general and administrative expenses	(186,470)	(242,247)
Other income (note 19)	17,212	16,482
Other expenses (note 19)	(4,140)	(18,873)
Operating income	106,590	133,310
Financial income (note 20)	4,459	4,999
Financial expenses (note 20)	(6,404)	(20,111)
Share of profits (losses) of investments accounted for using the equity method (note 18)	6,224	(5,537)
Income before income taxes	110,869	112,661
Income taxes (note 11)	(31,005)	(36,939)
Net income	79,864	75,722
Net income attributable to:		
Owners of the parent	75,826	70,175
Non-controlling interests	4,038	5,547
Net income	79,864	75,722
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 21)	356.57	330.00
Net income per share (Diluted) (yen) (note 21)	356.57	330.00

3) Consolidated statements of comprehensive income

Fiscal Years ended March 31, 2022 and 2023 (Millions of yen)

	2022	2023
Net income	79,864	75,722
Other comprehensive income		
Items that cannot be reclassified into net income		
Net gains and losses from financial assets measured at fair value through OCI (notes 15 and 23)	(142)	145
Remeasurements of defined benefit obligations (notes 13 and 15)	1,616	(1,243)
Other comprehensive income of equity-method affiliates (note 15)	2	5
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	39,724	6,413
Cash flow hedges (notes 15 and 23)	7	172
Other comprehensive income of equity-method affiliates (note 15)	1,102	750
Other comprehensive income, net of taxes	42,309	6,242
Comprehensive income	122,173	81,964
Comprehensive income attributable to: Owners of the parent	111,929	75,515
Non-controlling interests	10,244	6,449

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity
Fiscal Year ended March 31, 2022

(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	80,620	350,229	1,669	7,510	(355)
Net income			75,826			
Other comprehensive income (note 15)				1,574	(140)	7
Comprehensive income	–	–	75,826	1,574	(140)	7
Acquisition of treasury stock (note 14)						
Disposal of treasury stock (note 14)		0				
Dividends paid (note 16)			(11,696)			
Increase/decrease due to additional acquisition of interests in subsidiaries (note 5)						
Transfer to retained earnings			182		(182)	
Change in liabilities for written put options over non-controlling interests (note 14)		(2,223)				
Transaction with owners	–	(2,223)	(11,514)	–	(182)	–
Balance at end of period	81,577	78,397	414,541	3,243	7,188	(348)

(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	(4,562)	4,262	(3,086)	513,602	54,954	568,556
Net income		–		75,826	4,038	79,864
Other comprehensive income (note 15)	34,662	36,103		36,103	6,206	42,309
Comprehensive income	34,662	36,103	–	111,929	10,244	122,173
Acquisition of treasury stock (note 14)		–	(4)	(4)		(4)
Disposal of treasury stock (note 14)		–	0	0		0
Dividends paid (note 16)		–		(11,696)	(8,826)	(20,522)
Increase/decrease due to additional acquisition of interests in subsidiaries (note 5)		–		–		–
Transfer to retained earnings		(182)		–		–
Change in liabilities for written put options over non-controlling interests (note 16)		–		(2,223)	(49)	(2,272)
Transaction with owners	–	(182)	(4)	(13,923)	(8,875)	(22,798)
Balance at end of period	30,100	40,183	(3,090)	611,608	56,323	667,931

See accompanying notes to consolidated financial statements.

Fiscal Year ended March 31, 2023

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasure-ments 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	78,397	414,541	3,243	7,188	(348)
Net income			70,175			
Other comprehensive income (note 15)				(1,151)	148	142
Comprehensive income	–	–	70,175	(1,151)	148	142
Acquisition of treasury stock (note 14)						
Disposal of treasury stock (note 14)						
Dividends paid (note 16)			(24,454)			
Increase/decrease due to additional acquisition of interests in subsidiaries (note 5)		(3,553)				
Transfer to retained earnings			2,912	(2,758)	(154)	
Change in liabilities for written put options over non-controlling interests (note 14)		880				
Transaction with owners	–	(2,673)	(21,542)	(2,758)	(154)	–
Balance at end of period	81,577	75,724	463,174	(666)	7,182	(206)

(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	30,100	40,183	(3,090)	611,608	56,323	667,931
Net income		–		70,175	5,547	75,722
Other comprehensive income (note 15)	6,201	5,340		5,340	902	6,242
Comprehensive income	6,201	5,340	–	75,515	6,449	81,964
Acquisition of treasury stock (note 14)		–	(4)	(4)		(4)
Disposal of treasury stock (note 14)		–		–		–
Dividends paid (note 16)		–		(24,454)	(5,627)	(30,081)
Increase/decrease due to additional acquisition of interests in subsidiaries (note 5)		–		(3,553)	(15,469)	(19,022)
Transfer to retained earnings		(2,912)		–		–
Change in liabilities for written put options over non-controlling interests (note 14)		–		880	(628)	252
Transaction with owners	–	(2,912)	(4)	(27,131)	(21,724)	(48,855)
Balance at end of period	36,301	42,611	(3,094)	659,992	41,048	701,040

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Fiscal Years ended March 31, 2021 and 2022 (Millions of yen)

	2022	2023
Net income	79,864	75,722
Depreciation	48,164	55,022
Amortization of intangible asset	7,316	7,864
Impairment losses	196	1,912
(Gain) loss on business restructuring	(8,755)	12,267
Income tax expense	31,005	36,939
Share of profits (losses) of investments accounted for using the equity method	(6,224)	5,537
(Gain) loss on sales of property, plant and equipment	(4,597)	(11,191)
Financial income	(4,459)	(4,999)
Financial expenses	6,404	20,111
(Increase) decrease in trade receivables and contract assets	(50,316)	(31,391)
(Increase) decrease in lease receivables	18,745	11,514
(Increase) decrease in inventories	(48,167)	(75,384)
Increase (decrease) in trade payables	15,092	15,477
Increase (decrease) in retirement and severance benefits	(498)	2,761
Other	(24,130)	(52,670)
Subtotal	59,640	69,491
Interest received	1,769	2,799
Dividends received	1,479	1,148
Interest paid	(4,729)	(8,858)
Income tax paid	(18,842)	(37,236)
Payments for performance of guarantee obligation (note 18)	-	(53,479)
Net cash provided by (used in) operating activities	39,317	(26,135)
Capital expenditures	(27,924)	(53,479)
Proceeds from sale of property, plant and equipment	8,923	11,939
Acquisition of intangible assets	(6,616)	(6,301)
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	(2,642)	(3,507)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	22,592	7,697
(Increase) decrease in short-term loan receivables, net	187	(10)
Collection of long-term loan receivables	66	26
Payments for acquisition of businesses	(1,030)	–
Other	(410)	348
Net cash provided by (used in) investing activities	(6,854)	(42,647)
Increase (decrease) in short-term borrowings, net (note 22)	21,314	135,589
Proceeds from bonds and long-term borrowings (notes 22 and 23)	36,487	55,809
Payments on bonds and long-term borrowings (notes 22 and 23)	(50,160)	(39,772)
Payments on lease liabilities (note 22)	(12,699)	(11,745)
Dividends paid to owners of the parent (note 16)	(11,695)	(24,450)
Dividends paid to non-controlling interests	(8,857)	(9,316)
Payments for acquisition of shares of subsidiaries from non-controlling interests	-	(19,022)
Other	(5)	(4)
Net cash provided by (used in) financing activities	(25,615)	87,089
Effect of exchange rate changes on cash and cash equivalents	7,079	(572)
Net increase (decrease) in cash and cash equivalents	13,927	17,735
Cash and cash equivalents at beginning of period (note 22)	80,330	94,257
Cash and cash equivalents at end of period (note 22)	94,257	111,992

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of operations

Hitachi Construction Machinery Co., Ltd. (the "Company") is a corporation domiciled in Japan, whose shares are listed on the Tokyo Stock Exchange. The accompanying consolidated financial statements comprise the Company, its consolidated subsidiaries and the Company's interests in affiliates and joint ventures. The Company's and its consolidated subsidiaries' businesses include manufacturing, sales, services and rental of construction machinery, and there are two reportable segments: the Construction Machinery Business Segment and the Solution Business Segment.

(2) Basis of presentation

As the Company meets the requirements of a "Specified Company under Designated International Accounting Standards" pursuant to Article 1-2 of the Regulation on Consolidated Financial Statements, the consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as permitted by the provision of Article 93 of the Regulation. The Company's fiscal year begins on April 1 and ends on March 31 of the following calendar year.

The Company's consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments, financial assets and liabilities measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI), liabilities for written put options over non-controlling interests and assets and liabilities associated with defined benefit plans. The consolidated financial statements are presented in millions of Japanese yen, the functional currency of the Company. For all the financial information presented in Japanese yen, figures are rounded to the nearest million yen.

Management of the Company has made a number of judgments, estimates and assumptions relating to the application of accounting policies, reporting of revenues and expenses and assets and liabilities in the preparation of these consolidated financial statements in accordance with IFRS. Actual results could differ from those estimates.

Estimates and their underlying assumptions are continually evaluated. The effect of a change in accounting estimates, if any, is recognized in the reporting period in which the change was made and in future periods.

The information regarding judgments used in applying accounting policies that could have a material effect on the Company's consolidated financial statements is included in the following notes:

- (3) *(a) Basis of consolidation*
- (3) *(d) Financial instruments* and (23) Financial instruments and related disclosures

In addition, estimates and assumptions that could have a material effect on the amounts recognized in the consolidated financial statements are as follows.

- Valuation of goodwill
  The method of impairment losses on goodwill is provided in "(3) *(i) Impairment of non-financial assets*" and "(10) Goodwill and other intangible assets."
  Significant goodwill recorded in the consolidated statements of financial position as of March 31, 2023 is principally goodwill of ¥8,982 million mainly due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in 2016, and goodwill of ¥22,145 million mainly due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in 2017.
  The recoverable amount per cash-generating unit (CGU) is calculated at the higher of fair value less costs of disposal or value in use. Comparison with similar publicly traded companies, and a market approach where a price that can be achieved in orderly transactions between market participants, such as market capitalization of the asset, etc. is reasonably estimated and calculated, are principally used as valuation techniques used to calculate fair value less costs of disposal. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs. The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU exceeded the carrying amount as of March 31, 2023, the value in use may fall below the carrying amount in and after the next fiscal year if the discount rate increases, and this may affect operating results, etc.
- Recoverability of deferred tax assets
  The process of considering recoverability of deferred tax assets is provided in "(11) Deferred taxes and income taxes."
  Deferred tax assets recorded in the consolidated statement of financial position as of March 31, 2023 was ¥21,349 million. Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized. In assessing the recoverability of deferred tax assets, the Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, by examining whether or not future taxable income can be generated in specific tax jurisdictions during the periods in which these deductible differences, etc. become deductible. The Group has judged that it is more likely than not that it will realize the

benefits of these deductible differences as of March 31, 2023. However, the period in which taxable income is generated and the amount are affected by future changes in uncertain economic conditions. If the period in which taxable income is actually generated and the amount differs from the estimates in and after the next fiscal year, this may affect operating results, etc.

- Valuation of indemnification claim against ACME Business Holdco, LLC
  Notes are omitted as the same information is provided in "(18) Investments accounted for using the equity method."

Viewpoints in making accounting estimates

Impact of the Russia-Ukraine conflict

The consolidated statement of financial position as of March 31, 2023 includes components of the non- consolidated statement of financial position of LLC Hitachi Construction Machinery Eurasia (hereinafter referred to as "HCMR"), which is a consolidated subsidiary of the Company located in Russia.

Main items in HCMR's non-consolidated statement of financial position include trade receivables from sales agents of ¥7,705 million and inventories of ¥7,121 million. Although an allowance for doubtful receivables on trade receivables has been recorded by estimating their lifetime expected credit losses, such estimate is based on an assumption that the most recent conditions will be maintained over the collection period, in light of the financial conditions of sales agents, circumstances of industries to which their clients belong, recent status of collections, and other factors. While inventories have also been evaluated upon taking into account future sales plans based on orders received.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2023. However, the impact of the Russia-Ukraine conflict on economic activities contains uncertainties. If the actual progress of economic activities and other developments differ from the estimates, accounting estimates in and after the next consolidated fiscal year may be affected, posing a risk of significant changes to the evaluations on allowance for doubtful receivables and inventories.

(3) Summary of significant accounting policies

(a) Basis of consolidation

(i) Consolidated subsidiaries

Consolidated subsidiaries are entities controlled by the Company. Control is obtained when the Company has risks or rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect the variable returns.

The Company consolidates all subsidiaries from the date on which the Company acquires control until the date on which the Company loses control.

Significant intercompany transactions and receivables and payables within the Hitachi Construction Machinery Group (the "Group") have been eliminated.

Consolidated subsidiaries' financial statements are adjusted, if necessary, when their accounting policies differ from those of the Company. For a consolidated subsidiary whose reporting date is different from that of the Company, financial statements of the consolidated subsidiary based on provisional settlement of accounts made as of the reporting date are used on a consolidated basis.

Changes in ownership interests in consolidated subsidiaries without a loss of control are accounted for as equity transactions. Changes in ownership interests in consolidated subsidiaries with a loss of control are accounted for by derecognizing consolidated subsidiaries' assets and liabilities, non-controlling interests, equity and accumulated other comprehensive income (AOCI) attributable to the consolidated subsidiaries.

(ii) Affiliates

Affiliates are entities over which the Company has the ability to exercise significant influence over their operational and financial policies, but which are not controlled by the Company.

Investments in affiliates are accounted for using the equity method. (the "equity-method affiliate")

The consolidated financial statements of the Company include changes in profit or loss and other comprehensive income (OCI) of these equity-method affiliates from the date on which the Company obtains significant influence or joint control to the date on which it loses significant influence or joint control.

The financial statements of the equity-method affiliates are adjusted, if necessary, when their accounting policies differ from those of the Company.

(b) Cash equivalents

Cash equivalents are highly liquid short-term investments with insignificant risk of changes in value, with original maturities of three months or less from the date of acquisition.

(c) Foreign currency translation

The consolidated financial statements of the Company are presented in Japanese yen, which is the Company's functional currency.

i) Foreign currency transactions

Foreign currency transactions are converted into the functional currency of the Company and its consolidated subsidiaries using the exchange rate prevailing at the transaction date or a rate that approximates such rate. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency using the exchange rate at the end of the reporting period. Foreign exchange gains and losses resulting from the currency conversion and settlement are recognized in profit or loss, except where gains and losses on assets or liabilities are recognized in OCI, foreign exchange effects relating to such assets or liabilities are also recognized in OCI.

ii) Foreign operations

Assets and liabilities of foreign entities are translated into Japanese yen using the exchange rate at the end of the reporting period. Revenue and expense items are translated using the rate at the transaction date, or the average exchange rates during the period if there are no significant fluctuations in the exchange rates.

Gains or losses derived from translating foreign entities' financial statements are recognized in OCI. At the time of disposal of foreign entities, cumulative translation differences that were recorded as OCI are reclassified into profit or loss.

(d) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes trade and other receivables on the date such receivables arise. All other financial assets are initially recognized at the transaction date on which the Group becomes a party to the agreement.

The Group derecognizes financial assets when contractual rights to cash flows from the financial assets expire or when the contractual rights to receive cash flows from the financial assets are transferred in transactions where the risks and economic rewards of owning the financial assets are substantially transferred. In transactions where the risks and economic rewards of owning the financial assets are neither substantially transferred nor retained, the Group continues to recognize the financial assets to the extent of its continuing involvement and only derecognizes such financial assets when its control is transferred.

The classification and measurement of non-derivative financial assets are summarized as follows:

Financial assets measured at amortized cost

Financial assets are subsequently measured at amortized cost when they meet the following requirements:
- The financial asset is held within a business model of the Group the objective of which is to hold the asset to collect contractual cash flows.
- The contractual terms of the financial asset provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value (including direct transaction costs). After initial recognition, the carrying amount of financial assets measured at amortized cost is measured using the effective interest method. Interest accrued on financial assets measured at amortized cost is included in interest income in the consolidated statements of income.

FVTOCI financial assets

The Group holds certain equity instruments with the purpose of expanding its revenue base by maintaining and strengthening business relations with the investees. These equity instruments are classified as FVTOCI financial assets by designation. They are initially and subsequently measured at fair value, and the changes in fair value are recognized in OCI. The cumulative amount of OCI is recognized in equity as AOCI. Dividends on equity instruments designated as FVTOCI are recognized in profit or loss, except where they are considered to be a return of the investment.

FVTPL financial assets

The Group classifies equity instruments not designated as FVTOCI financial assets and debt instruments not classified as financial assets measured at amortized cost, as FVTPL financial assets. These instruments are subsequently measured at fair value and the changes in fair value are recognized in profit or loss.

