Annual Securities Report

55th term (from April 1, 2018 to March 31, 2019)

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)

	IFRS				
	51st term	52nd term	53rd term	54th term	55th term
As of and years ended	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Revenue	815,792	758,331	753,947	959,153	1,033,703
Income before income taxes	58,953	24,517	23,859	95,612	102,702
Net income attributable to owners of the parent	26,023	8,804	8,022	60,004	68,542
Comprehensive income attributable to owners of the parent	45,782	(22,394)	7,876	58,437	57,445
Total equity attributable to owners of the parent	431,227	395,963	399,619	448,502	486,407
Total assets	1,064,673	926,628	1,012,208	1,089,796	1,185,256
Equity per share attributable to owners of the parent (Yen)	2,028.57	1,861.93	1,879.14	2,109.04	2,287.31
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	122.44	41.41	37.72	282.16	322.31
Net income per share (Diluted) (Yen)	122.42	41.41	37.72	282.16	322.31
Equity attributable to owners of the parent ratio (%)	40.5	42.7	39.5	41.2	41.0
Profit on equity attributable to owners of the parent (%)	6.3	2.1	2.0	14.1	14.7
Price earnings ratio (Times)	17.17	43.18	73.57	14.55	9.11
Net cash provided by (used in) operating activities	106,229	114,874	87,961	84,528	(25,693)
Net cash provided by (used in) investing activities	(17,976)	18,255	(74,610)	(37,562)	(30,339)
Net cash provided by (used in) financing activities	(96,294)	(98,163)	(25,817)	(30,483)	43,928
Cash and cash equivalents at end of period	51,433	79,110	65,455	81,929	67,347
Employees (Number) [The average number of temporary employees for the year]	21,126 [3,920]	21,193 [3,032]	23,858 [2,384]	23,925 [2,167]	24,591 [2,527]

(Notes)
1. Revenue is presented exclusive of consumption taxes.
2. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") from the 51st term.
3. During the 54th term, the Company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the relevant key financial data for the 53rd term.

Fiscal year		Japan GAAP
		51st term
As of and year ended		March 31, 2015
Net sales		815,792
Ordinary income		52,738
Net income attributable to owners of the parent		22,945
Comprehensive income		55,406
Net assets		490,996
Total assets		1,047,872
Net assets per share	(Yen)	1,975.73
Net income per share	(Yen)	107.95
Net income per share after adjustment for dilution	(Yen)	107.94
Equity ratio	(%)	40.1
Return on equity	(%)	5.7
Price earnings ratio	(Times)	19.47
Net cash provided by operating activities		109,303
Net cash used in investing activities		(13,549)
Net cash used in financing activities		(103,822)
Cash and cash equivalents at end of period		51,433
Employees	(Number)	21,126
[The average number of temporary employees for the year]		[3,920]

(Notes) 1. Net sales are presented exclusive of consumption taxes.

2. Financial information based on Japan GAAP for the 51st term was not audited pursuant to Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

(2) Non-consolidated financial data

(Millions of yen, unless otherwise stated)

	51st term	52nd term	53rd term	54th term	55th term
As of and years ended	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Net sales	393,035	354,746	357,072	477,221	545,949
Ordinary income (loss)	8,749	(21,835)	13,883	51,569	57,703
Net income (loss)	3,860	(433)	17,209	46,287	50,503
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	217,006	202,394	216,277	252,936	281,616
Total assets	513,583	456,349	492,421	556,493	634,437
Net assets per share (Yen)	1,017.23	948.11	1,014.66	1,189.41	1,324.29
Dividends per share (Yen) [Of the above, interim dividends per share]	60.00 [30.00]	40.00 [30.00]	12.00 [4.00]	85.00 [36.00]	100.00 [43.00]
Net income (loss) per share (Yen)	18.16	(2.04)	80.92	217.66	237.49
Net income per share after adjustment for dilution (Yen)	18.16	–	80.92	217.66	237.49
Equity ratio (%)	42.1	44.2	43.8	45.5	44.4
Return on equity (%)	1.8	(0.2)	8.2	19.8	18.9
Price earnings ratio (Times)	115.75	–	34.29	18.86	12.37
Dividend payout ratio (%)	330.40	–	14.83	39.05	42.11
Employees (Number) [The average number of temporary employees for the year]	4,704 [839]	4,315 [651]	3,985 [381]	4,072 [384]	4,341 [461]
Total shareholder return (%) [Comparative indicator: TOPIX (Dividend-included)] (%)	108.8 [130.7]	95.0 [116.5]	145.2 [133.7]	216.4 [154.9]	162.7 [147.1]
Highest share price (Yen)	2,780	2,302	2,934	4,935	4,410
Lowest share price (Yen)	1,799	1,475	1,377	2,528	2,379

(Notes)
1. Net sales are presented exclusive of consumption taxes.
2. "Net income per share after adjustment for dilution" for the 52nd term is not presented because net loss was recorded for the terms while the Company had dilutive shares.
3. "Price earnings ratio" and "dividend payout ratio" for the 52nd term are not presented because net loss was recorded for the terms.
4. Highest and lowest share prices are quoted market prices on the First Section of the Tokyo Stock Exchange.
5. The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the 55th term. The key financial data relating to the previous fiscal year reflects the retrospective application of these accounting standards.

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.