Impairment of financial assets

The Group evaluates the allowance for doubtful receivables based on expected credit losses on financial assets measured at amortized cost, trade receivables, contract assets, and other receivables depending on whether the credit risk has increased significantly since initial recognition on a regular basis, but no less frequently than at the end of each quarterly reporting period.

If the credit risk has increased significantly since initial recognition, the allowance for doubtful receivables is measured at the amount equal to the lifetime expected credit losses on the financial assets. If the credit risk has not increased significantly since initial recognition, the allowance for doubtful receivables is measured at the amount equal to the expected credit losses within the next 12 months after the end of the fiscal year. However, for trade receivables, contract assets, and lease receivables, allowance for doubtful receivables is always measured at the amount equal to the lifetime expected credit losses.

Whether credit risk has increased significantly is determined based on changes in the risk of default. Default is defined as the state in which a critical problem with debtor's payment of contractual cash flows has been identified and there are no reasonable expectations of recovering the financial asset in its entirety or a portion. To determine whether there have been any changes in the risk of default, external credit ratings, past due information and other factors are mainly taken into consideration.

Expected credit losses are measured by taking the probability weighted average of the discounted present values of differences between the total amount of the contractual cash flows and the total amount of future cash flows expected to be received in the future from the financial assets. If one or more events occur, such as overdue payments, extended payment terms, negative evaluation by third party credit rating agencies, and/or a deterioration in financial position and operating results, including capital deficit, the financial assets are individually assessed as credit-impaired financial assets and expected credit losses are measured based mainly on historical credit loss experience, future collectible amounts and other factors. The expected credit losses on the financial assets that are not credit-impaired are measured through collective assessment based mainly on provision rates depending on historical credit loss experience adjusted by the current and future economic situation and other factors, if necessary.

For the expected credit losses on financial assets measured at amortized cost, contract assets, and lease receivables, the allowances for doubtful receivables are recorded instead of directly reducing the carrying amounts. Changes in expected credit losses are recognized in profit or loss as impairment losses and are included in selling, general and administrative expenses in the consolidated statements of income. For financial assets, after all means of collection have been exhausted and the potential for recovery is considered remote, it is determined that there are no longer any reasonable expectations of recovering the financial assets in their entirety or a portion and the carrying amounts are generally written off.

(ii) Non-derivative financial liabilities

The Group initially recognizes debt instruments on the date of issuance. All other financial liabilities are initially recognized at the transaction date on which the Company becomes a party to the agreement. The Group derecognizes financial liabilities when extinguished, when the obligation in the contract is redeemed or the liability is discharged, cancelled or expires. As non-derivative financial liabilities the Group holds bonds, borrowings, trade payables, and other financial liabilities. They are initially recognized at fair value (less direct transaction costs), and bonds and borrowings are subsequently measured at amortized cost using the effective interest method. Interest accrued on these financial liabilities is included in interest expenses in the consolidated statements of income.

(iii) Derivatives and hedge accounting

The Group uses derivative instruments including forward exchange contracts, currency swaps and interest rate swaps in order to hedge foreign currency exchange risks and interest rate risks. All derivatives are measured at fair value irrespective of the objective and intent of holding them.

The Group accounts for hedging derivatives as follows

- "Fair value hedge" is a hedge against changes in fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitments and the related derivatives are both recorded in profit or loss if the hedge is considered effective.
- "Cash flow hedge" is a hedge of a forecast transaction or of the variability of future cash flows to be received or paid related to a recognized asset or liability. The changes in fair value of the derivatives designated as cash flow hedges are recorded in OCI if the hedge is considered highly effective. This treatment continues until profit or loss is affected by the variability of future cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative are recognized in profit or loss. If a non-financial asset or a non-financial liability is recognized due to a hedged forecast transaction, the changes in the fair value of the derivative recognized in OCI are included directly in the acquisition cost or other carrying amount of the asset or liability when the asset or liability is recognized.

The Group follows the documentation requirements as prescribed by IFRS 9 "Financial Instruments" (amended in July 2014), which includes the risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and subsequently on a periodic basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or future cash flows of the hedged items. Hedge accounting is discontinued if a hedge becomes ineffective.

(iv) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and reported as net amounts in the consolidated statements of financial position, only when the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(e) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the specific identification method or by the moving average method for finished goods, semi-finished goods and work in process, and generally by the moving average method for raw materials. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to sell.

(f) Property, plant and equipment

The Group uses the cost method to measure property, plant and equipment. They are stated at cost, less accumulated depreciation and accumulated impairment losses. Acquisition cost includes direct costs of acquisition, and costs of dismantling, removing and restoring the assets. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives for major classes of assets:

Buildings and structures	2 to 67 years
Machinery, equipment and vehicles	2 to 30 years
Tools, furniture and fixtures	2 to 30 years

Residual value, estimated useful lives and the method of depreciation are reviewed at the fiscal year-end. Changes in residual value, estimated useful lives or depreciation method are accounted for on a prospective basis as a change in accounting estimate.

(g) Goodwill and other intangible assets

(i) Goodwill

After initial recognition, goodwill is not amortized and is stated at cost less any accumulated impairment losses.

(ii) Other intangible assets

The Group applies the cost model to other intangible assets and states such assets at cost less accumulated amortization and impairment losses.

Intangible assets are amortized using the straight-line method over the following estimated useful lives for major classes of assets:

Software	2 to 10 years
Others	2 to 20 years

Residual value, estimated useful lives and the method of amortization are reviewed at the fiscal year-end. Changes in residual value, estimated useful lives or amortization method are accounted for on a prospective basis as a change in accounting estimates.

(h) Leases

(i) Lessee

Leases of the Group are mainly leases of real estate and leases of construction machinery. The Group recognizes a right-of-use asset, a right to use the underlying asset, and a lease liability, which is an obligation to make lease payments, and recognizes lease costs as depreciation expense for right-of-use assets and interest expenses on lease liabilities. Lease payments for short-term leases with a lease term of 12 months or less are recognized in profit or loss on a straight-line basis over the lease term.

Right-of-use assets

The Group applies a cost model to measure the right-of-use asset, and presents the corresponding amount as "Right-of-use assets" in the consolidated statements of financial position at cost at the commencement date of the lease less any accumulated depreciation and any accumulated impairment losses. The cost of right-of-use asset includes the amount of the initial measurement of the lease liability and the initial direct cost incurred by the lessee. The Group depreciates the right-of-use asset from the commencement date of the lease to the earlier of the end of the useful life of the underlying asset or the end of the lease term on a straight-line basis. Changes in the useful life or the lease term are accounted for on a prospective basis as a change in accounting estimate. The useful life of right-of-use assets or the lease term is 2 to 50 years.

Lease liability
The lease liability is measured at the present value of lease payments that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate, and presented as "Lease liabilities" in the consolidated statements of financial position. Interest expense on the lease liability in each period during the lease term that produces a constant periodic rate of interest on the remaining balance of the lease liability is recognized in profit or loss over the lease term and is included in "Financial expenses" in the consolidated statements of income.

(ii) Lessor
The Group, as a lessor, mainly leases construction machinery. If substantially all the risks and rewards incidental to the ownership of items of property, plant and equipment are transferred to the lessee in a lease, it is classified as a finance lease with the recognition of the underlying asset discontinued and the present value of the total amount of lease payments is used to recognize and measure the net investment in the lease. If substantially all the risks and rewards incidental to the ownership remain with the lessor in a lease, it is classified as an operating lease, and the underlying asset is continuously recognized, and lease income is recognized over the lease term on a straight-line basis.

(i) Impairment of non-financial assets
For each non-financial asset, the Group reviews the carrying amount and tests for impairment when there are events or circumstances indicating an asset's carrying amount may not be recoverable. Irrespective of any indicators of impairment, the Group tests goodwill for impairment at the end of each fiscal year, by estimating the recoverable amount of each cash-generating unit (CGU) to which such assets are allocated.

The Group measures the recoverable amount primarily based on the market price of the asset or using the income approach (present value technique) based on the estimated future cash flows expected to result from the use of the asset and its eventual disposal. If the carrying amount of the asset allocated to the CGU exceeds its recoverable amount, an impairment loss is recognized at the excess amount.

For an asset other than goodwill, its recoverable amount is subsequently estimated for the asset or the CGU when there is a significant change in facts and circumstances and there is an indication that an impairment loss previously recognized on the asset may no longer exist or has decreased. If the estimated recoverable amount exceeds the carrying amount of the CGU, the impairment loss recognized previously is reversed to the extent of the carrying amount that would have been recorded, net of depreciation or amortization, if impairment had not been recognized previously.

(j) Retirement and severance benefits
The Company and certain consolidated subsidiaries have defined benefit pension plans and severance lump-sum payment plans to provide retirement and severance benefits to employees. The present value of defined benefit obligations and retirement benefit costs are measured based on the projected unit credit method.

The present value of defined benefit obligations and the fair value of plan assets are remeasured as of the end of the fiscal year. Actuarial differences arising during the year and changes in fair value of plan assets (excluding interest income) are recognized in OCI and are not subsequently reclassified into profit or loss. Any prior service cost, which arises at the time of a plan amendment, is recognized immediately in profit or loss when such an amendment occurs.

In the consolidated statements of financial position, the Group recognizes the net amount calculated by deducting the fair value of plan assets from the present value of defined benefit obligations and including consideration of the effect of asset ceiling, and presents it as assets or liabilities.

The risk-sharing pension plan introduced by the Company and certain consolidated subsidiaries on March 1, 2023 is classified as a defined contribution pension plan because the Company and certain consolidated subsidiaries have no effective obligation to make additional contributions.

(k) Provisions
The Group recognizes provisions when it has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of obligation can be reliably estimated.

When the time to settle an obligation is expected to be long, and thus the time value of money is material, the amount of a provision is measured at the present value of the amount of expenditures expected to be required to settle the obligation. The pretax discount rate reflecting the time value of money and risks specific to the obligation is used in the calculation of the present value.

(l) Contingencies

The Group discloses contingent liabilities in (27) Commitments and contingencies in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if an obligation does not meet the recognition criteria of provisions prescribed above in *(k) Provisions*, excluding those where the possibility of an outflow of resources is remote.

(m) Revenue recognition

The Group recognizes revenue in accordance with the following five-step approach.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group conducts multiple transactions to meet its customers' needs which may involve the delivery or performance of multiple elements, such as goods or services. When the Group enters into multiple contracts for providing the goods or services, related contracts are combined based on interdependencies between each contract's consideration and the time the Group entered into such contracts, and the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service for the purpose of recognizing revenue, and revenue is recognized when ownership is deemed to have been transferred.

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Variable consideration, such as discounts and rebates, is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The promised amount of consideration does not include a significant financing component, because ordinary transactions are completed with payments within one year.

In estimating the stand-alone selling price, the Company considers various factors such as market conditions, market price of competing products, etc., cost of products, and customers' business conditions.

For transactions whereby control over goods and services, etc. is transferred over time, the Company measures its progress towards complete satisfaction of that performance obligation on the basis of output or input methods in consideration of the nature of the goods and services for the purpose of recognizing revenue. When the Company cannot reasonably measure the progress, revenue is recognized only to the extent of the costs incurred. The Group recognizes the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract as an asset if those costs are expected to be recovered, and those assets are amortized based on the methods used to recognize revenue of the goods or services to which the assets relate. The Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset is less than one year.

(n) Government grants

Government grants are recognized at fair value when the Group obtains reasonable assurance that the conditions attached to the grants will be met and the grants will be received.

Government grants for expenses are recognized in profit or loss on a systematic basis over the periods in which the related costs for which the grants are intended to compensate are recognized. Government grants for assets are recognized by calculating the carrying amount of the assets by deducting the amount of the grants from acquisition cost of the assets.

(o) Deferred taxes and income taxes

Tax expenses are comprised of current tax and deferred tax. These tax expenses are recognized in profit or loss, except for tax expenses related to business combinations and items recognized directly in equity or OCI.

Deferred tax assets and liabilities resulting from temporary differences and others are accounted for based on the asset and liability approach. Deferred tax liabilities are not recognized for temporary differences arising from goodwill, temporary differences arising from an asset or liability in a transaction other than a business combination, which at the time of transaction affects neither accounting nor taxable income; and future taxable difference arising from investments in consolidated subsidiaries or affiliates where that the Group is able to control the timing of reversal of the temporary difference while it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and OCI in the fiscal year that includes the enactment date of the law related to the change in tax rates. Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized.

(p) Earnings per share

Basic earnings per share (EPS) for net income attributable to owners of the parent is calculated based on the weighted average number of ordinary shares outstanding during the period. Diluted EPS for net income attributable to owners of the parent is calculated based on the sum of the weighted average number of ordinary shares outstanding during the period and the conversion of securities with dilutive effects or the number of authorized shares.

(q) Business combinations

Business combinations are accounted for using the acquisition method. Consideration is measured as the sum of the fair value of the consideration transferred at acquisition date and the non-controlling interests in the acquiree. The Company determines, on a transaction by transaction basis, whether to measure non-controlling interests at fair value or by the appropriate share in the fair value of identifiable net assets of the acquiree. Acquisition related costs are expensed in the period in which the costs are incurred.

On the acquisition date, identifiable assets and liabilities are recognized at fair value at acquisition date, except for the following items:

- Deferred tax assets (or deferred tax liabilities) and liabilities (or assets) related to employee benefits are recognized and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits,” respectively.
- Assets or disposal Groups classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with this standard.
- Liabilities or equity instruments relating to share-based payment transactions of the acquired entity, or liabilities or equity instruments relating to replacement of share-based payment transactions of the acquired entity with share-based payment transactions of a consolidating company are measured in accordance with IFRS 2 “Share-based Payment.”

When the consideration for acquisition exceeds the fair value of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated statements of financial position. On the other hand, when the consideration for acquisition falls below the fair value, the difference is immediately recorded as revenue in the consolidated statements of income.

(r) New or amended standards and interpretations

The Group has applied the “International Tax Reform—Pillar Two Model Rules” (Amendments to IAS 12 “Income Taxes”) from the fiscal year under review.

This amendment clarifies that IAS 12 applies to income taxes arising from tax laws enacted or effectively enacted to introduce the OECD BEPS Pillar Two Global Minimum Tax (GloBE) rules. However, it provides a temporary exceptional measure that requires an entity to not recognize or disclose deferred tax assets and liabilities related to income taxes arising from the Global Minimum Tax rules.

The Group has applied the exceptional measure set forth in IAS 12, and has not recognized or disclosed deferred tax assets and liabilities related to income taxes arising from the Global Minimum Tax rules.

(s) New accounting standards not yet adopted by the Company

Of major new accounting standards and interpretations issued or amended prior to the approval date of the consolidated financial statements, there are no standards and interpretations that are not adopted early by the Group and have material impact.

(t) Subsequent events

The Group has assessed events that occurred up to June 27, 2023, the filing date of this annual securities report.

(4) **Segment information**

(a) Reportable segment information

(i) **Overview of reportable 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 wheel 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.

(ii) **Revenue, profit or loss, and other items of business segments**

For the fiscal year ended March 31, 2022

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	933,857	91,104	1,024,961	–	1,024,961
Intersegment transactions	7	3,718	3,725	(3,725)	–
Total revenues	933,864	94,822	1,028,686	(3,725)	1,024,961
Segment profit (*1)	98,660	7,930	106,590	–	106,590
Financial income	–	–	–	4,459	4,459
Financial expenses	–	–	–	(6,404)	(6,404)
Share of profits (losses) of investments accounted for using the equity method	6,224	–	6,224	–	6,224
Income before income taxes	104,884	7,930	112,814	(1,945)	110,869
Segment assets	1,241,160	168,494	1,409,654	(94)	1,409,560
Segment liabilities	665,616	76,107	741,723	(94)	741,629
Other items:					
Depreciation and amortization of intangible assets	(50,505)	(4,975)	(55,480)	–	(55,480)
Impairment losses	(156)	(40)	(196)	–	(196)
Business structure reform expenses	(461)	(134)	(595)	–	(595)
Investments accounted for using the equity method	26,972	–	26,972	–	26,972
Capital expenditure	91,849	5,269	97,118	–	97,118

(*1) Segment profit is based on operating income.

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

(*3) Intersegment transactions are recorded at the same prices used in arm's length transactions.

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2023

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	1,154,103	125,365	1,279,468	–	1,279,468
Intersegment transactions	33	5,799	5,832	(5,832)	–
Total revenues	1,154,136	131,164	1,285,300	(5,832)	1,279,468
Segment profit (*1)	122,959	10,351	133,310	–	133,310
Financial income	–	–	–	4,999	4,999
Financial expenses	–	–	–	(20,111)	(20,111)
Share of profits (losses) of investments accounted for using the equity method	(5,537)	–	(5,537)	–	(5,537)
Income before income taxes	117,422	10,351	127,773	(15,112)	112,661
Segment assets	1,451,119	177,495	1,628,614	(1,611)	1,627,003
Segment liabilities	843,900	83,674	927,574	(1,611)	925,963
Other items:					
Depreciation and amortization of intangible assets	(56,435)	(6,451)	(62,886)	–	(62,886)
Impairment losses	(494)	(1,418)	(1,912)	–	(1,912)
Business structure reform expenses	(12,458)	(137)	(12,595)	–	(12,595)
Investments accounted for using the equity method	16,508	–	16,508	–	16,508
Capital expenditure	108,866	6,293	115,159	–	115,159

(*1) Segment profit is based on operating income.
(*2) Adjustments represent eliminations of intersegment transactions, and amounts of companies that do not belong to any operating segment.
(*3) Intersegment transactions are recorded at the same prices used in arm's length transactions.