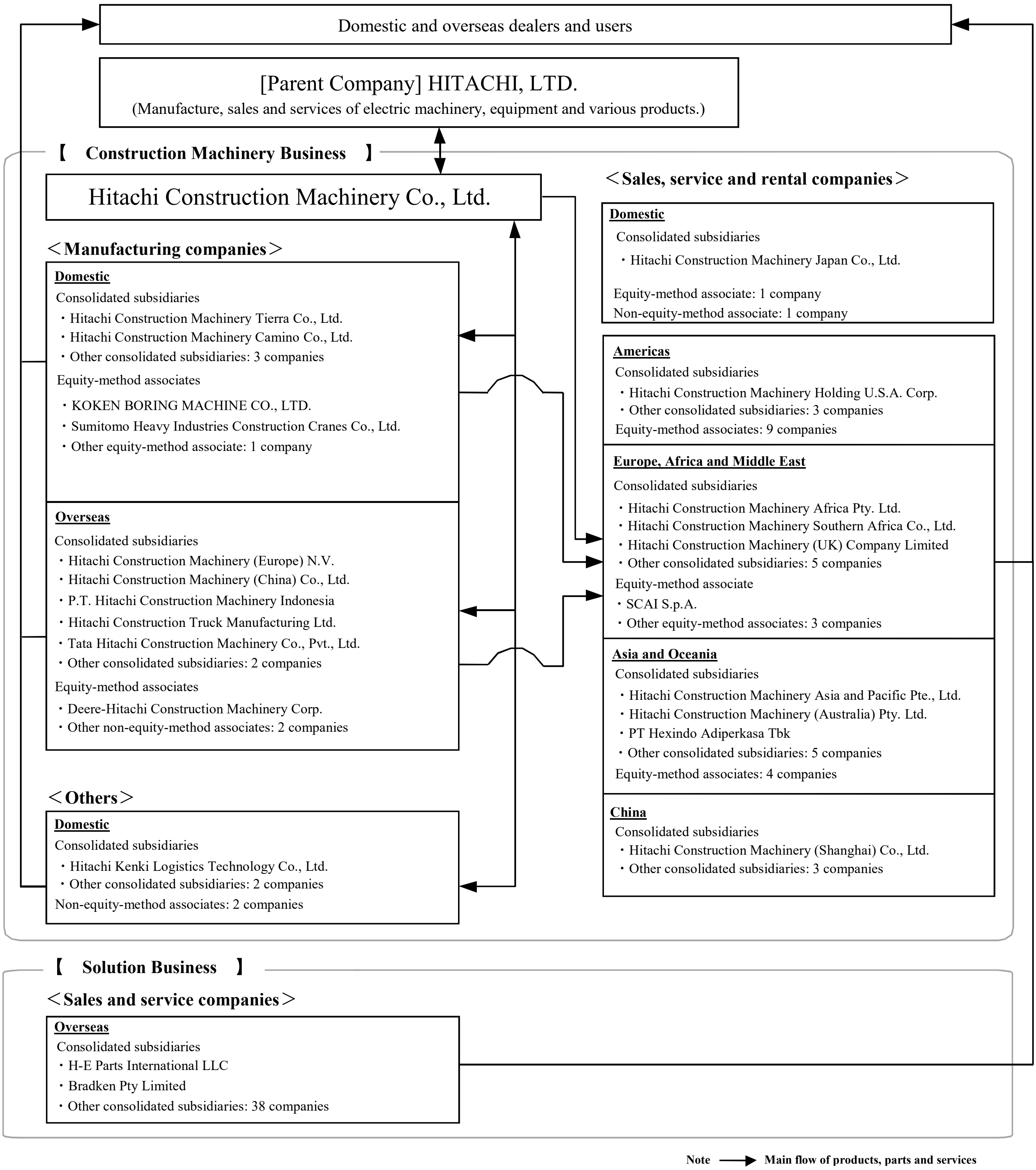
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions 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 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)
June 1988	Established Deere-Hitachi Construction Machinery Corp. in the United States. (Currently an equity-method associate)
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.) (Currently an equity-method associate)
December 2007	Established 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 associate)
October 2015	KCM Corporation became a wholly owned subsidiary. (Currently a consolidated 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.
October 2016	Liquidated Hitachi Construction Machinery Trading Co., Ltd.
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. (Currently an equity-method associate)
April 2017	Hitachi Construction Machinery Loaders America Inc. (Former KCMA Corporation) 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)

3. Description of Business

The consolidated group (hereinafter referred to as the "Group") consists of the Company, its 80 consolidated subsidiaries and 27 associates. The Group's businesses are centralized in two segments as follows: 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 Associates

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
[Parent Company] Hitachi, Ltd. (Note 1) (Note 2) (Note 3)	Chiyoda-ku, Tokyo	458,791	Manufacture, sales and service of electric machinery, equipment and various products	50.9 [0.6]	The Company lends and borrows money and has land lease transactions with the entity. The Company also pays brand value royalty.
[Consolidated subsidiaries] Hitachi Construction Machinery Tierra Co., Ltd. (Note 4)	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 4) (Note 5)	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.
KCM Corporation (Note 4)	Kako-gun, Hyogo	1,500	Construction Machinery Business	100.0	The entity manufactures some of the Company's construction machinery products. The Company lends money.
Hitachi Construction Truck Manufacturing Ltd. (Note 4)	Guelph, Ontario, Canada	(Thousands of US dollars) 84,100	Construction Machinery Business	100.0	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products, and the Company purchases the products. The Company also lends money. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery (Europe) N.V. (Note 4)	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. 3 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 (China) Co., Ltd. (Note 4)	Hefei, Anhui, China	(Thousands of RMB) 1,500,000	Construction Machinery Business	81.3	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. 3 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 and Oceania region, and the Company sells products to the entity.
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.
Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	(Thousands of RMB) 66,224	Construction Machinery Business	54.4	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. 2 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Leasing (China) Co., Ltd. (Note 2) (Note 4)	Shanghai, China	(Thousands of RMB) 1,103,578	Construction Machinery Business	85.3 [24.5]	The entity leases construction machinery products of the Company in China. 1 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. 1 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
Hitachi Construction Machinery (Australia) Pty. Ltd.	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 22,741	Construction Machinery Business	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. 2 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Holding U.S.A. Corp. (Note 4)	Kernersville, North Carolina, U.S.A.	(Thousands of US dollars) 1,000	Construction Machinery Business	100.0	The entity sells construction machinery products and parts of the Company in the U.S.
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	(US dollars) 1	Solution Business	100.0	2 Directors of the Company concurrently hold the position of director or officer.
Bradken Pty Limited (Note 4)	Newcastle, New South Wales, Australia	(Thousands of Australian Dollars) 653,215	Solution Business	100.0	2 Directors of the Company concurrently hold the position of director or officer.
64 other consolidated subsidiaries	–	–	–	–	–
[Equity-method associates] KOKEN BORING MACHINE CO., LTD. (Note 1)	Toshima-ku, Tokyo	1,165	Construction Machinery Business	25.6	The entity purchases products from the Company. The Company mutually cooperates with the entity in the environmental business.
Sumitomo Heavy Industries Construction Cranes Co., Ltd.	Taito-ku, Tokyo	4,000	Construction Machinery Business	34.0	The entity manufactures and sells some of the Company's construction machinery products, and the Company sells parts to the entity.
Deere-Hitachi Construction Machinery Corp.	Kernersville, North Carolina, U.S.A.	(Thousands of US dollars) 108,800	Construction Machinery Business	50.0	The entity organizes manufacturing, sales and service of some of the construction machinery products of the Company in the Americas region. 1 Director of the Company concurrently holds the position of director or officer.
21 other associates	–	–	–	–	–

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

(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 Company participates in the cash pooling system of the Hitachi Group which aims at centralized management of funds, and the financial arrangements are made on a daily basis. Interest rates on deposits and borrowing of funds are decided considering the market interest rates. No collateral is provided.
4. The entity is the Specified Subsidiary.

5. Revenue of Hitachi Construction Machinery Japan Co., Ltd. (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	188,918
	2) Income before income taxes	11,492
	3) Net income	8,845
	4) Total equity	29,230
	5) Total assets	133,729

5. Employees

(1) Consolidated basis

(As of March 31, 2019)

Name of segment	Number of employees	
Construction Machinery Business	20,942	(2,086)
Solution Business	3,649	(441)
Total	24,591	(2,527)

(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, 2019)

Number of employees	Average age	Average length of service	Average annual salary
4,341 (461)	38.8	15.1 years	¥7,296,000

Name of segment	Number of employees	
Construction Machinery Business	4,341	(461)
Total	4,341	(461)

(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.

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, 2019.

(1) Management policy

The Group pursues business competitiveness and group management capabilities and aims to achieve further improvement in our corporate and shareholder value by enhancing our profitability and capabilities for generating cash flow.

To ensure our ability to achieve these objectives, we put strong emphasis on and share the Kenkijin Spirit (Note) as a group-wide value standard and code of conduct. We aim to achieve the 2020 VISION—"Close and Reliable Partner Anywhere on the Earth with Best Solutions through the Kenkijin Spirit"—by continuously providing "Reliable solutions." Accordingly, we contribute to the sustainable development of our customers and each region.

(Note) Kenkijin Spirit:
In pursuing our management policy, it is important to achieve the goals of the Group's medium- to long-term vision and mid-term management plan while responding to the demands of society in areas such as compliance and corporate social responsibility (CSR). The actions of each individual employee (Kenkijin) are the driving force behind these efforts. When these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee's ideas and initiatives. The Kenkijin Spirit codifies these shared values and guiding principles to embody the attitude of a Kenkijin.

(2) Operating environment and issues to be addressed

With respect to the business environment for the Group during the year ended March 31, 2019, demand for hydraulic excavators increased globally year on year except in Japan, the Middle East and Africa in construction machinery business. As for mining machinery, demand grew year on year by the increased CAPEX of mining companies.

In this environment, the Group will promote the establishment of corporate structure with high adaptability to changes and the reaping of fruit of the growth strategy with the following four strategies at the core under the mid-term management plan "CONNECT TOGETHER 2019." The Group strives to earn unwavering trust from customers and build a solid position as one of the top three global manufacturers of construction machinery by continuing to provide "Reliable solutions" that exceed customers' expectations in the entire value chain.

Specific numerical targets

Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 9%
Efficiency	Aim to achieve ROE of over 9%
Net D/E ratio	Aim to achieve 0.4 or less
Shareholder return	Aim to achieve consolidated dividend payout ratio of approx. 30% or more

(Note) The assumed foreign exchange rates for these targets are ¥100 for one US dollar, ¥110 for one euro, and ¥15 for one Chinese yuan.

Four management strategies

1) Expansion of the value chain

The Group's business is characterized by a long life cycle that starts with research, development and production and involves sale of new machinery and provision of rental and services to customers as well as handling of used machines at the time of renewal. The Group will improve customer satisfaction by offering more valuable services and solutions than ever to customers.

2) Enhancement of presence of wheel loaders and dump trucks

In addition to hydraulic excavators, which are the Group's flagship product and have global and top-level product appeal, the Group also makes efforts to enhance competitiveness in aspects of development and sales capabilities for wheel loaders and dump trucks, aiming to achieve growth of these products as the second and third core products. For wheel loaders, the Group advances development of models that meet exhaust emission regulations, while increasing sales efficiency by vigorously promoting the enhancement of production efficiency and cost reduction and strengthening the global sales service structure on the sales side. For dump trucks, the Group focuses on expanding sales of models for high-altitude use that already have a product line and those for trolley use that enable low-fuel consumption and improvement of operating efficiency; puts AHS (Autonomous Haulage System) into full-scale commercial use; and further generates a synergy with H-E Parts International LLC, Bradken Pty Limited and their subsidiaries, which are in charge of the mining area, as well as a synergy with Wenco International Mining Systems Ltd., which is a member of the Group and provides FMS (Fleet Management System).

3) Strengthening of development of ICT/IoT solutions

The Group accelerates the development of “Solution Linkage” ICT/IoT solutions that address the improvement of safety and productivity and a reduction in life cycle costs, which are challenges for customers, by leveraging a broad range of the Hitachi Group’s advanced technologies and open innovation that integrates business partners’ expert technologies.

As well as engaging in development for operational performance, higher fuel efficiency, etc. of machinery, the Group further evolves and offers solutions that contribute to efficiency of customers’ entire construction process and optimization of site operation, and “ConSite” service solution that leads to stable operation of machinery and a reduction in life cycle costs.

4) Development and provision of environmentally conscious products

The Group develops and provides low-carbon products, such as hybrid and electric-powered products, to contribute to reduction of environmental burdens in the entire product life cycle.

CO_2 emissions during the product use phase account for approximately 90% of the emissions in the entire product life cycle. Higher fuel efficiency can contribute not only to reduction of the running cost of customers but also to mitigation of climate change caused by global warming. In addition, electric-powered products with high potential for reduction of CO_2 can be expected to have effects as products that drive the de-carbonization. The Group will continue to realize even higher fuel efficiency and development of more electric-powered products through innovation.