(b) Information on products and services

Revenue from external customers by product and service is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Mining machinery	157,946	246,613
Construction machinery and others	867,015	1,032,855
Total	1,024,961	1,279,468

Notes to Consolidated Financial Statements

(c) Geographic information

Revenues attributed to geographic areas based on the location of the customers are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Japan	216,924	223,986
The Americas	219,156	312,476
Europe	124,180	164,898
Russia-CIS, Africa, and Middle East	101,299	117,002
Asia and Oceania	311,310	421,101
China	52,092	40,005
Total	1,024,961	1,279,468

In the fiscal years ended March 31, 2022 and 2023, an individual country to which revenues from external customers were material, other than Japan and China, was Australia included in Asia and Oceania. Revenues attributable to Australia were ¥149,608 million in the fiscal year ended March 31, 2022, and ¥202,483 million in the fiscal year ended March 31, 2023.

The balances of property, plant and equipment, intangible assets, right-of-use assets and goodwill for each geographic area are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Japan	288,150	314,750
The Americas	27,649	29,438
Europe	35,025	39,331
Asia	70,455	78,005
Oceania	100,621	98,340
Other Areas	2,083	2,643
Total	523,983	562,507

As of March 31, 2022 and March 31, 2023, an individual country in which balances of property, plant and equipment, intangible assets, right-of-use assets and goodwill were material was Australia, which was included in the Oceania, other than Japan. The balances in Australia included in those in the Oceania were ¥90,800 million as of March 31, 2022 and ¥88,398 million as of March 31, 2023.

(d) Significant customer information

There is no concentration of revenues to a specific customer for the previous fiscal year and the fiscal year under review.

(5) Business combinations

For the fiscal year ended March 31, 2022

Not applicable.

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2023

Acquisition of non-controlling interests
In accordance with the equity change on August 23, 2022, the Company reviewed the capital relationships of its subsidiaries in China with the group companies of Hitachi, Ltd. and other invested companies. The transaction was accounted for as an equity transaction, and the breakdown of the additional acquisition is as follows:

Name of entity	Ratio of equity		Consideration for additional acquisition (Millions of yen)	Non-controlling interests (Millions of yen)	Capital surplus (Millions of yen)
	Before acquisition	After acquisition			
Hitachi Construction Machinery (Shanghai) Co., Ltd.	54.38%	100.00%	7,633	(1,472)	(6,161)
Hitachi Construction Machinery Financial Leasing (China) Co., Ltd.	74.07%	100.00%	6,334	(9,404)	3,070
Hitachi Construction Machinery (China) Co., Ltd.	81.34%	91.34%	5,055	(4,640)	(415)

(6) Trade receivables
The components of trade receivables are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Accounts and notes receivable and electronically recorded monetary claims - operating	262,938	311,134
Finance lease receivables	51,584	43,244
Allowance for doubtful receivables	(10,327)	(14,029)
Total	304,195	340,349

The components of trade receivables in the consolidated statements of financial position are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Current assets	261,448	301,096
Non-current assets	42,747	39,253
Total	304,195	340,349

Notes to Consolidated Financial Statements

(7) Leases

(a) Lessee

The Company and certain subsidiaries, as lessees, lease facilities centered on buildings, machinery, equipment and vehicles. To some of leases contracts, extension options and termination options have been granted. There is no restriction or special condition imposed by a lease.

The carrying amounts of right-of-use assets by type of underlying asset are as follows:

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2022	15,195	33,205	10,201	139	58,740
As of March 31, 2023	17,078	40,173	7,463	591	65,305

The increase in right-of-use assets in the fiscal year ended March 31, 2023 is ¥22,350 million.

Expenses and cash outflows related to leases are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Depreciation expense for right-of-use assets		
Land	846	761
Buildings and structures	5,501	6,376
Machinery, equipment and vehicles	3,851	3,090
Tools, furniture and fixtures	56	80
Total	10,254	10,307
Interest expenses on lease liabilities	1,411	1,406
Expenses for short-term leases	8,785	9,818
Total expenses related to leases	20,450	21,531
Total cash outflows related to leases	22,895	22,969

Maturity analysis of lease liabilities is provided in "(23) Financial instruments and related disclosures."

(b) Lessor

Certain consolidated subsidiaries, as lessors, lease construction machinery, etc. under finance leases or operating leases.

Revenue from leases is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Lease revenue under finance leases		
Financial income on net investment in the lease	2,235	1,553
Lease revenue under operating leases	55,936	59,635
Total revenue from leases	58,171	61,188

In addition, concerning the residual value of leased properties related to finance leases and operating leases, due to changes in the market environment and technological innovations, etc., that exceed expectations, there is a risk that their actual disposal value will be lower than the initially estimated value and so forth. In order to reduce the above risk, the Group evaluates the residual value of the leased properties and is working to improve the resale capacity of the leased properties. In addition, regarding residual value, the Group mainly monitors the market value of pre-owned properties in each country and is prepared to constantly grasp the latest information through regular monitoring.

Maturity analysis of lease payments receivable under finance leases is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Undiscounted lease payments receivable		
Within 1 year	32,161	28,630
After 1 year but not more than 2 years	11,474	7,476
After 2 years but not more than 3 years	5,494	4,368
After 3 years but not more than 4 years	3,042	2,873
After 4 years but not more than 5 years	2,082	1,809
More than 5 years	323	368
Total	54,576	45,524
Unearned financial income on lease payments receivable	(2,992)	(2,280)
Net investment in the lease	51,584	43,244

Maturity analysis of undiscounted lease payments receivable under operating leases is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Within 1 year	2,372	2,181
After 1 year but not more than 2 years	1,142	1,697
After 2 years but not more than 3 years	826	1,377
After 3 years but not more than 4 years	591	1,094
After 4 years but not more than 5 years	429	746
More than 5 years	132	259
Total	5,492	7,354

Notes to Consolidated Financial Statements

(8) Inventories

The components of inventories are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Merchandise and finished goods	293,638	357,254
Work in process	42,573	54,811
Raw materials and supplies	32,056	38,717
Total	368,267	450,782

For the previous fiscal year and the fiscal year under review, the amounts of inventories expensed and included as cost of sales were ¥739,942 million and ¥895,787 million, respectively. For the previous fiscal year and the fiscal year under review, valuation losses recorded for inventories that were written down to net realizable value were ¥3,220 million and ¥3,971 million, respectively, and reversals of valuation losses were ¥296 million and ¥1,186 million, respectively.

(9) Property, plant and equipment

The following tables show the changes in the net carrying amounts, the gross carrying amount and accumulated depreciation and impairment losses of property, plant and equipment.

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Net carrying amount							
April 1, 2021	57,180	97,617	58,066	9,697	109,892	13,395	345,847
Acquisition	360	1,903	3,661	1,196	44,468	23,307	74,895
Sales and disposals	(3,313)	(204)	(1,487)	(84)	(16,499)	(699)	(22,286)
Depreciation	–	(7,103)	(9,232)	(3,650)	(17,925)	–	(37,910)
Impairment losses	(23)	(49)	(30)	(8)	(46)	–	(156)
Acquisitions and divestitures	–	11	8	9	3,841	–	3,869
Currency translation effect	913	4,659	2,608	541	3,852	567	13,140
Transfer from construction in progress	1,211	8,007	5,267	2,326	5,859	(22,670)	–
Other	–	(866)	147	270	2,321	4,893	6,765
March 31, 2022	56,328	103,975	59,008	10,297	135,763	18,793	384,164
Acquisition	1,709	4,216	8,248	2,093	46,011	36,480	98,757
Sales and disposals	(256)	(831)	(1,322)	(321)	(24,880)	(676)	(28,286)
Depreciation	–	(7,882)	(11,021)	(4,230)	(21,582)	–	(44,715)
Impairment losses	(750)	(110)	(171)	(6)	(75)	–	(1,112)
Acquisitions and divestitures	–	–	92	–	–	–	92
Currency translation effect	19	1,201	494	66	643	(702)	1,721
Transfer from construction in progress	12	12,149	8,427	4,481	7,031	(32,100)	–
Other	–	1,033	70	153	518	4,682	6,456
March 31, 2023	57,062	113,751	63,825	12,533	143,429	26,477	417,077

For the previous fiscal year and the fiscal year under review, the amount of depreciation recognized is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income. Impairment losses are included in “Other expenses” of the consolidated statements of income. The amount related to property, plant and equipment under construction is presented as construction in progress, and other property, plant and equipment are principally operating assets for leasing held by certain consolidated subsidiaries such as construction machinery.

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Gross carrying amount							
March 31, 2022	56,433	225,583	244,256	64,211	220,250	18,793	829,526
March 31, 2023	57,913	244,510	257,366	66,802	229,816	26,477	882,884
Accumulated depreciation and impairment losses							
March 31, 2022	(105)	(121,608)	(185,248)	(53,914)	(84,487)	–	(445,362)
March 31, 2023	(851)	(130,759)	(193,541)	(54,269)	(86,387)	–	(465,807)

(10) Goodwill and other intangible assets

The following tables show the changes in the net carrying amounts, the gross carrying amount and accumulated amortization and impairment losses of goodwill and other intangible assets.

(Millions of yen)

	Goodwill	Software	Others	Total
Net carrying amount				
April 1, 2021	35,406	20,203	20,398	76,007
Purchases	1,723	4,883	927	7,533
Amortization	–	(5,813)	(1,503)	(7,316)
Impairment losses	–	–	–	–
Sales and disposals	–	(47)	(1)	(48)
Acquisitions and divestitures	–	–	–	–
Currency translation effect, etc.	3,225	416	1,723	5,364
Other	(1,283)	289	533	(461)
March 31, 2022	39,071	19,931	22,077	81,079
Purchases	–	6,514	87	6,601
Amortization	–	(6,185)	(1,679)	(7,864)
Impairment losses	–	–	(800)	(800)
Sales and disposals	–	(141)	(1)	(142)
Acquisitions and divestitures	865	–	–	865
Currency translation effect, etc.	267	4	(385)	(114)
Other	218	276	6	500
March 31, 2023	40,421	20,399	19,305	80,125

For the previous fiscal year and the fiscal year under review, the amount of amortization recognized is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income. Impairment losses are included in “Other expenses” of the consolidated statements of income.

(Millions of yen)

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2022	39,393	49,203	34,119	122,715
March 31, 2023	40,421	52,270	33,911	126,602
Accumulated amortization and impairment losses				
March 31, 2022	(322)	(29,272)	(12,042)	(41,636)
March 31, 2023	–	(31,871)	(14,606)	(46,477)

Expenditures on research activities aimed at obtaining a new scientific or technical knowledge or understanding are expensed when incurred. Expenditures on development activities for a new or major improvement of production plan or design, etc. prior to the beginning of commercial production or use are capitalized as an internally generated intangible asset only when such expenditures attributable to the intangible asset can be reliably measured, it is feasible for the Group to complete the development of the intangible asset, and it is highly probable that the Group will obtain the future economic benefit. Otherwise, the expenditures are recognized as an expense when incurred.

Research and development expenditures recognized as an expense for the previous fiscal year and the fiscal year under review were ¥25,462 million and ¥24,443 million, respectively, and they are included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

The Group does not have intangible assets with indefinite useful lives except for goodwill.

The Group tests goodwill acquired through business combination for impairment by comparing the carrying amount and the recoverable amount per CGU.

Significant goodwill recorded in the consolidated statements of financial position is principally goodwill due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in the fiscal year ended March 31, 2017 (¥8,269 million in the fiscal year ended March 31, 2022, and ¥8,982 million in the fiscal year ended March 31, 2023), and goodwill due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in the fiscal year ended March 31, 2017 (¥21,883 million in the fiscal year ended March 31, 2022, and ¥22,145 million in the fiscal year ended March 31, 2023).

The recoverable amount per CGU is calculated based on value in use. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate (approximately 12% for H-E Parts International LLC, and approximately 11% for Bradken Pty Limited) which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate (maximum of approximately 2.7% for H-E Parts International LLC, and maximum of approximately 2.4% for Bradken Pty Limited) not exceeding the long-term average growth rate of the market to which the CGU belongs.

The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU exceeded the carrying amount of goodwill as of March 31, 2023, the value in use for goodwill may fall below the carrying amount if the discount rate increases by approximately 2.3% for H-E Parts International LLC or approximately 1.8% for Bradken Pty Limited.

Notes to Consolidated Financial Statements

(11) Deferred taxes and income taxes

The components of income tax expense are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Income tax expense		
Current tax expense	29,897	41,554
Deferred tax expense	1,108	(4,615)
Temporary differences originated and reversed	7,831	(8,541)
Changes in write-down of deferred tax assets	(6,723)	3,926
Total	31,005	36,939

(Fiscal year ended March 31, 2022)

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 23.2%, an inhabitant tax of 10.4% and business tax of 3.8%. Based on these taxes, a combined statutory income tax rate is 30.6%. However, overseas subsidiaries are subject to a corporate tax, etc. in their locations.

The Company and certain consolidated subsidiaries file consolidated income tax returns.

(Fiscal year ended March 31, 2023)

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 23.2%, an inhabitant tax of 10.4% and business tax of 3.8%. Based on these taxes, a combined statutory income tax rate is 30.6%. However, overseas subsidiaries are subject to a corporate tax, etc. in their locations.

The Company and certain consolidated subsidiaries adopt Group Relief System from the fiscal year ended March 31, 2023.

The components by major items that resulted in the difference between the combined statutory income tax rate and the effective income tax rate are as follows:

(Percentage)

	As of March 31, 2022	As of March 31, 2023
Combined statutory income tax rate	30.6	30.6
Unitary taxation system including foreign subsidiaries	0.1	0.7
Income not taxable for tax purpose, such as dividends received	(11.1)	(13.0)
Elimination of dividends received	11.5	13.5
Difference in statutory tax rates of foreign subsidiaries	(3.5)	(2.4)
Changes in write-down of deferred tax assets	(6.1)	3.5
Other, net	6.5	(0.1)
Effective income tax rate	28.0	32.8

Payment of dividends to owners of the Company has no effect on income taxes.

Changes in deferred tax assets and liabilities are as follows:

(Millions of yen)

	April 1, 2021	Recognized in profit or loss	Recognized in OCI	March 31, 2022
Deferred tax assets				
Allowance for doubtful receivables	835	290	–	1,125
Accrued bonuses	2,922	230	–	3,152
Accrued expenses	4,484	833	–	5,317
Retirement and severance benefits	5,700	695	109	6,504
Net operating loss carryforwards	6,061	(232)	–	5,829
Unrealized profits of inventories	1,269	1,136	–	2,405
Unrealized gain on fixed assets	1,378	(21)	–	1,357
Other	15,938	1,922	400	18,260
Total deferred tax assets	38,587	4,853	509	43,949
Offset with deferred tax liabilities	(22,249)	(5,601)	–	(27,850)
Reported deferred tax assets	16,338	(748)	509	16,099
Deferred tax liabilities				
Investments in subsidiaries and investments in affiliates	(7,655)	(1,017)	(1,315)	(9,987)
Assets acquired in business combinations	(6,471)	450	(544)	(6,565)
Investments in securities	(3,287)	–	279	(3,008)
Other	(11,761)	(5,394)	–	(17,155)
Total deferred tax liabilities	(29,174)	(5,961)	(1,580)	(36,715)
Offset with deferred tax assets	22,249	5,601	–	27,850
Reported deferred tax liabilities	(6,925)	(360)	(1,580)	(8,865)
Net deferred tax assets	9,413	(1,108)	(1,071)	7,234

(Millions of yen)

	April 1, 2022	Recognized in profit or loss	Recognized in OCI	March 31, 2023
Deferred tax assets				
Allowance for doubtful receivables	1,125	(261)	–	864
Accrued bonuses	3,152	652	–	3,804
Accrued expenses	5,317	1,691	–	7,008
Retirement and severance benefits	6,504	64	44	6,612
Net operating loss carryforwards	5,829	(2,967)	–	2,862
Unrealized profits of inventories	2,405	3,317	–	5,722
Unrealized gain on fixed assets	1,357	(214)	–	1,143
Other	18,260	847	6,466	25,573
Total deferred tax assets	43,949	3,129	6,510	53,588
Offset with deferred tax liabilities	(27,850)	(4,389)	–	(32,239)
Reported deferred tax assets	16,099	(1,260)	6,510	21,349
Deferred tax liabilities				
Investments in subsidiaries and investments in affiliates	(9,987)	(846)	(399)	(11,232)
Assets acquired in business combinations	(6,565)	883	131	(5,551)
Investments in securities	(3,008)	–	33	(2,975)
Other	(17,155)	1,449	(3,657)	(19,363)
Total deferred tax liabilities	(36,715)	1,486	(3,892)	(39,121)
Offset with deferred tax assets	27,850	4,389	–	32,239
Reported deferred tax liabilities	(8,865)	5,875	(3,892)	(6,882)
Net deferred tax assets	7,234	4,615	2,618	14,467

The total temporary differences related to excess amounts over the tax basis of investments in subsidiaries and investments in affiliates for which deferred tax liabilities are not recognized are ¥36,114 million and ¥51,114 million, respectively, as of March 31, 2022 and 2023.