(3) Basic policy on control of the Company

By listing shares, the Company raises the funds necessary for running and expanding the business from the stock market, and at the same time, the Company is evaluated by shareholders, investors and the stock markets. The Company believes that practicing management under the pressure with recognizing expectations about the Company and the Group through such day-to-day evaluations will greatly contribute to the improvement of corporate value.

In addition, the Company, as a group company of Hitachi, Ltd., the Parent Company, shares the basic philosophy and brand of Hitachi, Ltd. while maintaining the independence of business operations, and believes that integration of basic management policy is necessary. Also, we believe that effectively leveraging research and development capabilities, brand strength, and other management resources of Hitachi, Ltd. and its group companies will contribute to further improvement of the corporate value of the Company and the Group.

Under the basic policy described above, the Company takes the initiative in building a governance framework and developing and promoting management plans, and strives to improve the corporate value and maximize the value provided to shareholders in general.

2. Business Risks

The Group carries out its operations in regions throughout the world and executes its business in a variety of fields such as production, sales, finance, etc. Accordingly, the Group's business activities are subject to the effects of a wide range of factors such as market conditions, exchange rates and finance.

The Group has identified the following risks as its primary risks based on information available as of March 31, 2019.

(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 estates, etc. Consequently, we have a risk of decline in revenue due to low factory utilization or price decline by severe competition, resulting from significant demand decrease by sudden economic fluctuation in each region.

(2) Foreign currency exchange rate fluctuations

Since the sales of the Group derived from outside Japan account for 80% in the fiscal year under review, the risk of exchange rate fluctuations has increased. Appreciation of the Japanese yen against major currencies such as the US dollar, European euro, and other currencies of emerging countries would have a significant adverse impact on the Group's operational results. The Group strives to alleviate the effect of such fluctuations by enlarging the portion of local production, increasing parts import by international procurement, and having forward exchange contracts and conducting other hedging activities. However, there is no guarantee that our operational results are not adversely affected in the case that rates fluctuate beyond our projected range.

(3) Fluctuation in financial markets

The Group is currently working on improvement of the efficiency of its assets to reduce its interest-bearing debt; however, its aggregate short- and long-term interest-bearing debts were ¥304,800 million in total as of March 31, 2019. Although the Group has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, there is a risk that an increase in interest rates may increase the interest expenses, thereby adversely affecting the Group's operational results. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of the Group's pension plans or pension liabilities, which may result in an increase in pension expenses. There is a risk that such an increase in interest expenses and pension expenses may deteriorate the Group's operational results and financial condition.

(4) Procurement and production

Since the Group's costs for parts and materials account for a large portion of manufacturing costs, their procurement is exposed to fluctuations in commodity prices in the market for materials. Price increases in commodities including steel may increase the manufacturing costs.

Shortage of parts and materials causes difficulty in timely procurement and manufacture, and it may lower the Group's production efficiency. In an effort to reduce any adverse effect on its business as a result of an increase in material costs, the Group plans to reduce other costs via VEC (value engineering for customers) activities, and appropriately pass on the increase in material costs to the product prices. However, if the increases in material prices were to exceed the Group's expectations or a prolonged shortage of materials and parts were to occur, there is a risk that the Group's operational results may be adversely affected.

(5) Credit management

The Group's main products, construction machinery, are sold via sales financing, such as installment sales, finance leasing, etc. A specialized department for financing engages in credit management. Since many customers utilize sales financing, despite receivables are not concentrated overwhelmingly in certain customers, there is a risk for the occurrence of bad debt due to the deterioration of customers' financial condition may adversely affect the Group's revenue.

(6) Public laws and tax practices

The Group's business operations are required to comply with increasingly stringent political measures, official restrictions, tax practices, laws and regulations, etc. For example, in the numerous countries in which the Group operates, we are required to comply with restrictions or regulations such as authorizations for business operations and investments, as well as limitations and rules regarding imports and exports, and laws and regulations regarding patents, intellectual properties, consumers, the environment and recycling, conditions of employment, taxation, etc. If such existing regulations were to be amended or tightened, the Group may be required to incur increased costs and pay larger amounts of tax. There is a risk that such additional compliance costs may adversely affect the Group's revenue.

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

The Group's products are required to respond to social problems such as climate change (reduction of CO_2, etc.) and environmental burdens (exhaust gas and noise). To this end, the Group expends a significant share of its management resources, such as research and development expenses, securement of human resources and investment in its service and sales structure, to comply with stringent environmental and related regulations. There is a risk that such additional investment costs may adversely affect the Group's management financially.

(8) Product liability

While the Group is making efforts to sustain and improve the quality and reliability of its operations and products based on stringent standards established internally by the Group, it may face product liability claims or become exposed to other liabilities if unexpected defects in its products result in accidents. If the costs of addressing such claims or other liabilities are not covered by the Group's existing insurance policies, we may be required to bear the cost thereto, which would pose a risk of causing a decrease in its revenue.

(9) Alliances and collaborative relationships

The Group has entered into various alliances and collaborative relationships with distributors, suppliers, and other companies in its industry to reinforce its international competitiveness. Through such arrangements, we are working to improve and extend its product development, production, sales, and service capabilities. The Group's failure to attain the expected results or the termination of such alliances or collaborative relationships would pose a risk of adversely affecting the operational results.

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

The Group may obtain confidential information concerning its customers and individuals in the normal course of its business, and also holds confidential business and technological information. We maintain such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, or loss, the Group employs appropriate safety measures, including reasonable technological safety measures and establishment of rules to handle confidential information and information management capabilities. If a leak of confidential information occurred, there is a risk that the reputation of the Group may be damaged and customers may lose confidence in the Group. In addition, there is also a risk that our intellectual property may be infringed upon by a third party, or a third party may claim that the Group is liable for infringing on such third party's intellectual property rights.

(11) Impact of natural and man-made disasters

The Group conducts its business operations on a global scale and maintains business facilities for development, production, supply, and other business activities in many countries. There is a risk of occurrence of natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, or condemnation and interference by third parties in regions in which the Group operates. These natural and anthropogenic disasters may cause damage to its facilities from which recovery cannot be made in short term and disrupt operations, procurement of materials and parts or their production, and sales and services. There is a risk that such delays or disruptions may adversely affect our operational results.