Deferred tax liabilities are not recognized for these differences for which the Group can control timing of the reversal and that will unlikely reverse in the foreseeable future.

In assessing the realizability of deferred tax assets, the Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these deductible differences, etc. become deductible. Although realization is not assured, the Group carries out an assessment of the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed. Based on these factors, the Group believes it is more likely than not that it will realize the benefits of these deductible differences as of March 31, 2023.

In Japan's 2023 tax reform, corporate taxes were introduced to align with the BEPS Global Minimum Tax rules. Tax reform legislation (the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 3 of 2023)) (hereinafter the "Amended Corporation Tax Act") containing the provisions pertaining to said corporate income taxes (hereinafter the "Global Minimum Tax System") was enacted on March 28, 2023.

The Amended Corporation Tax Act introduced the Income Inclusion Rule (IIR), which is one of the BEPS Global Minimum Tax rules, and, starting from the fiscal year beginning on April 1, 2024, the parent company located in Japan will be additionally taxed (top-up tax) until the tax burden of the subsidiary, etc. which has its parent company located in Japan reaches the minimum tax rate (15%).

The Group has applied the exceptional measure set forth in IAS 12 for income taxes arising from the Global Minimum Tax System, and has not recognized deferred tax assets and liabilities related to these income taxes.

Deductible temporary differences, tax loss carryforwards and tax credit carryforwards for unrecognized deferred tax assets are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Deductible temporary differences	14,060	28,621
Tax loss carryforwards		
Expiring within 1 year	–	–
Expiring after 1 year but not more than 5 years	39,131	19,923
Expiring after 5 years	20,094	19,694
Total tax loss carryforwards	59,225	39,617

The above tax loss carryforwards for unrecognized deferred tax assets are principally due to net operating loss carryforwards on business taxes.

(12) Trade and other payables

The components of trade and other payables are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Accounts and notes payable and electronically recorded obligations - operating	144,531	163,862
Accounts payable - other	40,924	38,622
Accrued expenses	37,965	40,158
Other	7,916	8,954
Total	231,336	251,596

The components of trade and other payables in the consolidated statements of financial position are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Current liabilities	222,841	244,034
Non-current liabilities	8,495	7,562
Total	231,336	251,596

(13) Employee benefits

(a) Retirement and severance benefits

The Company and certain consolidated subsidiaries have funded pension plans such as defined benefit corporate pension plans and unfunded severance lump-sum payment plans to provide retirement and severance benefits to employees.

The Company and certain consolidated subsidiaries have adopted cash balance plans for certain defined benefit corporate pension plans. Under cash balance plans, a notional account balance, which is equivalent to the funding amount and a source for the amount of pension, is set per each plan participant. In a notional account balance, principally interest credits based on market interest rate trends and the contribution credits per salary level, etc. are funded.

Benefits under these plans are calculated based on the employee's salary and service period.

In addition, the Company and certain consolidated subsidiaries have defined contribution pension plans.

Under the Defined-Benefit Corporate Pension Act, etc., the Company has an obligation to make contributions, etc. to the Pension Fund of Hitachi Construction Machinery that provides the pension benefits. The directors of the Fund are responsible for faithfully executing operations in compliance with laws and regulations, and any orders issued by the Minister of Health, Labor and Welfare, and the director-generals of Regional Bureaus of Health and Welfare based on laws and regulations, as well as the rules of the Pension Fund of Hitachi Construction Machinery and the resolution of the Board of Representatives. The Fund prohibits the directors from acts that constitute conflicts of interests in the management and operation of the funds contributed for benefit payments (the "contributions") for the purpose of benefiting themselves or any third party. If breached, the board members are jointly and severally held responsible for claim for losses.

The plans are managed by the Pension Fund of Hitachi Construction Machinery, which is legally independent from the Company. The Board of Representatives comprises an equal number of representatives selected by the Company and certain subsidiaries and representatives from the employee side. The proceedings of a Board of Representatives are decided by a majority vote of the members attending, except as otherwise required by laws and regulations, and in case of a tied vote, the chairman has the power to decide.

The actual management of the contributions is conducted by trustees in accordance with rules approved by the Board of Representatives. Instruction of specific securities, etc. to invest in by the representatives is prohibited by law. The Fund takes responsibility in managing the contributions safely and efficiently by establishing the basic management of the contributions and preparing the management guidance in line with the policy submitted to the trustees.

The Company is required to make contributions to the Pension Fund of Hitachi Construction Machinery. The amount of contribution is periodically reviewed to the extent allowed by laws and regulations. The Company has future obligations to make contributions as defined by the Pension Fund of Hitachi Construction Machinery.

Of the companies that introduced defined benefit pension plans, the Company and certain consolidated subsidiaries introduced a risk-sharing corporate pension plan for persons participating in the Pension Fund of Hitachi Construction Machinery on March 1, 2023. Under this plan, in addition to the amount equivalent to the standard premium, an amount equivalent to the risk-sharing premium is stipulated in advance in the Articles of Incorporation. The amount of benefits will increase or decrease according to the financial status of the risk-sharing corporate pension plan in each fiscal year to achieve a balance in pension financing.

The risk-sharing corporate pension plan introduced by the Company and certain consolidated subsidiaries is a system under which labor and management share the risks. The employer bears a certain amount of risk by making a fixed contribution, which includes a predetermined portion for risk response (risk-sharing premium) agreed upon by labor and management at the time of the transition to the plan, and the participants also bear a certain amount of risk as their benefits will be adjusted in the event that the financial balance becomes skewed. While conventional defined benefit pension plans require employers to make additional contributions when a shortfall arises in plan assets in relation to plan liabilities, risk-sharing corporate pension plans measure future risks in advance, and through a labor and management agreement, make risk-sharing premium within that range as a level contribution. The amount equivalent to the risk-sharing premium, which was determined based on the level of risk of financial deterioration calculated at the time of the transition, will be contributed in equal installments for five years and eight months from the date of plan revision, and no additional contributions will be made after the completion of these contributions.

In accounting for post-retirement benefits, risk-sharing corporate pension plans in which the company's contribution obligation is limited to the contributions stipulated in the terms and conditions of the plan and in which the company is not effectively obligated to make additional contributions in addition to the amount equivalent to such contributions are classified as defined contribution plans. The risk-sharing corporate pension plan introduced this time is classified as a defined contribution pension plan, as it does not effectively have an obligation to contribute additional premiums. Therefore, the difference of ¥10,629 million between the retirement benefit obligation for the portion transferred to the plan and the amount of assets transferred to the plan for the amount equivalent to the decrease was recorded in other expenses in the consolidated statements of income as a liquidation loss on the transfer of the plan, and other non-current assets in the consolidated statements of financial position decreased by ¥10,629 million during the fiscal year under review.

Certain consolidated subsidiaries of the Company have been included in the notes for both the defined benefit obligations and plan assets due to their increased materiality for disclosure in the fiscal year under review. Relevant figures for the previous fiscal year have been revised to reflect this change.

For the severance lump-sum payment plans, the Company has an obligation to pay benefits directly to beneficiaries. There is no legal requirement for the funding.

Changes in the present value of defined benefit obligations and the fair value of plan assets are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Present value of defined benefit obligations at beginning of fiscal year	99,110	99,107
Service cost	4,273	3,835
Interest cost	1,204	1,321
Actuarial gain or (loss)	(3,117)	(5,604)
Benefits paid	(3,945)	(4,291)
Increase or (decrease) due to termination of the plan	(946)	–
Effect of transition to risk-sharing corporate pension plan	–	(34,504)
Other	2,528	1,452
Present value of defined benefit obligations at end of fiscal year	99,107	61,316

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Fair value of plan assets at beginning of fiscal year	91,568	94,138
Interest income	978	1,187
Employers' contributions	3,897	4,050
Benefits paid	(2,915)	(3,496)
Return on plan assets (excluding the amount recognized as interest income)	(496)	(8,272)
Increase or (decrease) due to termination of the plan	(946)	–
Effect of transition to risk-sharing corporate pension plan	–	(45,133)
Other	2,052	1,074
Fair value of plan assets at end of fiscal year	94,138	43,548

Changes in the effect of asset ceiling are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Balance of the effect of asset ceiling at beginning of fiscal year	581	1,051
Interest income	–	–
Remeasurements	404	(203)
Effect of limiting net plan assets to the asset ceiling	–	–
Other	66	12
Balance the effect of asset ceiling at end of fiscal year	1,051	860

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The amounts recognized for defined benefit plans in the consolidated statements of financial position are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Present value of defined benefit obligations (funded)	(83,007)	(45,609)
Fair value of plan assets	94,138	43,548
Funding position	11,131	(2,061)
Effect of asset ceiling	(1,051)	(860)
Present value of defined benefit obligations (unfunded)	(16,100)	(15,707)
Net assets (liabilities) in the consolidated statements of financial position	(6,020)	(18,628)
Amount in the consolidated statements of financial position		
Liabilities	(17,622)	(20,715)
Assets (other non-current assets)	11,602	2,087

The components of actuarial gain or loss are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Arising from changes in financial assumptions	2,192	6,120
Arising from changes in demographic assumptions	829	(570)
Other	96	54

The Company and consolidated subsidiaries remeasure the defined benefit obligations and plan assets at the end of the fiscal year. The main assumptions used in actuarial calculation of defined benefit obligations are as follows:

(Percentage)

	As of March 31, 2022	As of March 31, 2023
Discount rate	1.6	3.0

If the discount rate rose or decreased by 0.5%, the following effects would be made on the defined benefit obligations:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Increase by 0.5%	(7,583)	(3,931)
Decrease by 0.5%	7,989	3,650

The sensitivity analysis is based on an assumption that all other variables other than the one analyzed are held constant; in reality, changes in other assumptions may impact the outcome of the analysis.

The weighted average duration (expected average maturity) of defined benefit obligations is as follows:

(Years)

	As of March 31, 2022	As of March 31, 2023
Duration	16.5	13.9

The investment policy for the plan assets is to maintain current value of assets sufficient for payment of pension benefits and lump-sum benefits. The policy is established to ensure a stable long term rate of return on assets in order to achieve financial soundness.

To this end, the target rate of return is established in consideration of the composition of employees, funding level of assets, risk-taking capability of the Company and certain consolidated subsidiaries, trends of management environment of assets, and other factors. To achieve the target rate of return, the target asset allocation is based on the expected rate of return by each class of asset, the standard deviation of the rate of return and the correlation coefficient among the assets.

If market values fluctuate exceeding certain levels, the Company and certain consolidated subsidiaries adjust the investment ratio of plan assets back to the target allocation ratio, while periodically checking actual return on plan assets, trends of management environment of assets, risk-taking capability, and other factors and reviewing the target allocation ratio as needed.

The fair values of plan assets invested are as follows:

(Millions of yen)

	As of March 31, 2022		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	–	–	–
Government bonds	1,083	1,040	2,123
Hedge funds	–	6,795	6,795
Securitization products	–	420	420
Cash and cash equivalents	2,267	–	2,267
Life insurance general accounts	–	15,460	15,460
Commingled funds	–	65,936	65,936
Other	366	771	1,137
Total	3,716	90,422	94,138

(Millions of yen)

	As of March 31, 2023		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	–	–	–
Government bonds	493	247	740
Hedge funds	–	–	–
Securitization products	–	–	–
Cash and cash equivalents	6,506	–	6,506
Life insurance general accounts	–	16,614	16,614
Commingled funds	–	19,589	19,589
Other	99	–	99
Total	7,098	36,450	43,548

Commingled funds represent pooled institutional investments. As of March 31, 2022, commingled funds were approximately allocated to 27% in listed stocks, 30% in government bonds, 18% in corporate bonds and other debt securities and 25% in other assets. As of March 31, 2023, they were approximately allocated to 36% in listed stocks, 8% in government bonds, 24% in corporate bonds and other debt securities, and 32% in other assets.

Funding by the Pension Fund of Hitachi Construction Machinery is conducted by taking into account various factors such as funded status, the limit of tax deductions, and actuarial calculations.

For the purpose of maintaining balanced finance into the future, in accordance with the provisions of the Defined-Benefit Corporate Pension Act, the bylaws of the Pension Fund of Hitachi Construction Machinery require financial recalculation at the end of the fiscal year every five years.

Basic assumptions (expected interest rates, mortality rates, withdrawal rate, etc.) will be reviewed for financial recalculation.

The amount of contributions expected to be paid by the Company and certain consolidated subsidiaries to the plan assets for the following fiscal year is ¥651 million.

Contributions made to defined contribution plans and expensed in profit or loss of the Company and certain consolidated subsidiaries in the previous fiscal year and the fiscal year under review were ¥2,335 million and ¥2,720 million, respectively. Furthermore, contributions made to the risk-sharing corporate pension plans of the Company and certain consolidated subsidiaries in the fiscal year under review were ¥223 million. The estimated amount of risk-sharing premium to be contributed after the next fiscal year is ¥2,510 million.

(b) Other employee benefit expenses

The aggregated amounts of employee benefit expenses including salary other than retirement and severance benefits recognized in the consolidated statements of income for the previous fiscal year and the fiscal year under review were ¥152,578 million and ¥174,515 million, respectively.

(14) Equity

(a) Common stock

Total number of authorized shares of the Company is as follows:

(Number of shares)

	As of March 31, 2022	As of March 31, 2023
Total number of authorized shares	700,000,000	700,000,000

Changes in issued shares outstanding of the Company are as follows:

(Number of shares)

	Issued shares outstanding
April 1, 2021	215,115,038
Change during the fiscal year	–
March 31, 2022	215,115,038
Change during the fiscal year	–
March 31, 2023	215,115,038

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock and were fully paid up.
The changes in treasury stock for the previous fiscal year and the fiscal year under review are as follows:

(Number of shares)

	Treasury stock
April 1, 2021	2,463,047
Acquisition of treasury stock	1,298
Disposal of treasury stock	(30)
March 31, 2022	2,464,315
Acquisition of treasury stock	1,247
Disposal of treasury stock	–
March 31, 2023	2,465,562

(b) Surplus

(i) Capital surplus

The Japanese Companies Act (JCA) mandates that at least half of paid-in capital be appropriated as common stock and the rest be appropriated as legal reserve within capital surplus.

(ii) Retained earnings

The JCA requires that ten percent of retained earnings appropriated for dividends be retained until the total amount of earned reserves and legal reserve reaches a quarter of the nominal value of common stock. Earned reserves may be available for dividends by resolution at the shareholder’s meeting.

(iii) Written put options over non-controlling interests

Certain subsidiaries of the Group grant written put options over non-controlling interests to non-controlling interests of the subsidiaries. Non-controlling interests over which put options are exercised are recognized at fair value as financial liabilities, and non-controlling interests related to the put options are derecognized with the difference accounted for as capital surplus. The fair value hierarchy and assessment process are provided in "(23) Financial instruments and related disclosures."