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

1. Summary of Results of Operations

Any forward-looking statements in this report are based on the judgment as of March 31, 2019.

(1) Business results

The Group launched a new mid-term management plan, “CONNECT TOGETHER 2019,” in April 2017. We are promoting the development of “Solution Linkage” utilizing ICT and IoT to offer solutions to customer’s challenges on “safety,” “productivity,” and “life-cycle costs (cost including fuel expenses, maintenance expenses and repair expenses).”

And, to expand the source of revenue besides new machine sales in addition to the existing parts & service business, we are expanding the value chain (Parts & Services, Solution Business, Rental, etc. other than new machine sales) by enhancing the parts & service business for mining machines and facilities provided by H-E Parts International LLC and Bradken Pty Limited, which we acquired in FY2016, and their subsidiaries, and by entry into the rental business in North America through Acme Business Holdco, LLC, and in the U.K. through Synergy Hire Limited, which was established in January 2019.

As for the parts & service business, we added to the menus of “ConSite” the newly launched “ConSite OIL,” the first service in the industry to predict problems of engines and hydraulic equipment by remotely inspecting the condition of its oil by oil sensors installed in each machine, in order to contribute to reducing customers’ lifecycle costs. In the Amsterdam factory of Hitachi Construction Machinery (Europe) N.V., we opened ICT demonstration sites where customers can experience ICT construction. We also decided to introduce ICT hydraulic excavators to the European market, which will be the first time in an overseas market, to strive to spread ICT construction beyond the Japanese market.

In Europe, which has some of the strictest regulations in the world, with the prospect of a rise in demand for EV construction machinery, a new company, EAC European Application Center GmbH, which was established with a German distributor for developing electric construction machinery and special application products, developed electric excavators in the 2t and 8t classes as concept models.

We are focusing on expanding sales of the well-accepted AC-3 series of rigid dump trucks equipped with an advanced vehicle body stability-assist function by taking advantage of the Hitachi Group’s strengths, in addition to offering a fleet management system and aggressively developing an autonomous haulage system (AHS) to optimize the mining operations, and as part of this, we are now promoting a joint operation with Whitehaven Coal Mining Limited in Australia.

Additionally, we are working to restructure the main domestic bases to further strengthen our technical capabilities and product development to create a more efficient production system. At the same time, we are working to optimize capital investments and reduce fixed costs, establishing a high profit structure.

Also, at five factories in Ibaraki Prefecture, our energy consumption activities have been well appraised and we won the ECCJ Chairman Prize of the Energy Conservation Grand Prize for excellent energy conservation equipment for FY2018 (hosted by The Energy Conservation Center, Japan).

As a result of these activities, consolidated revenue for the fiscal year under review was ¥1,033,703 million, which represents 108% of the amount reported for the previous fiscal year due to increased sales of new machines as well as increased sales in the value chain business largely from parts & services mainly in Asia and Oceania, North America, and Europe. Operating income was ¥102,296 million, which represents 107% of the amount reported for the previous fiscal year due to a decrease in the cost of sales, in addition to the contribution of the parts & service business and mining business. Income before income taxes was ¥102,702 million, which represents 107% of the amount reported for the previous fiscal year. Net income attributable to owners of the parent increased significantly to ¥68,542 million, which represents 114% of the amount reported for the previous fiscal year.

1) Construction Machinery Business

Demand for hydraulic excavators increased globally year on year except in Japan, the Middle East, and Africa. As for mining machinery, demand grew year on year due to the increased CAPEX of mining companies. Consolidated revenue of the Construction Machinery Business for the fiscal year under review increased in new machines in construction and mining, as well as increased sales of the value chain business mainly from parts & services. By region, it increased in Japan, Oceania, North America and Asia, and although it was affected by the foreign exchange rate of the Euro and emerging countries, it increased to ¥937,727 million, which represents 108% of the amount reported for the previous fiscal year.

2) Solution Business

This segment consists of H-E Parts International LLC and Bradken Pty Limited, which we acquired in FY2016, and their subsidiaries. H-E Parts International LLC mainly provides services and solutions required for machinery and equipment for mining. Bradken Pty Limited supplies wear parts for fixed mining plants and mobile mining equipment, and also provides maintenance and servicing for them.

Consolidated revenue of the Solution Business for the fiscal year under review was ¥96,847 million, which represents 105% of the amount reported for the previous fiscal year, because of the steady contribution to its revenue from solutions for mining machines in the Americas, Europe, Russia-CIS, etc.

The above revenues of segments 1) and 2) are figures before inter-segment adjustment.

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥67,347 million, a decrease of ¥14,582 million from the beginning of the fiscal year under review. Statement and factors relating to each cash flow category are as follows:

(Net cash used in operating activities)

Net cash used in operating activities in the fiscal year under review included ¥74,186 million in net income and ¥36,954 million in depreciation and amortization as cash inflow, and a ¥18,583 million decrease in accounts and notes payable, a ¥19,101 million increase in accounts and notes receivable, a ¥76,497 million increase in inventories, and a ¥7,115 million increase in finance lease receivables as cash outflow.

As a result, net cash used in operating activities during the fiscal year under review totaled ¥25,693 million.

(Net cash used in investing activities)

Net cash used in investing activities in the fiscal year under review amounted to ¥30,339 million. This was due mainly to an outlay of ¥26,231 million for capital expenditure and an outlay of ¥1,315 million for acquisition of investments in securities and other financial assets (including investments in associates).

(Net cash provided by financing activities)

Net cash provided by financing activities in the fiscal year under review totaled ¥43,928 million. This was due mainly to an increase of ¥67,386 million in short-term borrowings, net, an increase of ¥7,431 million in long-term borrowings and bonds, ¥24,495 million in dividends paid (including dividends paid to non-controlling interests), etc.

(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	1,001,452	112
Solution Business	94,288	107
Total	1,095,741	111

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

2. Amounts above are presented exclusive of consumption taxes.

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	937,727	108
Solution Business	95,976	104
Total	1,033,703	108

(Notes) 1. Amounts above are presented exclusive of consumption taxes.