(15) Other comprehensive income (OCI)

Components of OCI are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Foreign currency translation adjustments		
OCI arising during the fiscal year	39,149	6,498
Reclassification adjustment	2,091	–
OCI before tax effect	41,240	6,498
Tax effect	(1,516)	(85)
OCI, net of tax effect	39,724	6,413
Remeasurements of defined benefit obligations		
OCI arising during the fiscal year	2,217	(2,465)
Reclassification adjustment	–	–
OCI before tax effect	2,217	(2,465)
Tax effect	(601)	1,222
OCI, net of tax effect	1,616	(1,243)
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the fiscal year	(320)	197
Reclassification adjustment	–	–
OCI before tax effect	(320)	197
Tax effect	178	(52)
OCI, net of tax effect	(142)	145
Cash flow hedges		
OCI arising during the fiscal year	978	(2,603)
Reclassification adjustment	(966)	2,814
OCI before tax effect	12	211
Tax effect	(5)	(39)
OCI, net of tax effect	7	172
Other comprehensive income of equity-method affiliates		
OCI arising during the fiscal year	1,170	768
Reclassification adjustment	–	–
OCI before tax effect	1,170	768
Tax effect	(66)	(13)
OCI, net of tax effect	1,104	755
Total OCI		
OCI arising during the fiscal year	43,194	2,395
Reclassification adjustment	1,125	2,814
OCI before tax effect	44,319	5,209
Tax effect	(2,010)	1,033
OCI, net of tax effect	42,309	6,242

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(16) Dividends

Dividends paid on common stock are as follows:

Decision	Stock class	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
The Board of Directors meeting held on May 24, 2021	Common stock	2,127	10	March 31, 2021	May 31, 2021
The Board of Directors meeting held on October 26, 2021	Common stock	9,569	45	September 30, 2021	November 30, 2021
The Board of Directors meeting held on May 23, 2022	Common stock	13,822	65	March 31, 2022	May 31, 2022
The Board of Directors meeting held on October 26, 2022	Common stock	10,632	50	September 30, 2022	November 30, 2022

Dividends on common stock whose record date falls in the fiscal year under review and the effective date falls in the following fiscal year are as follows:

Decision	Stock class	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
The Board of Directors meeting held on May 22, 2023	Common stock	12,759	60	March 31, 2023	May 31, 2023

(17) Revenue recognition

(a) Disaggregation of revenue

The Group derives revenues primarily from contracts with customers. The following table shows the disaggregation of revenue attributable to each reportable segment and geographic area of the Company.

For the fiscal year ended March 31, 2022

(Millions of yen)

	Construction Machinery Business	Solution Business	Total revenues
Japan	216,896	28	216,924
The Americas (Note)	176,136	43,020	219,156
Europe	123,855	325	124,180
Russia-CIS, Africa, and Middle East	94,178	7,121	101,299
Asia and Oceania	271,296	40,014	311,310
China	51,496	596	52,092
Total	933,857	91,104	1,024,961

The above includes revenue from leases described in “(7) Leases *(b) Lessor*.”

(Note) Revenues of the Construction Machinery Business segment in the Americas for the previous fiscal year, included an adjustment of ¥11.1 billion, which is revenue related to performance obligations that were satisfied in prior periods. The adjustment follows the agreement on the dissolution of the joint venture with Deere & Company, which allowed the finalization of selling prices on sales in the Americas that had been recorded provisionally while negotiation was underway. Subsequent to this decision, other non-current liabilities related to the relevant transactions, previously recorded as liabilities, have been reversed.

For the fiscal year ended March 31, 2023

(Millions of yen)

	Construction Machinery Business	Solution Business	Total revenues
Japan	223,940	46	223,986
The Americas	254,346	58,130	312,476
Europe	164,022	876	164,898
Russia-CIS, Africa, and Middle East	105,368	11,634	117,002
Asia and Oceania	367,091	54,010	421,101
China	39,336	669	40,005
Total	1,154,103	125,365	1,279,468

The above includes revenue from leases described in "(7) Leases *(b) Lessor*."

(b) Information about satisfaction of performance obligations

The following is information about satisfaction of performance obligations related to major products and services of each reportable segment.

(Construction Machinery Business)

The Construction Machinery Business primarily provides customers with hydraulic excavators, ultra-large- sized hydraulic excavators, wheel loaders, and other products as well as parts related to these products.

Since performance obligations for sale of products and parts are satisfied at a point in time upon completion of the sale and customers' acceptance and inspection of the goods, revenue is recognized when control over the goods is transferred to customers. Conditions for acceptance, such as loading to a ship, receipt by the customer, completion of performance tests, are determined under contracts with customers or relevant agreements. Consideration for a transaction is generally collected within four months after the relevant performance obligations are satisfied. Because the period between when performance obligations are satisfied and when consideration is received is usually within one year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one year, they are immaterial.

Revenue from periodic maintenance services and paid product guarantee services is recognized when the provision of services is completed or over the period during which services are provided. Conditions for completion of services to be provided, such as receipt of a completion report, are determined under contracts with customers or relevant agreements.

Consideration for a transaction is usually paid in fixed amounts every one to three months in case of periodic maintenance services. For paid product guarantee services, consideration for the duration of a contract is collected in advance at the time of executing the contract. Because the period between when performance obligations are satisfied and when consideration is received is usually within one year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one year, they are immaterial. In contracts with some customers, revenue is measured at the amount of promised consideration, less discounts, sales returns and the like.

(Solution Business)

The Solution Business provides customers with parts services, etc. that are not included in the Construction Machinery Business Segment. Since performance obligations are principally satisfied at a point in time upon completion of the sale and customers' acceptance and inspection of the goods, revenue is recognized when control over the goods is transferred to customers. For certain transactions whereby goods are supplied to customers over a long period of time, progress toward satisfaction of the performance obligation is measured and revenue is recognized over the duration of the contract in light of the nature of the goods provided to customers. With regard to services, etc. offered, uniform services are mainly provided according to the duration of the contract, and revenue is recognized over time based on the passage of time.

Because the period between when performance obligations are satisfied and when consideration is received is usually within one year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one year, they are immaterial.

(c) Information about contract balances

The following table shows the beginning and ending balances of the Group's trade receivables, contract assets and contract liabilities from contracts with customers.

For the fiscal year ended March 31, 2022

(Millions of yen)

	April 1, 2021	March 31, 2022
Trade receivables	247,807	304,195
Contract assets	4,845	4,816
Contract liabilities	10,870	20,880

For the fiscal year ended March 31, 2023

(Millions of yen)

	April 1, 2022	March 31, 2023
Trade receivables	304,195	340,349
Contract assets	4,816	4,221
Contract liabilities	20,880	22,931

Of the revenue recognized during the previous fiscal year, the amount included in contract liabilities at the beginning of the fiscal year was ¥8,818 million.
In addition, revenue related to performance obligations satisfied in the past period was ¥11.1 billion, an adjustment to sales prices described in (Note) of "*(a) Disaggregation of revenue*." Note that there is no cumulative catch-up adjustment for revenue. Impairment losses on trade receivables and contract assets recognized during the previous fiscal year were ¥122 million.

Of the revenue recognized during the fiscal year under review, the amount included in contract liabilities at the beginning of the fiscal year was ¥11,643 million. There is no revenue related to performance obligations that were satisfied in prior periods and no cumulative catch-up adjustment to revenue. Impairment losses on trade receivables and contract assets recognized during the fiscal year under review were ¥228 million.

Contract assets, which arise when goods or services are transferred before receipt of consideration or performance by an entity is completed, mainly correspond to transactions in the Solution Business segment involving manufacture and sale of large metal casted products in specific countries, in which the process from contract execution to delivery takes a long period of time. These contract assets are contractual rights to receive consideration on the condition of delivering finished products in the future. These rights are derived according to the progress of contractual product manufacturing carried out for the purpose of receiving consideration in the future, and contract assets are reclassified to receivables when performance obligations are satisfied through delivery of products. The Construction Machinery Business segment has no material transactions related to contract assets.

Contract liabilities, which arise when consideration is received or payment becomes due before goods or services are transferred, are mainly advances received from customers as payments for products in relation to sales of construction machinery and paid product guarantee service contracts. Performance obligations are considered to be satisfied upon the fact of having performed the obligation to deliver products in case of sales of construction machinery, and the lapse of the period over which a guarantee is offered in case of paid product guarantee service contracts, and contract liabilities are reclassified to revenue when performance obligations are satisfied.

(d) Transaction price allocated to remaining performance obligations

The following table shows the balances of performance obligations to be performed in relation to contracts for products and services as of the end of the previous fiscal year and the end of the fiscal year under review.

For the fiscal year ended March 31, 2022

(Millions of yen)

	April 1, 2021	March 31, 2022
Products and services	2,050	10,913

During the previous fiscal year, pursuant to a licensing agreement executed following the dissolution of the joint venture with Deere & Company, the Group received a lump-sum payment of royalties pertaining to the use of a technology license required for assembly of components for existing machinery to be supplied to hydraulic excavator manufacturing and sales locations in the United States and Brazil. The payment was accounted for as a contract liability.
The Group expects to perform roughly 70% of the balance of performance obligations to be performed as of March 31, 2022 within three years, and roughly 30% after three years and within five years.
There is no significant amount of consideration arising from contracts with customers that is not included in the transaction price.

For the fiscal year ended March 31, 2023

(Millions of yen)

	April 1, 2022	March 31, 2023
Products and services	10,913	10,910

The Group expects to perform roughly 80% of the balance of performance obligations to be performed as of March 31, 2023 within three years, and roughly 20% after three years and within five years.
There is no significant amount of consideration arising from contracts with customers that is not included in the transaction price.

(e) Assets recognized from the costs incurred for obtaining or fulfilling contracts with customers

In the Group, there were no costs incurred for obtaining or fulfilling contracts with customers during the fiscal year under review.

(18) Investments accounted for using the equity method

In the fiscal year under review, ACME Business Holdco, LLC (hereinafter referred to as “ACME”), an American rental company which is an investee of a consolidated subsidiary of the Company and an equity-method affiliate, defaulted on a loan from a financial institution and the Company, the guarantor of the debt, made subrogation payments to the lender, the financial institution. As a result, the Company determined that an indication of impairment existed in the investments accounted for using the equity method and performed an impairment test.
In performing the impairment test, the recoverable value of the investment in ACME accounted for under the equity method, was assessed based on the fair value after deduction of disposal costs. This mainly includes property held by ACME for rental purposes and shares of its subsidiaries, which are taken into account in the valuation results of these assets by external valuation experts using the market approach. As a result, an impairment loss of ¥7,280 million on investments accounted for using the equity method is included in “share of profits (losses) of investments accounted for using the equity method” in the consolidated statements of income.
The amount of ¥51,330 million in indemnity claims against ACME resulting from Company’s fulfillment of its guarantee obligation to the lender is included in “other financial assets (non-current)” on the consolidated statement of financial position. The Company’s assessment of expected credit losses on such indemnity claims is based on the fact that the Company is in dispute with ACME and its related parties as of the end of the fiscal year under review. Therefore, the Company estimated the recoverability of the receivables according to the credit risk based on its projected litigation strategy. If the circumstances under which such assumptions have been made were to change, the estimated amount of expected credit losses on the indemnity claims may differ. Therefore, the Group considers such estimates to be significant.

Notes to Consolidated Financial Statements

(19) Other income and expenses

The main components of other income are as follows

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Gain on sales of property, plant and equipment (*1)	4,691	11,471
Subsidy income	232	204
Gain on business restructuring (*2)	8,755	328
Other	3,534	4,479
Total	17,212	16,482

(*1) Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the previous fiscal year was mainly attributable to the sale of land adjacent to the Hitachinaka Works of the Company.

Gain on sales of property, plant, and equipment for the fiscal year under review was mainly attributable to the sale of land owned by the Company in Sagamihara-city, Kanagawa.

(*2) Gain on business restructuring

Gain on business restructuring for the previous fiscal year was attributable to the sale of shares held by the Company in Deere-Hitachi Construction Machinery Corp. and Deere-Hitachi Maquinas de Construcao do Brasil S.A., which had been equity-method affiliates of the Company.

The main components of other expenses are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Loss on sales of property, plant, and equipment	94	280
Loss on disposal of property, plant and equipment	1,413	968
Impairment losses (*1)	196	1,912
Business structure reform expenses (*2)	595	12,595
Other	1,842	3,118
Total	4,140	18,873

(*1) Impairment losses

Impairment losses in the fiscal year under review includes an impairment loss of ¥1,323 million (¥523 million for property, plant and equipment and ¥800 million for intangible assets) recognized for a portion of the assets of the Americas cash-generating unit at a Bradken subsidiary in the Solution Business segment due to a decline in profitability resulting from changes in the business environment.

The recoverable value of the asset is measured by its value in use, which is calculated by the estimated pre-tax future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the pre-tax weighted average cost of capital. The estimated future cash flows are discounted at a discount rate of 10.5% to calculate the value in use.

(*2) Business structure reform expenses

Business structure reform expenses recognized for the fiscal year ended March 31, 2022 and for the fiscal year ended March 31, 2023 include a special severance payment and so forth.

A liquidation loss of ¥10,629 million related to the transition to a risk-sharing corporate pension plan for the Company and certain domestic subsidiaries is also included in the fiscal year under review.

Notes to Consolidated Financial Statements

(20) Financial income and financial expenses

Main components of financial income are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Interest income		
Financial assets measured at amortized cost	1,792	2,872
Dividend income		
FVTOCI financial assets	636	278
Other	2,031	1,849
Total	4,459	4,999

Main components of financial expenses are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Interest expenses		
Financial liabilities measured at amortized cost	4,914	9,166
Foreign exchange losses	1,382	10,748
Other	108	197
Total	6,404	20,111

(21) Earnings per share (EPS) information

A calculation of the basic and diluted earnings per share (attributable to owners of the parent) is as follows:

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
		(Millions of yen)
Net income attributable to owners of the parent	75,826	70,175
Adjustments for dilutive effect	–	–
Net income attributable to owners of the parent (diluted)	75,826	70,175
		(Number of shares)
Weighted average number of common shares outstanding	212,651,357	212,650,036
Dilutive effect of stock options	–	–
Weighted average number of common shares outstanding – diluted	212,651,357	212,650,036
		(Yen)
Net income attributable to owners of the parent per share (basic)	356.57	330.00
Net income attributable to owners of the parent per share (diluted)	356.57	330.00
Summary of potential shares not included in the calculation of diluted earnings per share (attributable to owners of the parent) due to no dilutive effect	–	–

Notes to Consolidated Financial Statements

(22) Cash and cash equivalents

The balance of cash and cash equivalents reported in the consolidated statements of financial position as of March 31, 2022 and 2023 is consistent with that reported in the consolidated statements of cash flows.

Changes in liabilities arising from financing activities are as follows:

For the fiscal year ended March 31, 2022

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Lease liabilities	Total
April 1, 2021	75,710	59,812	193,966	59,431	388,919
Changes involving cash flows	21,314	(10,000)	(3,673)	(12,699)	(5,058)
Changes not involving cash flows					
Newly reported lease liabilities	–	–	–	12,734	12,734
Acquisitions and divestitures	–	–	–	–	–
Currency translation effect, etc.	6,296	33	9,649	1,965	17,943
March 31, 2022	103,320	49,845	199,942	61,431	414,538

For the fiscal year ended March 31, 2023

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Lease liabilities	Total
April 1, 2022	103,320	49,845	199,942	61,431	414,538
Changes involving cash flows	135,589	(10,000)	26,037	(11,745)	139,881
Changes not involving cash flows					
Newly reported lease liabilities	–	–	–	22,336	22,336
Acquisitions and divestitures	–	–	–	–	–
Currency translation effect, etc.	611	30	2,093	(224)	2,510
March 31, 2023	239,520	39,875	228,072	71,798	579,265

Notes to Consolidated Financial Statements

(23) Financial instruments and related disclosures

(a) Financial risks

The Group is engaged in business activities worldwide and may be affected by various risks such as interest rate risk, currency exchange risk and credit risk.

(i) Market risk

Since the Group conducts manufacturing activities worldwide and has customers all over the world, trade receivables and payables denominated in foreign currencies are exposed to currency exchange fluctuation risk. In addition, some long-term debts held by the Company and certain consolidated subsidiaries to finance capital investments and working capital are floating-interest bearing, and thus are exposed to interest rate fluctuation risk.

a Interest rate risk

The Group is exposed to interest rate fluctuation risk mainly related to long-term debts. In order to minimize this risk, the Group enters into interest rate swap agreements to manage the fluctuation risk of cash flows. The interest rate swaps entered into are receive-variable, pay-fixed agreements. The interest rate swaps entered into are receive-variable, pay-fixed agreements. Under the interest rate swaps, the Group receives variable interest rate payments on long-term debts, including long-term borrowings, and makes fixed interest rate payments, thereby creating fixed interest rate long-term debt.

Interest rate sensitivity analysis

The sensitivity analysis for interest rates as of March 31, 2022 and 2023 shown below indicates the impact on income before income taxes reported in the Company's consolidated statements of income, if interest rates increased by 1% on the financial instruments (floating-interest financial assets and liabilities measured at amortized cost, financial assets and liabilities measured at FVTPL and derivatives) held by the Company as of March 31, 2022 and 2023, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Impact on income before income taxes	(594)	(1,974)

b Currency exchange risk

The Group holds assets and liabilities exposed to currency exchange risk. In order to hedge this risk, the management uses forward exchange contracts or cross currency swaps.

Currency exchange rate sensitivity analysis

The sensitivity analysis for major currency exchange rates as of March 31, 2022 and 2023 shown below indicates the impact on income before income taxes reported in the Group's consolidated statements of income, if the Japanese yen depreciated by 1% on the foreign-currency denominated financial instruments held by the Company and its consolidated subsidiaries as of March 31, 2022 and 2023, while all other variables are held constant.

(Millions of yen)

	Currency	As of March 31, 2022	As of March 31, 2023
Impact on income before income taxes	US Dollar	67	214
	Euro	(1)	3

c Equity instruments price volatility risk

The Group holds listed stock of entities with which it has business relationships and is exposed to price volatility risk of equity instruments. In order to manage this risk, market values of such equity instruments and the financial condition of issuing entities are monitored on a regular basis, and holding of such equity instruments is continuously reviewed.

Equity instruments sensitivity analysis

The sensitivity analysis for price volatility risk of equity instruments of the Group shown below indicates the impact on OCI, net of taxes reported in the consolidated statements of comprehensive income, if the market price of listed stock held by the Group as of March 31, 2022 and 2023 fell by 10%, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Impact on OCI, net of taxes	(458)	(549)

(ii) Credit risk

The Group extends credit to customers through various operating transactions and is exposed to credit risk associated with potential losses from credit deterioration or bankruptcy, etc. of the customers. In order to manage this risk, the credit management division of the Company and its consolidated subsidiaries regularly monitors the conditions of the customers for trade receivables exposed to credit risk in accordance with credit management rules so that the due dates and balances are assessed for individual customers and the risk of doubtful receivables due to deterioration, etc. in the customers' financial conditions, etc. are timely identified and mitigated.

Basically, no significant concentration of credit risk is present as the Group has transactions with customers in various geographical areas.

Since securities measured at amortized cost are highly rated securities, the Group finds little credit risk.

In addition, the Group enters into derivative transactions only with counterparties who are highly rated financial institutions; therefore, the Group considers the counterparty risk is remote.

With the exception of guarantee obligations, the maximum exposure of the Company and its consolidated subsidiaries to the credit risk equals the financial assets' carrying amount after impairment reported in the consolidated statements of financial position, if collateral held is not considered. The maximum exposure to the credit risk from guarantee obligations is disclosed in (27) Commitments and contingencies.

The changes in the balance of allowance for doubtful receivables and the changes in the gross carrying amounts corresponding to the allowance for doubtful receivables for the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023 were as follows. Other financial assets mainly consist of financial assets measured at amortized cost such as short-term loans receivable, accounts receivable – other and long-term loans receivable.

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2022

(Millions of yen)

Accounts and notes receivable and electronically recorded monetary claims – operating and contract assets	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2021	5,118	936	6,054	192,361	3,956	196,317
Net change during the fiscal year	(354)	932	578	70,290	(1,803)	67,487
Credit-impairment (a)	–	–	–	(220)	220	–
Write-off (b)	(19)	(103)	(122)	(108)	(103)	(211)
Other (c)	162	213	375	1,788	1,377	3,165
March 31, 2022	4,907	1,978	6,885	264,111	3,647	267,758

For the fiscal year ended March 31, 2023

(Millions of yen)

Accounts and notes receivable and electronically recorded monetary claims – operating and contract assets	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2022	4,907	1,978	6,885	264,111	3,647	267,758
Net change during the fiscal year	1,220	(95)	1,125	49,474	3,146	52,620
Credit-impairment (a)	(14)	14	–	(282)	282	–
Write-off (b)	(209)	(19)	(228)	(2,455)	(24)	(2,479)
Other (c)	73	11	84	(2,503)	(36)	(2,539)
March 31, 2023	5,977	1,889	7,866	308,345	7,015	315,360

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2022

(Millions of yen)

Finance lease receivables	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2021	22	2,096	2,118	57,622	6,885	64,507
Net change during the fiscal year	(11)	1,219	1,208	(15,192)	(110)	(15,302)
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	–	–	–	–	–
Other (c)	–	108	108	2,229	137	2,366
March 31, 2022	11	3,423	3,434	44,659	6,912	51,571

For the fiscal year ended March 31, 2023

(Millions of yen)

Finance lease receivables	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2022	11	3,423	3,434	44,659	6,912	51,571
Net change during the fiscal year	–	2,604	2,604	(8,462)	109	(8,353)
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	–	–	–	–	–
Other (c)	–	127	127	26	–	26
March 31, 2023	11	6,154	6,165	36,223	7,021	43,244

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2022

(Millions of yen)

Other financial assets	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2021	34	14	48	14,343	14	14,357
Net change during the fiscal year	(35)	(35)	(70)	9,493	26	9,519
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	(1)	(1)	(67)	(1)	(68)
Other (c)	1	33	34	3,025	–	3,025
March 31, 2022	–	11	11	26,794	39	26,833

For the fiscal year ended March 31, 2023

(Millions of yen)

Other financial assets	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2022	–	11	11	26,794	39	26,833
Net change during the fiscal year	1	181	182	3,768	51,339	55,107
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	(1)	(1)	(2)	(326)	(1)	(327)
Other (c)	–	(153)	(153)	(116)	–	(116)
March 31, 2023	–	38	38	30,120	51,377	81,497

(a) The Group measures the allowance for doubtful receivables relating to credit-impaired financial assets based on individual assessment and, therefore, transfers them from collective assessment.
(b) The Group generally writes off and derecognizes the corresponding carrying amount when it has no reasonable expectations of recovering the financial asset in its entirety or a portion.
(c) Other mainly includes the effects of acquisitions and divestitures and exchange rate fluctuations.

(iii) Liquidity risk

The Finance Department within the Group prepares and updates cash management plans based on a report from each department. The Group maintains a commitment line and credit line to mitigate liquidity risk while minimizing liquidity in hand to enhance capital efficiency.

The following tables present the maturities of financial liabilities of the Group. Gain or loss from derivatives that are settled on a net basis are presented on a gross basis for each transaction.

(Millions of yen)

	As of March 31, 2022				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	231,336	231,336	222,841	8,495	–
Lease liabilities	61,431	68,393	11,786	27,028	31,343
Short-term borrowings	103,320	105,050	105,050	–	–
Bonds	49,845	50,840	10,133	40,707	–
Long-term borrowings	199,942	203,789	62,766	140,891	132
Derivative liabilities					
Forward exchange contracts	8,256	8,256	8,256	–	–
Interest rate swaps	–	–	–	–	–
Currency swaps	–	–	–	–	–

(*1) The weighted average interest rate for short-term borrowings for the fiscal year under review was 1.67%, and the weighted average interest rate for long-term borrowings was 1.92%.

(*2) Guarantee obligations described in (27) Commitments and contingencies are not included as the performance of such guarantee obligations is remote.

(Millions of yen)

	As of March 31, 2023				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	251,596	251,596	244,034	7,562	–
Lease liabilities	71,798	79,065	12,690	30,459	35,916
Short-term borrowings	239,520	241,127	241,127	–	–
Bonds	39,875	40,707	117	20,418	20,172
Long-term borrowings	228,072	232,667	73,548	118,739	40,380
Derivative liabilities					
Forward exchange contracts	3,395	3,395	3,395	–	–
Interest rate swaps	449	449	12	437	–
Currency swaps	–	–	–	–	–

(*1) The weighted average interest rate for short-term borrowings for the fiscal year under review was 0.67%, and the weighted average interest rate for long-term borrowings was 2.01%.

(*2) Guarantee obligations described in (27) Commitments and contingencies are not included as the performance of such guarantee obligations is remote.

The details on each bond issued are provided below.

Issuer	Name of bond	Issued	Millions of yen		Security	Interest rates (%)	Maturity date
			March 31, 2022	March 31, 2023			
The Company	Unsecured debenture #18 Ordinary bonds	2020	19,938	19,951	Unsecured	0.25	March 12, 2027
The Company	Unsecured debenture #19 Ordinary bonds	2020	9,960	9,965	Unsecured	0.29	March 12, 2030
The Company	Unsecured debenture #20 Ordinary bonds	2021	9,954	9,959	Unsecured	0.38	March 18, 2031

(iv) Capital management

In pursuing sustainable growth, the Group has made upfront investments, including investments in technology development and facilities, based on medium- and long-term business strategies. With the principal capital management policy to maintain and strengthen its sound financial structure, the Group closely monitors the balance (excluding lease liabilities) of interest-bearing liabilities, net of cash and cash equivalents.

Net interest-bearing liabilities as of March 31, 2022 and 2023 amounted to ¥258,850 million and ¥395,475 million, respectively.

The Group is not subject to any capital requirements except for the general rules such as the Japanese Companies Act.

(b) Fair value of financial instruments

(i) Fair value measurements

The following methods and assumptions are used to measure the fair value of financial assets and financial liabilities.

Cash and cash equivalents, trade receivables and trade and other payables

Current portion of cash and cash equivalents, trade receivables and trade and other payables are settled in a short period, and thus, their carrying amount reasonably approximates the fair value. Fair value of non-current items is determined at the present value of expected cash flows from principal and interest discounted by the rate that would be reasonably applied to new transactions.

Other financial assets and other financial liabilities

Other financial assets mainly include other receivables and loans receivable, and other financial liabilities mainly include deposits. Current items among other financial assets are settled in a short period, and thus their carrying amount reasonably approximates the fair value. As for securities classified as financial assets measured at FVTOCI, fair value of listed stock is determined based on the market price quoted on the exchange. Fair value of non-listed stock is determined based on a valuation technique using observable inputs such as quoted market prices of comparable companies as well as unobservable inputs. The fair value of derivative instruments, which are FVTPL financial assets or financial liabilities, is determined based on prices obtained from financial institutions. The fair value of liabilities for written put options over non- controlling interests is calculated by the method where future cash flows are discounted.

Bonds and borrowings

The fair value of unsecured debentures and borrowings is determined based on the expected future cash flows from principal and interest discounted at the rate that would be applied to additional borrowings and bonds with same terms and conditions.

(ii) Financial instruments measured at amortized cost

The carrying amounts and fair values of financial assets and financial liabilities measured at amortized cost are as follows. Financial assets and financial liabilities whose carrying amounts reasonably approximate the fair values are not included. The fair value hierarchy is described in “(iii) Financial instruments measured at fair value in the consolidated statements of financial position” below.

(Millions of yen)

Category	As of March 31, 2022		As of March 31, 2023	
	Carrying amount	Estimated fair values	Carrying amount	Estimated fair values
Assets				
Trade receivables (*1)	304,195	306,090	340,349	342,290
Liabilities				
Trade and other payables (2*)	(231,336)	(231,602)	(251,596)	(251,815)
Bonds and borrowings (*3)	(353,107)	(352,460)	(507,467)	(504,466)

(*1) Trade receivables
Classified as level 2 as fair value is measured based on observable market data.

(*2) Trade and other payables
Classified as level 2 as fair value is measured based on observable market data.

(*3) Bonds and borrowings
Classified as level 2 as fair value is measured based on observable market data.

(iii) Financial instruments measured at fair value in the consolidated statements of financial position

Financial instruments measured at fair value on a recurring basis after the initial recognition are classified into three levels of the fair value hierarchy based on the measurement inputs' observability and materiality as follows

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
Level 2: Valuations measured by direct or indirect observable inputs other than Level 1
Level 3: Valuations measured by significant unobservable inputs

When several inputs are used for a fair value measurement, the level is determined based on the input with the lowest level in the fair value measurement as a whole.

Transfers between levels are deemed at the beginning of each quarter period.

The following tables present the financial assets and financial liabilities that are measured at fair value on a recurring basis.

(Millions of yen)

As of March 31, 2022	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Equity securities	6,606	–	9,609	16,215
FVTPL financial assets:				
Other financial assets				
Derivative assets	–	2,012	–	2,012
Other financial assets	–	–	497	497
Total financial assets	6,606	2,012	10,106	18,724
FVTPL financial liabilities				
Other financial liabilities				
Derivative liabilities	–	(8,256)	–	(8,256)
Other				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	(3,877)	(3,877)
Total liabilities	–	(8,256)	(3,877)	(12,133)

(Millions of yen)

As of March 31, 2023	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Equity securities	7,907	–	8,449	16,356
FVTPL financial assets:				
Other financial assets				
Derivative assets	–	4,669	–	4,669
Other financial assets	–	–	531	531
Total financial assets	7,907	4,669	8,980	21,556
FVTPL financial liabilities				
Other financial liabilities				
Derivative liabilities	–	(3,844)	–	(3,844)
Other				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	(3,713)	(3,713)
Total liabilities	–	(3,844)	(3,713)	(7,557)

The following tables present the changes in Level 3 financial instruments measured at fair value on a recurring basis for the previous fiscal year and the fiscal year under review.

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Balance at beginning of the fiscal year	9,566	10,106
Total gain/(loss)	185	(1,183)
Other comprehensive income	185	(1,183)
Purchased	455	434
Sold	(44)	(344)
Other	(56)	(33)
Balance at end of the fiscal year	10,106	8,980

Gain and loss recognized in OCI are attributable to FVTOCI financial assets and included in net gains and losses from financial assets measured at fair value through OCI in the consolidated statements of comprehensive income.

The remaining balance of liabilities for written put options over non-controlling interests classified as Level 3 at the beginning and end of the fiscal year ended March 31, 2023 was ¥3,877 million and ¥3,713 million, respectively. Changes in the fiscal year ended March 31, 2023 were principally changes in fair value and exchange rates, and others.

Of the financial instruments measured at fair value, securities held with the objective of maintaining and strengthening business relations with the issuers are classified as FVTOCI financial assets. The following is a list of principal securities designated as FVTOCI and their fair values.

(Millions of yen)

Principal FVTOCI financial assets	As of March 31, 2022	As of March 31, 2023
KYB Corporation	2,654	3,586
Wakita & Co., LTD.	1,200	1,460
Kanamoto Co., Ltd.	690	751
IJT Technology Holdings Co., Ltd.	699	693
Nippon Chuzo K. K.	586	614

See (20) Financial income and financial expenses for dividends received from securities classified as FVTOCI financial assets.

Accumulated gains and losses on valuation of securities classified as FVTOCI financial assets are reclassified into retained earnings when derecognized during the fiscal year. The net gain (loss) reclassified, net of taxes, for the previous fiscal year and the fiscal year under review was ¥182 million and ¥154 million, respectively.
The main reason for the above was the derecognition of securities classified as FVTOCI financial assets due to the disposal of shares after reviewing particular business relations.

Information on securities classified as FVTOCI financial assets that were derecognized includes the following:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Fair value at the time of derecognition	398	374
Accumulated gains/losses at the time of derecognition	262	222

(c) Derivatives and hedging activities

(i) Fair value hedge

Changes in the fair value of recognized assets and liabilities, and of derivatives designated as a fair value hedge of these assets and liabilities are recognized in profit or loss for the period in which the changes occur. Gains and losses recognized on hedged items and hedging instruments are nearly the same. Derivatives designated as a fair value hedge include forward exchange contracts associated with operating transactions, and interest rate swaps and currency swaps associated with financing transactions.

(ii) Cash flow hedge

Foreign currency risk

Changes in the fair value of forward exchange contracts designated as an effective cash flow hedge of forecasted foreign currency transactions are reported as changes in OCI. AOCI is subsequently reclassified into profit or loss when foreign exchange gains and losses are recognized on hedged assets and liabilities.

Interest rate volatility risk

Changes in the fair value of interest rate swaps designated as a hedge of the variability of cash flows associated with long-term debts are reported as changes in OCI. AOCI is subsequently accounted for as financial expenses over the period in which the interest on the debt affects profit or loss.

When applying hedge accounting, the Group assesses hedge effectiveness through a qualitative assessment of whether the critical terms of the hedged item and the hedging instrument match or are closely aligned and whether changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item in order to confirm that an economic relationship exists between the hedged item and the hedging instrument. The Group also sets appropriate hedge ratios based on the economic relationship between the hedging instrument and the hedged item and the Group's risk management policies. For the fiscal year ended March 31, 2023, hedge ineffectiveness recognized in profit or loss was not material.

As of March 31, 2023, the period in which the cash flows from the hedged items were expected to occur and in which they were expected to affect profit or loss was from April 2022 to November 2027.

The notional amount and carrying amount of hedging instruments are as follows. The carrying amount of hedging instruments is included in “Other financial assets” and “Other financial liabilities” in the consolidated statements of financial position.

For the fiscal year ended March 31, 2022

(Millions of yen)

	Notional amount		Carrying amount	
		More than 1 year	Assets	Liabilities
Fair value hedge				
Currency exchange risk	87,674	–	50	(7,588)
Cash flow hedge				
Currency exchange risk	5,894	–	210	(668)
Interest rate risk	–	–	–	–

The fair value of derivative assets for which hedge accounting was not applied was ¥1,752 million.

For the fiscal year ended March 31, 2023

(Millions of yen)

	Notional amount		Carrying amount	
		More than 1 year	Assets	Liabilities
Fair value hedge				
Currency exchange risk	131,939	–	462	(2,836)
Cash flow hedge				
Currency exchange risk	14,41	–	530	(321)
Interest rate risk	26,908	17,939	–	(449)

The fair values of derivative assets and liabilities for which hedge accounting was not applied were ¥3,677 million for derivative assets, and ¥(238) million for derivative liabilities, respectively.