2. 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, 2019.

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 credit loss ratio and recoverable amounts calculated by taking into account past experience 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 benefit

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 benefit, retirement benefit costs, and remeasurements of retirement benefit obligations.

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

Operating results of the Group for the fiscal year under review are as described in 1. Summary of Results of Operations (1) Business results.

The status of achievement and progress in the mid-term management plan for three years starting from April 2017, 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 year ending March 31, 2020	Results for the year ended March 31, 2019	Year-on-year change
Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 9%	11.3%	Up 1.5% pts
Efficiency	Aim to achieve ROE of over 9%	14.7%	Up 0.6% pts
Net D/E ratio	Aim to achieve 0.4 or less	0.49	Up 0.16
Shareholder return	Aim to achieve consolidated dividend payout ratio of approx. 30% or more	31.0%	Up 0.9% pts

(Note) The assumed foreign exchange rates for the targets of the year ending March 31, 2020 are ¥100 for one US dollar, ¥110 for one euro, and ¥15 for one Chinese yuan.
The Group will continue to strive so that each numerical target can be achieved even based on the market condition and exchange level assumed at the time of development of the mid-term management plan.

1) Revenue

Revenue for the fiscal year under review amounted to ¥1,033,703 million, a 7.8% 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 ¥735,507 million, a 5.8% increase from the previous fiscal year. The ratio of cost of sales to revenue decreased by 1.3 percentage points to 71.2%.

Selling, general and administrative expenses were ¥181,355 million, a 6.5% increase from the previous fiscal year.

3) Operating income

Operating income increased by 6.9% from the previous fiscal year to ¥102,296 million. The ratio of operating income to revenue decreased by 0.1 percentage points to 9.9%.

4) Financial income and expenses

Financial income and expenses were a net loss of ¥4,310 million for the fiscal year under review, an increase in income of ¥170 million from the net loss of ¥4,480 million recorded in the previous fiscal year, primarily due to an increase in dividend income of ¥252 million to ¥527 million for the fiscal year under review from ¥275 million for the previous fiscal year.

5) Income before income taxes

Income before income taxes was ¥102,702 million, a 7.4% increase from the previous fiscal year.

6) Income tax expense

Income tax expense for the current year amounted to ¥28,516 million, an 8.1% increase from the previous fiscal year.

(3) Factors that have material effects on operating results

Please refer to 2. "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 at the end of the fiscal year amounted to ¥673,888 million, an increase of 12.7%, or ¥76,059 million, from the previous fiscal year-end. This was due mainly to an increase of ¥18,635 million in trade receivables, and ¥69,221 million in inventories. Non-current assets amounted to ¥511,368 million, an increase of 3.9%, or ¥19,401 million, from the previous fiscal year-end. This was due mainly to an increase of ¥11,258 million in property, plant and equipment, ¥4,344 million in intangible assets and ¥3,079 million in investments accounted for using the equity method.

As a result, total assets increased 8.8%, or ¥95,460 million, from the previous fiscal year-end to ¥1,185,256 million.

[Liabilities]

Current liabilities amounted to ¥470,623 million, an increase of 28.4%, or ¥104,201 million, from the previous fiscal year-end. This was primarily due to an increase of ¥115,749 million in bonds and borrowings. Non-current liabilities decreased by 21.2%, or ¥46,372 million, from the previous fiscal year-end to ¥171,972 million. This was mainly due to a decrease of ¥41,606 million in bonds and borrowings.

As a result, total liabilities increased by 9.9%, or ¥57,829 million, from the previous fiscal year-end to ¥642,595 million.

[Equity]

Total equity increased by 7.5%, or ¥37,631 million, from the previous fiscal year-end to ¥542,661 million.

(5) Capital resources and liquidity

1) Cash flows

Please refer to (2) "Cash flows" of 1. "Summary of Results of Operations," for fund procurement and liquidity management of the Group.

2) Capital requirements and financial policy

In order to finance working capital/capital investment and investments and loans for the reporting period and to ensure appropriate balance of long-term and short-term, and direct and indirect borrowings, the Group received short-term borrowings of ¥67,386 million and long-term borrowings of ¥36,197 million, while repaying long-term borrowings of ¥28,766 million.

In addition, the Group prepares and updates cash management plans in a timely manner, and maintains the commitment line and credit line to mitigate the liquidity risk while minimizing liquidity in hand to enhance capital efficiency.

(Information on differences in the main accounts in relation to the summary of results of operations)

The differences between the main accounts in the consolidated financial statements prepared in accordance with IFRS and the corresponding accounts in the consolidated financial statements prepared in accordance with Japan GAAP have been provided as follows. Because the Company has not prepared the consolidated financial statements in accordance with Japan GAAP, the amounts of differences are stated in approximate amount.

(Goodwill)

Goodwill is amortized under Japan GAAP; however, amortization of goodwill is not permitted under IFRS. Due to this impact, "selling, general and administrative expenses" in the consolidated statements of income in the fiscal year under review under IFRS decreased by ¥1,500 million compared with the amount under Japan GAAP.

(Employee Benefits)

Under Japan GAAP, actuarial differences and prior service costs that are not recognized as expenses during the year are recognized in AOCI, and subsequently amortized in profit or loss over a certain period of time. Current service cost, interest cost and expected return on plan assets are recognized in profit or loss.

Under IFRS, any differences arising from remeasurement of defined benefit corporate pension plans and severance payment plans are recognized in OCI. Such remeasurement consists of actuarial differences on defined benefit obligations and profit from plan assets (excluding interest income associated with plan assets). Prior service costs are recognized immediately in profit or loss. Current service costs are recognized as incurred in profit or loss, and the net interest cost, measured by multiplying the net defined benefit obligations or assets by the discount rate, is recognized in profit or loss.

Due to this impact, "cost of sales" and "selling, general and administrative expenses" in the consolidated statements of income in the fiscal year under review under IFRS decreased by ¥1,500 million compared with the amount under Japan GAAP, whereas "remeasurements of defined benefit obligations" in the consolidated statements of comprehensive income in the fiscal year under review under IFRS decreased by ¥1,100 million compared with the amount under Japan GAAP.

(Income Taxes)

With respect to tax effects of unrealized gains and losses from intercompany sales transactions, deferred tax assets are calculated based on the effective tax rate applicable to the selling company under Japan GAAP, while based on the effective tax rate applicable to the purchasing company under IFRS.

Due to this impact, “share of profits of investments accounted for using the equity method” in the consolidated statements of income in the fiscal year under review under IFRS decreased by ¥200 million compared with the amount under Japan GAAP, and “income tax expense” increased by ¥200 million.

4. 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-sized excavator	OEM purchase	From April 19, 1995 to May 16, 2005 and it is automatically renewed for next 2 years
Hitachi Construction Machinery Co., Ltd.	Deere & Company	U.S.A.	Hydraulic excavator	OEM supply	8 years from February 10, 1983 and it is automatically renewed for next 5 years
Hitachi Construction Machinery Co., Ltd.	Bell Equipment Limited	South Africa	Articulated dump truck sugarcane forest trimmer	OEM purchase	5 years from September 5, 2000 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	Deere-Hitachi Maquinas de Construcao do Brasil S.A.	Brazil	Hydraulic excavator	OEM supply	Indefinite periods from September 30, 2011

(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. 2 years from September 1, 1993 and it is automatically renewed for next 1 year 2. From July 25, 1995 to December 1, 1995 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	Deere-Hitachi Maquinas de Construcao do Brasil S.A.	Brazil	Hydraulic excavator	Technology licensing	From September 30, 2011 to September 29, 2021

(3) Absorption-type merger agreement

Name of contracting party	Name of counterparty	Country	The date of execution of the contract	Effective date
Hitachi Construction Machinery Co., Ltd.	KCM Corporation	Japan	December 25, 2018	April 1, 2019

1) The date of Board of Directors resolution

December 25, 2018

2) The purpose of the merger

There is currently vigorous demand in the construction machinery industry, both in the stable domestic market and in major overseas markets. In this environment surrounding the Company, competition on a global scale is becoming more intense, making an optimal production system an urgent necessity.
Under these circumstances, the Group has decided to implement merger of KCM Corporation for the purpose of establishing unification of the R&D department and a consistent production system of everything from parts to completed products within FY2022, as announced in “Major Domestic Restructure to Strengthen Global Competitiveness” released on September 27, 2018.

3) Method of the merger

It is an absorption-type merger with the Company being the surviving company and KCM Corporation being the dissolving company.

4) Details of allotment in association with the merger

Because KCM Corporation is a wholly owned subsidiary of the Company, there is neither issuance of new shares nor an increase in common stock due to this merger.

5) Status of assets and liabilities to be succeeded

Total assets: ¥28,944 million
Total liabilities: ¥23,819 million

6) Details of the surviving company in the absorption-type merger (As of December 31, 2018)

Company name: Hitachi Construction Machinery Co., Ltd.
Registered head office: 2-16-1, Higashiueno, Taito-ku, Tokyo
Name of the representative: Kotaro Hirano, President and Executive Officer
Amount of capital stock: ¥81,577 million
Business contents: Manufacturing, sales, services, etc. of construction machinery

(4) Other contract

Name of contracting party	Name of counterparty	Country	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	Hitachi, Ltd. [Parent Company]	Japan	Licensing on the use of Hitachi brand	5 years from April 1, 2015 and it is automatically renewed for next 1 year

(5) Contracts that were terminated during the fiscal year under review

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	Hydraulic excavator	OEM supply	From May 6, 1976 to February 21, 1997 and it is automatically renewed for next 2 years
Hitachi Construction Machinery Co., Ltd.	TADANO LTD.	Japan	High elevation work vehicle	OEM complementary supply	2 years from January 11, 1999 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	HOKUETSU INDUSTRIES CO., LTD.	Japan	Mini-sized excavator	OEM supply	From April 1, 2005 to March 31, 2007 and it is automatically renewed for next 2 years

(Notes) 1. Both of the contracts entered into with KUBOTA Corporation and TADANO LTD., respectively, were terminated as of July 31, 2018.
2. Regardless of the termination of the contracts stated in Note 1 above, the provisions for quality assurance, after sales services and repair parts shall remain in effect under the aforementioned contracts even after the termination.
3. The contract entered into with HOKUETSU INDUSTRIES CO., LTD. was terminated as of September 30, 2018.

5. Research and Development Activities

The Group actively promotes development of new technologies and products for the purpose of creating new added value and improving quality and reliability. Mainly led by the Advanced Development Center of the Research & Development Div., research and development, production and procurement and corporate quality assurance divisions, 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 ¥24,774 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-sized 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 2014 standards for exhaust emissions (the Off-road Act).

The Company launched a hybrid hydraulic excavator ZH120-6, which comes with “HIOS IV-HX,” a hydraulic accumulator-type hybrid system that was newly developed with its proprietary technologies, on October 1, 2018. The regeneration system using an accumulator to accumulate hydraulic pressure has made low-fuel consumption possible.

On October 1, 2018, the Company announced the establishment of EAC European Application Center GmbH, a new company engaged in the development of electric construction machinery and special application products, with KTEG Kiesel Technologie Entwicklung GmbH, which is a group company of Kiesel GmbH, a distributor of the Company, in Europe that takes a positive stance toward the prevention of global warming and realization of a low-carbon society. The Company, which has developed and delivered many electric construction machines, and KTEG Kiesel Technologie Entwicklung GmbH, which has insights into trends of regulations of electrification in the European market and rich know-how in commercialization, enable electrification which accommodates customer needs utilizing components of existing machinery by gathering their technical know-how, to accelerate the development of electric construction machinery that contributes to reductions in environmental burdens and life cycle costs.

With respect to the scope of IT and automation technology, which is a recent trend for the construction machinery industry, we have been promoting research and development for creating a new customer value by putting the whole construction machinery lifecycle into perspective such as preventive maintenance of machinery as well as installation support systems with the objective of improving working efficiency of machinery and cutting down construction and management costs for customers. Following ZX200X-6, an ICT hydraulic excavator in 20t class that was launched in January 2018, ZX135USX-6, which makes full use of characteristics of the reduced-tail-swing model in 13t class, was released in October 2018.