The carrying amount of hedged items for which fair value hedges are applied is as follows:

For the fiscal year ended March 31, 2022

(Millions of yen)

Hedged items related to fair value hedges	Account title in the consolidated statements of financial position	Carrying amount	
		Assets	Liabilities
Currency exchange risk	Trade receivables, other financial assets, and trade and other payables	114,603	(26,929)

For the fiscal year ended March 31, 2023

(Millions of yen)

Hedged items related to fair value hedges	Account title in the consolidated statements of financial position	Carrying amount	
		Assets	Liabilities
Currency exchange risk	Trade receivables, other financial assets, and trade and other payables	147,114	(15,175)

For the fiscal year ended March 31, 2023, changes in the fair value of hedging instruments and hedged items for which fair value hedges are applied and the accumulated amount of fair value hedge adjustments on hedged items included in the carrying amount of the hedged items were not material.

Changes in the fair value of hedging instruments recorded in AOCI for which cash flow hedges are applied are as follows:
For the fiscal year ended March 31, 2022

(Millions of yen)

	April 1, 2021	Changes in fair value of hedging instruments recognized in OCI	Amount reclassified to profit or loss	March 31, 2022
Currency exchange risk	(476)	978	(966)	(464)
Interest rate risk	(4)	–	–	(4)

For the fiscal year ended March 31, 2023

(Millions of yen)

	April 1, 2022	Changes in fair value of hedging instruments recognized in OCI	Amount reclassified to profit or loss	March 31, 2023
Currency exchange risk	(464)	(2,150)	2,814	200
Interest rate risk	(4)	(453)	–	(457)

In the consolidated statements of income, the amount reclassified to profit or loss is included mainly in "Financial expenses" for hedges of currency exchange risk and interest rate risk.

(24) Pledged assets

The Company and certain consolidated subsidiaries pledged a part of their assets as collateral primarily to banks and finance companies. The components of pledged assets are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Accounts and notes receivable	6,796	6,399
Inventories	12,529	13,128
Other property, plant and equipment	62,717	60,294
Total	82,042	79,821

Notes to Consolidated Financial Statements

(25) Principal consolidated subsidiaries

The Company's consolidated financial statements include the consolidated subsidiaries listed below.

Name of subsidiary	Address	Principal business activities (Note 1)	Ownership percentage (%)	
			As of March 31, 2022	As of March 31, 2023
			%	%
Hitachi Construction Machinery Tierra Co., Ltd.	Koka-city, Shiga	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Japan Co., Ltd.	Soka-city, Saitama	Construction Machinery Business	100.0	100.0
LLC Hitachi Construction Machinery Eurasia	Tver, Russia	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Europe) N.V.	Oosterhout, the Netherlands	Construction Machinery Business	98.9	98.9
Hitachi Construction Machinery (China) Co., Ltd.	Hefei, Anhui, China	Construction Machinery Business	81.3	91.3
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	Pioneer Walk, Singapore	Construction Machinery Business	100.0	100.0
P.T. Hitachi Construction Machinery Indonesia	Bekasi, Indonesia	Construction Machinery Business	82.0	82.0
Hitachi Construction Machinery Distribution (China) Co., Ltd.	Shanghai, China	Construction Machinery Business	–	100.0
Hitachi Construction Machinery Financial Leasing (China) Co., Ltd.	Shanghai, China	Construction Machinery Business	85.3	100.0
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Bangalore, Karnataka, India	Construction Machinery Business	60.0	60.0
Hitachi Construction Machinery Americas Inc.	Atlanta, Georgia, U.S.A.	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Australia) Pty., Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	80.0	80.0
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	Solution Business	100.0	100.0

Notes to Consolidated Financial Statements

Name of subsidiary	Address	Principal business activities (Note 1)	Ownership percentage (%)	
			As of March 31, 2022	As of March 31, 2023
Bradken Pty Limited	Newcastle, New South Wales, Australia	Solution Business	100.0	100.0

(Note 1) In the column of principal business activities, the names of the Group’s business segments are provided.

Notes to Consolidated Financial Statements

(26) Related party transactions

(a) Compensation for Directors and Executive Officers of the Company

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Monthly salary, fiscal year-end allowance and performance-linked compensation	947	952

(b) Transactions between the Company and the Parent Company and other related parties

Transactions between the Company and the Parent Company and other related parties and receivable and payable balances are as follows:

For the fiscal year ended March 31, 2022

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayment of funds	2	–
		Interest on borrowings	36	–

For the fiscal year ended March 31, 2023

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other affiliate	ITOCHU Corporation	Sale of products	27,526	29,021
Affiliate	ACME Business Holdco, LLC	Claims associated with performance of guarantee obligation	51,330	51,330

(c) Transactions between consolidated subsidiaries of the Company and other related parties

For the fiscal year ended March 31, 2022

There were no significant transactions with related parties in the fiscal year under review.

For the fiscal year ended March 31, 2023

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other affiliate	ITOCHU Corporation	Purchase of products	28,531	26,877

Notes to Consolidated Financial Statements

(27) Commitments and contingencies

Guarantee obligations

The Group's guarantee obligations and guarantee commitment associated with borrowings from financial institutions are as follows

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Guarantee obligations	64,003	13,530
Guarantee commitment	49	49
Total	64,052	13,579

(28) Subsequent events

Not applicable.

(29) Approval of consolidated financial statements

The consolidated financial statements were approved on June 27, 2023 by Masafumi Senzaki, President and Executive Officer of the Company.

(2) Others

Quarterly information for the fiscal year under review

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2022	Six months ended September 30, 2022	Nine months ended December 31, 2022	Fiscal Year ended March 31, 2023
Revenue	267,539	578,902	902,748	1,279,468
Income before income taxes	26,952	55,192	70,788	112,661
Net income attributable to owners of the parent	18,568	35,681	43,055	70,175
Net income attributable to owners of the parent per share (basic) (Yen)	87.32	167.79	202.47	330.00

	First quarter (April 1 to June 30, 2022)	Second quarter (July 1 to September 30, 2022)	Third quarter (October 1 to December 31, 2022)	Fourth quarter (January 1 to March 31, 2023)
Net income attributable to owners of the parent per share (basic) (Yen)	87.32	80.47	34.68	127.53

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	18,365	16,413
Electronically recorded monetary claims – operating	203	222
Accounts receivable – trade (*1)	189,408	231,156
Merchandise and finished goods	65,011	77,619
Work in process	17,921	23,934
Raw materials and supplies	1,352	1,859
Prepaid expenses	1,356	1,696
Short-term loans receivable (*1)	80,293	92,757
Accounts receivable – other (*1)	34,747	34,221
Other	196	998
Allowance for doubtful accounts	(306)	(300)
Total current assets	408,545	480,576
Non-current assets		
Property, plant and equipment		
Buildings	30,863	35,750
Structures	4,222	5,246
Machinery and equipment	22,191	23,913
Vehicles	105	103
Tools, furniture and fixtures	3,582	4,350
Land	36,386	36,386
Construction in progress	6,854	13,484
Total property, plant and equipment	104,204	119,232
Intangible assets		
Software	11,522	12,665
Others	214	156
Total intangible assets	11,735	12,821
Investments and other assets		
Investment securities	6,930	8,231
Shares of subsidiaries and affiliates	141,780	140,420
Investments in capital of subsidiaries and affiliates	18,942	52,472
Long-term prepaid expenses	561	477
Prepaid pension costs	9,003	1,779
Deferred tax assets	5,440	6,532
Long-term accounts receivable with subsidiaries and affiliates	–	51,330
Other	8,463	17,937
Allowance for doubtful accounts	(166)	(8,343)
Total investments and other assets	190,953	270,836
Total non-current assets	306,892	402,888
Total financial assets	715,436	883,465

See accompanying notes to financial statements.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Electronically recorded obligations – operating	26,705	31,803
Accounts payable – trade (*1)	70,614	90,208
Short-term borrowings	24,860	118,395
Short-term borrowings from subsidiaries and affiliates	10,208	9,807
Current portion of long-term borrowings	2,448	12,671
Current portion of bonds	10,000	–
Lease obligations	113	226
Accounts payable – other (*1)	14,469	17,140
Accrued expenses	10,620	11,794
Income taxes payable	9,124	5,260
Deposits received (*1)	20,483	29,109
Contract liabilities	2,836	2,723
Other	7,655	3,077
Total current liabilities	210,136	332,213
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term borrowings	90,150	110,041
Lease obligations	2,501	2,865
Provision for retirement benefits	8,338	8,498
Contract liabilities	7,688	7,362
Other	200	248
Total non-current liabilities	148,877	169,014
Total liabilities	359,013	501,227
Net assets		
Shareholders’ equity		
Common stock	81,577	81,577
Capital surplus		
Legal capital surplus	81,084	81,084
Other capital surplus	3,876	3,876
Total capital surplus	84,959	84,959
Retained earnings		
Legal retained earnings	2,169	2,169
Other retained earnings		
Reserve for reduction entry	861	4,201
Reduction entry for special account reserve	–	1,923
General reserve	12,952	12,952
Retained earnings brought forward	174,836	194,023
Total retained earnings	190,818	215,268
Treasury stock, at cost	(3,090)	(3,094)
Total shareholders’ equity	354,264	378,710
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,503	3,414
Deferred gains or losses on hedges	(344)	113
Total valuation and translation adjustments	2,159	3,527
Total net assets	356,424	382,237
Total liabilities and net assets	715,436	883,465

See accompanying notes to financial statements.

2) Non-consolidated statements of income

(Millions of yen)

	2022	2023
Net sales (*1)	551,859	726,894
Cost of sales (*1)	464,865	603,496
Gross profit	86,994	123,399
Selling, general and administrative expenses (*2)	69,250	93,456
Operating income	17,744	29,942
Non-operating income		
Interest income and dividends (*1)	35,595	39,925
Miscellaneous income (*1)	3,726	3,058
Total non-operating income	39,321	42,982
Non-operating expenses		
Interest expenses (*1)	744	920
Foreign exchange losses	2,101	12,388
Miscellaneous loss (*1)	1,487	2,022
Total non-operating expenses	4,332	15,330
Ordinary income	52,733	57,595
Extraordinary income		
Gain on sales of shares of subsidiaries and affiliates	15,888	5,962
Gain on sales of investment securities	236	0
Gain on sales of property, plant and equipment	4,340	9,739
Total extraordinary income	20,464	15,701
Extraordinary losses		
Provision for doubtful accounts	–	8,177
Loss on revision of retirement benefit plans	–	7,405
Impairment losses on fixed assets	47	60
Total extraordinary losses	47	15,642
Income before income taxes	73,150	57,654
Income taxes – current	6,924	10,395
Income taxes – deferred	(1,362)	(1,644)
Net income	67,589	48,904

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

Fiscal year ended March 31, 2022

(Millions of yen)

	Shareholders' equity									
	Common stock	Capital surplus			Retained earnings					
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
						Reserve for reduction entry	Reduction entry for special account reserve	General reserve	Retained earnings brought forward	
Balance at beginning of period	81,577	81,084	3,875	84,959	2,169	985	–	12,952	118,820	134,926
Changes of items during period										
Dividends of surplus				–					(11,696)	(11,696)
Net income				–					67,589	67,589
Acquisition of treasury stock				–						–
Disposal of treasury stock			0	0						–
Accumulation of reserve for reduction entry				–						–
Reversal of reserve for reduction entry				–		(124)			124	–
Provision of reserve for special account for reduction entry				–						–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	0	0	–	(124)	–	–	56,017	55,893
Balance at end of period	81,577	81,084	3,876	84,959	2,169	861	–	12,952	174,836	190,818

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(3,086)	298,376	2,937	(322)	2,615	300,991
Changes of items during period						
Dividends of surplus		(11,696)			–	(11,696)
Net income		67,589			–	67,589
Acquisition of treasury stock	(4)	(4)			–	(4)
Disposal of treasury stock	0	0			–	0
Accumulation of reserve for reduction entry		–			–	–
Reversal of reserve for reduction entry		–			–	–
Provision of reserve for special account for reduction entry		–			–	–
Net changes of items other than shareholders' equity		–	(435)	(21)	(456)	(456)
Total changes of items during period	(4)	55,889	(435)	(21)	(456)	55,433
Balance at end of period	(3,090)	354,264	2,503	(344)	2,159	356,424

Fiscal Year ended March 31, 2023

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				Total retained earnings
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry	Reduction entry for special account reserve	General reserve	Retained earnings brought forward	
Balance at beginning of period	81,577	81,084	3,876	84,959	2,169	861	–	12,952	174,836	190,818
Changes of items during period										
Dividends of surplus				–					(24,455)	(24,455)
Net income				–					48,904	48,904
Acquisition of treasury stock				–						–
Disposal of treasury stock				–						–
Accumulation of reserve for reduction entry				–		3,480			(3,480)	–
Reversal of reserve for reduction entry				–		(140)			140	–
Provision of reserve for special account for reduction entry				–			1,923		(1,923)	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	–	–	–	3,340	1,923	–	19,186	24,449
Balance at end of period	81,577	81,084	3,876	84,959	2,169	4,201	1,923	12,952	194,023	215,268

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(3,090)	354,264	2,503	(344)	2,159	356,424
Changes of items during period						
Dividends of surplus		(24,455)			–	(24,455)
Net income		48,904			–	48,904
Acquisition of treasury stock	(4)	(4)			–	(4)
Disposal of treasury stock		–			–	–
Accumulation of reserve for reduction entry		–			–	–
Reversal of reserve for reduction entry		–			–	–
Provision of reserve for special account for reduction entry		–			–	–
Net changes of items other than shareholders' equity		–	911	457	1,368	1,368
Total changes of items during period	(4)	24,445	911	457	1,368	25,813
Balance at end of period	(3,094)	378,710	3,414	113	3,527	382,237

Notes to Non-Consolidated Financial Statements

Significant accounting policies

1. Valuation standards and valuation methods for securities
   (1) Investments in subsidiaries and affiliates
   Stated at cost based on the moving-average method.
   (2) Available-for-sale securities
   1) Other than stocks without market price
   Stated at fair value. (Any changes in unrealized holding gain or loss, net of the applicable income taxes, are directly included in net assets, and the cost of securities sold is calculated by the moving-average method.)
   2) Stocks without market price
   Stated at cost based on the moving-average method.
2. Valuation standards and valuation methods for inventories
   (1) Merchandise and finished goods, raw materials and supplies
   Stated at cost based on the moving-average method.
   (2) Work in process
   Stated at cost based on the specific identification method.
   (In any case, the cost of inventories is written-down when their carrying amounts become unrecoverable.)
3. Depreciation and amortization method for non-current assets
   (1) Property, plant and equipment (excluding leased assets)
   Amortized using the straight-line method.
   (2) Intangible assets (excluding leased assets)
   Amortized using the straight-line method.
   Software for internal use is amortized using the straight-line method over the usable period (5 years).
   (3) Leased assets
   Leased assets under finance lease transactions where the ownership of the assets is not considered to be transferred
   Depreciated using the straight-line method by using their useful lives as the lease period and assuming zero residual value.
4. Allowances and provisions
   (1) Allowance for doubtful accounts
   To prepare for bad debt losses from uncollectible receivables, a general provision for doubtful accounts is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. A specific provision is provided based on the assessment of the collectability of individual receivables.
   (2) Provision for retirement benefits
   To prepare for the payment of retirement benefits to employees, the amount based on the estimated retirement benefit obligations and fair value of plan assets as of the end of the current fiscal year is recognized as provision for retirement benefits.
   Accounting for provision for retirement benefits and retirement benefit expenses is as follows:
   1) The method to attribute expected benefits to periods of service
   In calculating retirement benefits obligations, an expected benefit is attributed to periods of service up to the current fiscal year based on the benefit formula basis.
   2) The method of recognizing actuarial gains and losses and prior service costs as expenses
   Actuarial gains and losses are recognized as expenses from the next year of occurrence on a straight-line method over the average remaining service periods of employees expected in the year of occurrence.
   Prior service costs are recognized as expenses on a straight-line method over the expected average remaining service periods of employees from the year of occurrence.

Notes to Non-Consolidated Financial Statements

5. Revenue and expenses
   The Company recognizes revenue in accordance with the following five-step approach.

   Step 1: Identify the contract(s) with a customer
   Step 2: Identify the performance obligations in the contract
   Step 3: Determine the transaction price
   Step 4: Allocate the transaction price to the separate performance obligations in the contract
   Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

   The Company conducts multiple transactions to meet its customers' needs which may involve the delivery or performance of multiple elements, such as goods or services. When the Company enters into multiple contracts for providing the goods or services, related contracts are combined based on interdependencies between each contract's consideration and the time the Company entered into such contracts, and the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service for the purpose of recognizing revenue, and revenue is recognized when ownership is deemed to have been transferred.
   The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Variable consideration, such as discounts and rebates, is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The promised amount of consideration does not include a significant financing component, because ordinary transactions are completed with payments within one year.
   In estimating the stand-alone selling price, the Company considers various factors such as market conditions, market price of competing products, etc., cost of products, and customers' business conditions.
   For transactions whereby control over goods and services, etc. is transferred over time, the Company measures its progress towards complete satisfaction of that performance obligation on the basis of output or input methods in consideration of the nature of the goods and services for the purpose of recognizing revenue. When the Company cannot reasonably measure the progress, revenue is recognized only to the extent of the costs incurred.
   The Company recognizes the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract as an asset if those costs are expected to be recovered, and those assets are amortized based on the methods used to recognize revenue of the goods or services to which the assets relate. The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset is less than one year.
6. Accounting for deferred assets
   (1) Share issuance cost
   Share issuance costs are fully recognized as expenses when paid.
   (2) Bond issuance cost
   Bond issuance costs are fully recognized as expenses when paid.
7. Method of hedge accounting
   (1) Method of hedge accounting
   Deferral hedge accounting is applied.
   (2) Hedging instruments and hedged items
   The Company uses forward exchange contracts to mitigate foreign currency exchange risks associated with import and export transactions. It also engages in interest rate swap agreements according to respective financing periods, to fix the risk of fluctuations in cash flows in long-term borrowings.
   (3) Hedging policy
   As currency related derivative transactions are mainly used to hedge the foreign exchange risk associated with sales contracts denominated in U.S. dollars, the use of derivatives is limited to the amount of accounts receivable - trade and sales contracts denominated in foreign currencies.
   Through interest-related derivative transactions, the Company aims to fix the interest rate for each long- term borrowing at the prevailing market rate as of each fund procurement since the Company emphasizes obtaining long-term borrowings at stable interest rates.
   (4) Method of assessing hedge effectiveness
   Effectiveness of hedging activities is assessed by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges up to the time of assessment.

Notes to Non-Consolidated Financial Statements

8. Valuation standard and valuation method for derivative financial instruments
   Derivative financial instruments are measured at fair value.
9. Translation of foreign currency-denominated assets and liabilities into yen
   Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rates as of the fiscal year-end. Foreign exchange gains and losses are recognized in profit or loss.
   Changes in accounting policies
   (1) Implementation Guidance on Accounting Standard for Fair Value Measurement
   The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the “Fair Value Measurement Accounting Standard Implementation Guidance.”) and relevant ASBJ regulations from the beginning of the fiscal year, and in accordance with paragraph (27)-2 of the Fair Value Measurement Accounting Standard Implementation Guidance, the new accounting policies set forth in the Fair Value Measurement Accounting Standard Implementation Guidance have been applied prospectively. This change in accounting policies had no impact on the fiscal year under review.

Significant accounting estimates

(1) Valuation of shares of subsidiaries and affiliates with no market price
   1) Amounts recorded in the financial statements as of March 31, 2023
      Valuation of shares of subsidiaries and affiliates with no market price ¥139,796 million
      Of the above amount, carrying amounts of major shares of subsidiaries and affiliates acquired through M&A, etc.
      ・ Bradken Pty Limited ¥58,766 million
      ・ H-E Parts International LLC ¥20,713 million
   2) Information contributing to understanding of accounting estimates
      As for shares of subsidiaries and affiliates, if the actual value of a share has decreased significantly after comparison between the actual value and the purchase price of the share, the recoverability is assessed in light of business performance based on the company’s business plan. For the business plan, actual results in and after the next fiscal year often differ from the plan due to risks related to changes in business environment and other factors. If actual results are different, this may affect operating results, etc.
      In addition, certain shares of subsidiaries and affiliates acquired through M&A, etc. are assessed based on the actual value in view of excess earning power calculated in measurement of the company’s corporate value at the time of acquisition, and others. Whether or not excess earning power, etc. is impaired is affected by future achievability of the business plan. If the business plan is not achieved and excess earning power is impaired in and after the fiscal year, this may affect operating results, etc.

(2) Recoverability of deferred tax assets
   1) Amounts recorded in the financial statements as of March 31, 2023
      Deferred tax assets: ¥6,532 million
   2) Information contributing to understanding of accounting estimates
      Because the same information is provided in “(2) Basis of presentation, Recoverability of deferred tax assets” and “(11) Deferred taxes and income taxes,” the note has been omitted.

(3) Valuation of indemnification claim against ACME Business Holdco, LLC
   1) Amounts recorded in the financial statements as of March 31, 2023
      Long-term accounts receivable with subsidiaries and affiliates: ¥51,330 million
      Allowance for doubtful accounts: ¥8,177 million
   2) Information contributing to understanding of accounting estimates
      In the fiscal year under review, ACME Business Holdco, LLC (hereinafter referred to as “ACME”), an American rental company and an affiliate of the Company, defaulted on a loan from a financial institution and the Company, the guarantor of the debt, made subrogation payments to the lender, the financial institution. The amount of ¥51,330 million in indemnity claims against ACME resulting from Company’s fulfillment of its guarantee obligation to the lender is included in “long-term accounts receivable with subsidiaries and affiliates” on the balance sheet. To prepare for losses due to defaults on such indemnity claims, the estimated unrecoverable amount is calculated by taking into consideration the recoverability of each individual account, and the estimated unrecoverable amount is recorded as an allowance for doubtful accounts.

Notes to Non-Consolidated Financial Statements

As of the end of the fiscal year under review, the Company is in dispute with ACME and its affiliates regarding the assumption of the estimated unrecoverable amount. Taking into consideration the strategic forecast of the litigation and the financial condition of ACME, as well as the results of an evaluation by an external evaluation specialist using a market approach of the fixed assets for rent and shares of subsidiaries held by ACME, the Company recorded an extraordinary loss of ¥8,177 million as a provision for allowance for doubtful accounts for the receivables from ACME for which there is concern about recovery.

If circumstances under which the Company made assumptions, such as litigation strategy projections, ACME's financial condition and results of operations, and assumptions made in estimating the valuation of assets, change in the next fiscal year, they could have a material impact on the amount of the allowance for doubtful accounts in the non-consolidated financial statements for the next fiscal year.

Changes in presentation

Not applicable.

Additional information

Not applicable.

Notes to the non-consolidated balance sheet

*1. Monetary claims and monetary debts to subsidiaries and affiliates

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Short-term monetary claims	255,782	311,382
Short-term monetary debts	49,589	70,330

*2. Guarantee obligations

The Company provides guarantees and guarantee commitments in respect of loans of the following subsidiaries and affiliates from financial institutions.

(1) Guarantees

(Millions of yen)

As of March 31, 2022		As of March 31, 2023	
ACME Business Holdco, LLC	46,961	ACME Business Holdco, LLC	–
Marubeni Equipment Finance (Oceania) Pty. Ltd	6,166	Marubeni Equipment Finance (Oceania) Pty. Ltd	3,808
Eurasian Machinery LLP	4,635	Eurasian Machinery LLP	6,343
SCAI S.p.A.	1,367	SCAI S.p.A.	729
LLC Hitachi Construction Machinery Eurasia	–	LLC Hitachi Construction Machinery Eurasia	7,292
Hitachi Construction Machinery Zambia Co., Ltd.	–	Hitachi Construction Machinery Zambia Co., Ltd.	3,338
PT Hexindo Adiperkasa Tbk	–	PT Hexindo Adiperkasa Tbk	2,292
Other	287	Other	330
Total	59,416	Total	24,132

(2) Guarantee commitment

(Millions of yen)

As of March 31, 2022		As of March 31, 2023	
OKUBO GEAR Co., LTD	49	OKUBO GEAR Co., LTD	49
Total	49	Total	49

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and affiliates

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Operating transaction		
Sales	438,679	524,459
Purchase	176,899	277,112
Non-operating transaction	41,473	46,046

*2. Main components of selling, general and administrative expenses and approximate ratio are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Packing and shipping expenses	16,182	35,290
Employees' salaries and allowances	11,240	11,083
Retirement benefit expenses	746	751
Subcontract expenses	6,355	6,327
Depreciation	2,164	2,384
R&D expenses	17,912	17,958
Approximate ratio (%)		
Selling expenses	35	47
General and administrative expenses	65	53

Notes on securities

Investments in subsidiaries and affiliates

As of March 31, 2022

(Millions of yen)

Category	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Shares of subsidiaries	624	21,589	20,965
Total	624	21,589	20,965

As of March 31, 2023

(Millions of yen)

Category	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Shares of subsidiaries	624	18,800	18,176
Total	624	18,800	18,176

(Note) Carrying amount of shares of subsidiaries and affiliates without market prices

(Millions of yen)

Category	As of March 31, 2022	As of March 31, 2023
Shares of subsidiaries	138,249	138,249
Shares of affiliates	2,907	1,547

Notes to Non-Consolidated Financial Statements

Notes on tax effect accounting

1. Components of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Deferred tax assets		
Net operating loss carryforwards	1,882	1,143
Accrued business tax	470	421
Provision for bonuses	1,973	2,238
Accrued expenses	2,339	3,384
Allowance for doubtful accounts	94	2,596
Write down of inventories	1,571	1,576
Loss on valuation of shares of subsidiaries and affiliates	12,825	12,825
Loss on valuation of investment securities	122	113
Provision for retirement benefits	2,553	2,602
Impairment losses	12	12
Excess over depreciation limit	1,790	2,009
Foreign tax credit carryforwards	232	–
Other	913	2,104
Subtotal of deferred tax assets	26,775	31,024
Valuation allowance on tax loss carryforwards	(1,738)	(849)
Valuation allowance on total deductible temporary differences	(14,787)	(18,286)
Subtotal of valuation allowance	(16,525)	(19,135)
Total	10,250	11,889
Deferred tax liabilities		
Prepaid pension costs	2,757	545
Reserve for reduction entry	380	2,703
Valuation difference on available-for-sale securities	989	1,379
Valuation difference on fair value of land	652	652
Others	32	79
Total	4,810	5,357
Net deferred tax assets	5,440	6,532

Notes to Non-Consolidated Financial Statements

2. Reconciliation between the effective statutory tax rate and the effective tax rate as a percentage of incomes after the application of tax effect accounting by major cause

	As of March 31, 2022	As of March 31, 2023
Effective statutory tax rates (%)	30.6	30.6
(Adjustments)		
Aggregate income of specified foreign subsidiaries	0.1	1.3
Non-deductible amount for tax expense of donations	0.4	0.1
Income not taxable for tax purpose, such as dividend income	(14.0)	(19.6)
Withholding tax on dividends received by foreign subsidiaries	0.5	0.7
Change in valuation allowance	(9.8)	4.4
Foreign tax credit	0.8	0.9
Other	(0.9)	(3.3)
Effective income tax rates after tax effect accounting	7.6	15.2

3. Accounting treatment for national corporate taxes and local corporate taxes or tax effect accounting relating to these taxes
   The Company has adopted the Group Relief System from the fiscal year ended March 31, 2023. Furthermore, the Company undertakes and discloses the accounting treatment for national corporate taxes and local corporate taxes or tax effect accounting relating to these taxes in compliance with provisions in the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Issues Task Force No. 42, August 12, 2021).

Business combinations, etc.
Not applicable.

Subsequent events
Not applicable.

4) Non-consolidated supplementary schedules

[Supplementary schedule of property, plant and equipment, etc.]

(Millions of yen)

Asset type	Balance as of April 1, 2022	Increase during reporting period	Decrease during reporting period	Depreciation and amortization during reporting period	Balance as of March 31, 2023	Accumulated depreciation and amortization
Property, plant and equipment						
Buildings	30,863	7,416	131 (53)	2,398	35,750	44,894
Structures	4,222	1,544	17 (4)	504	5,246	12,207
Machinery and equipment	22,191	5,982	128 (3)	4,132	23,913	91,563
Vehicles	105	25	0	27	103	1,626
Tools, furniture and fixtures	3,582	2,618	13	1,837	4,350	30,640
Land	36,386	2	2	–	36,386	–
Construction in progress	6,854	23,405	16,775	–	13,484	–
Total property, plant and equipment	104,204	40,992	17,066 (60)	8,897	119,232	180,929
Intangible assets						
Software	11,522	8,447	3,665	3,640	12,665	19,485
Others	214	–	0	57	156	2,989
Total intangible assets	11,735	8,447	3,665	3,697	12,821	22,475

(Notes) 1. The amount in parentheses under "Decrease during reporting period" is a figure representing the amount of impairment loss recorded.

2. Among "Increase during reporting period," the major increase was as follows.

Construction of the "Engineering Building," a research and development facility at Tsuchiura Works: ¥7,941 million

[Supplementary schedule of provisions]

(Millions of yen)

Account	Balance as of April 1, 2022	Increase during reporting period	Decrease during reporting period	Balance as of March 31, 2023
Allowance for doubtful accounts	472	8,643	472	8,643

(Note) The "Decrease during reporting period" is the reversal of the balance of allowance for doubtful accounts.

(2) Major assets and liabilities

This information has been omitted as the consolidated financial statements have been prepared.

(3) Others

There were no specific items to be disclosed.

VI. Overview of Operational Procedures for Shares of the Company

Fiscal year	From April 1 to March 31
Annual Shareholder's Meeting	Within three months after the day following each fiscal year-end date
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Additional purchase and sales of shares less than one unit Office for handling business Shareholder register administrator Forwarding office Additional purchase and sales fee Additional share sales request handling stoppage period	 (Special account) Head Office, Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo (Special account) Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo — No fee The period starting ten business days before the respective ends of March, June, September and December, up to each of those dates, and the period stipulated by the Company
Method of public notice	Electronic public notice will be made by the Company. However, if it is impossible to publish public notices electronically because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nihon Keizai Shimbun. Electronic public notices will be posted on the Company's website at the following URL: https://www.hitachicm.com/global/ja/
Special benefits for shareholders	Not applicable.

(Notes) A shareholder of the Company may not exercise any rights relating to shares less than one unit held by the shareholder other than the following rights:

1. Right set forth in each item of Article 189, paragraph (2) of the Companies Act
2. Right to receive an allotment of shares for subscription or an allotment of share options for subscription in accordance with the number of shares held by the shareholder
3. Right to request that the Company sell to the shareholder such number of shares that, together with the number of shares less than one unit held by the shareholder, will constitute one share unit

VII. Reference Information of the Company

1. Information about Parent Company, etc. of the Company

   The Company does not have a parent company, etc. as prescribed in Article 24-7, paragraph (1) of the Financial Instruments and Exchange Act.

2. Other Reference Information

   From the beginning of the fiscal year under review until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

58th term (from April 1, 2021 to March 31, 2022)

Filed with Director-General of Kanto Local Finance Bureau on June 28, 2022

(2) Amendment Registration Statements and Written Confirmation for Annual Securities Reports

54th term (from April 1, 2017 to March 31, 2018)

Filed with Director-General of Kanto Local Finance Bureau on November 8, 2022

55th term (from April 1, 2018 to March 31, 2019)

Filed with Director-General of Kanto Local Finance Bureau on November 8, 2022

58th term (from April 1, 2021 to March 31, 2022)

Filed with Director-General of Kanto Local Finance Bureau on November 8, 2022

(3) Internal Control Report and Appendices

Filed with Director-General of Kanto Local Finance Bureau on June 28, 2022

(4) Quarterly Securities Reports and Written Confirmations

First quarter of the 59th term (from April 1, 2022 to June 30, 2022)

Filed with Director-General of Kanto Local Finance Bureau on August 5, 2022

Second quarter of the 59th term (from July 1, 2022 to September 30, 2022)

Filed with Director-General of Kanto Local Finance Bureau on November 11, 2022

Third quarter of the 59th term (from October 1, 2022 to December 31, 2022)

Filed with Director-General of Kanto Local Finance Bureau on February 13, 2023

(5) Extraordinary Securities Report

Extraordinary Securities Report based on the provisions of Article 24-5, paragraph (4) of the Financial Instruments and Exchange Act and Article 19, paragraph (2), item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed with Director-General of Kanto Local Finance Bureau on June 28, 2022

Extraordinary Securities Report based on the provisions of Article 24-5, paragraph (4) of the Financial Instruments and Exchange Act and Article 19, paragraph (2), item 9 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed with Director-General of Kanto Local Finance Bureau on February 27, 2023

(6) Amendment Registration Statement for Extraordinary Securities Report

Amendment Registration Statement of the Extraordinary Securities Report that was filed on January 14, 2022.

Filed with Director-General of Kanto Local Finance Bureau on June 24, 2022

(7) Amended Shelf Registration Statement

Filed with Director-General of Kanto Local Finance Bureau on June 24, 2022

Filed with Director-General of Kanto Local Finance Bureau on June 28, 2022

Filed with Director-General of Kanto Local Finance Bureau on November 8, 2022

Filed with Director-General of Kanto Local Finance Bureau on February 27, 2023

Part II Information about Company Which Provides Guarantee to the Company, Etc.

Not applicable.