This model comes equipped with the Company’s proprietary machine control function “Solution Linkage Assist” and enables efficient work without excessively excavating the targeted surface by semi-automatically controlling the machine’s front (boom, arm and bucket) in real time in accordance with 3D (three-dimensional) construction data based on position information of the machine obtained from GNSS receiver and three-dimensional information on bucket tips. ZX135USX-6 supports i-Construction, which is promoted by the Ministry of Land, Infrastructure, Transport and Tourism.

As part of “Solution Linkage” ICT/IoT solutions that contribute to “improvement of safety,” “improvement of productivity,” and “reduction in life cycle costs” in construction sites of customers engaged in civil engineering and construction businesses, “Solution Linkage Mobile” ICT construction solutions with functions of work site visualization, progress management and notification of any intrusion on designated areas were launched for customers in Japan in April 2018. Based on the concept of making it easier to use IoT at work sites, Solution Linkage Mobile enables connections between machinery and people at work sites using mobile terminals such as a smartphone.

The Company works through “One Hitachi,” utilizing control system and ICT/IoT technologies, which are the strength of the Hitachi Group, as well as promotes the cooperation through open innovation activities in coordination with a variety of 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 ¥22,819 million.

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

Solution Linkage Mobile	
Solution Linkage Survey	
Rigid dump truck with trolley system	EH5000AC-3
ICT hydraulic excavator	ZX135USX-6
Hybrid hydraulic excavator	ZH120-6

(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 ¥1,955 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 ¥57,634 million.

2. Major Property, Plant and Equipment

The Group has changed the disclosure method to describe major property, plant and equipment by segment from the fiscal year under review.

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

(1) Construction Machinery Business

1) The Company

(As of March 31, 2019)

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)	Lease assets	Other	Total	
Tsuchiura Works/ Kasumigaura Works (Tsuchiura-city, Ibaraki and other) Notes 1, 2	Construction machinery manufacturing facility, etc. of hydraulic excavators, etc.	7,586	5,663	5,840 (4,947) [95]	2,827	2,494	24,410	3,092
Hitachinaka Works (Hitachinaka-city, Ibaraki) Note 1	Manufacturing facility, etc. of components, etc. for hydraulic excavators	6,455	7,069	1,980 (66) [148]	–	247	15,751	299
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	14,306	3,833	12,246 (495)	–	2,231	32,616	418
Headquarter (Taito-ku, Tokyo and other) Note 2	Facilities, etc. in the registered office of the Company	1,475	173	16,645 (617)	–	496	18,789	486

2) Domestic subsidiaries

(As of March 31, 2019)

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)	Lease assets	Other	Total	
Tada Kiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,464	648	1,604 (30)	1	35	3,752	211
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini-sized excavator	2,935	2,520	306 (153)	58	260	6,079	554
KCM Corporation	Headquarter/ Factory (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loader	612	1,100	699 (130)	–	428	2,839	687
KCM Corporation	Factory (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loader	1,455	866	2,192 (269)	–	100	4,613	817

3) Overseas subsidiaries

(As of March 31, 2019)

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)	Lease assets	Other	Total	
P.T. Hitachi Construction Machinery Indonesia Note 1	Factory (Cibitung, Indonesia)	Assembly plant of construction machinery	2,617	1,439	– [194]	–	135	4,191	977
Hitachi Construction Machinery (China) Co., Ltd. Note 1	Headquarter/ Factory (Hefei, Anhui, China)	Assembly plant of construction machinery	3,082	1,095	– [564]	–	–	4,177	2,227
Tata Hitachi Construction Machinery Co., Pvt., Ltd. Note 1	Factory (Kharagpur, India)	Assembly plant of construction machinery	4,300	4,634	– [1,012]	–	51	8,985	700
LLC Hitachi Construction Machinery Eurasia	Factory (Tver region, Russian Federation)	Assembly plant of construction machinery	2,560	1,094	4 (40)	–	18	3,676	360

(Notes) 1. Area in thousands of square meters of leased land is presented separately in [ ].

2. 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 Tokachi district, Urahoro, Hokkaido. The land of the headquarter is presented including the land with an area of 536 thousand m^2 costing ¥16,434 million which is leased to Hitachi Construction Machinery Japan Co., Ltd. (for its headquarter, Kansai and Shikoku branch office and other bases).

3. It does not include construction in progress.

4. The amounts are their respective carrying amounts exclusive of consumption taxes.

(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

Class	Number of shares issued as of March 31, 2019 (Shares)	Number of shares issued as of June 25, 2019 (Filing Date) (Shares)	Stock exchange on which the Company is listed	Description
Common stock	215,115,038	215,115,038	First Section 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 right 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 capital reserve (Millions of yen)	Balance of capital reserve (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 capital and legal capital surplus of ¥38,937 million, respectively, 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, capital 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, 2019)

Category	Stock condition (Number of shares of 1 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	–	61	51	390	528	13	24,992	26,035	–
Share ownership (units)	–	499,319	71,705	1,124,032	293,143	107	161,579	2,149,885	126,538
Ownership percentage of shares (%)	–	23.2	3.4	52.3	13.6	0.0	7.5	100.0	–

(Notes) 1. Of treasury stock of 2,460,265 shares, 24,602 units are included in the total units held by "Individual and others" and 65 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, 2019)

Name	Address	Share ownership (Thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury stock) (%)
Hitachi, Ltd.	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	108,058	50.81
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	24,793	11.66
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	10,115	4.76
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Triton Square Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	3,257	1.53
GOLDMAN SACHS AND COMPANY REGULAR ACCOUNT (Standing Proxy: Goldman Sachs Japan Co., Ltd.)	200 WEST STREET NEW YORK, NY, USA (Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo)	2,846	1.34
Japan Trustee Services Bank, Ltd. (trust account 9)	1-8-11 Harumi, Chuo-ku, Tokyo	2,750	1.29
Japan Trustee Services Bank, Ltd. (trust account 7)	1-8-11 Harumi, Chuo-ku, Tokyo	1,713	0.81
JP MORGAN CHASE BANK 385151 (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)	1,639	0.77
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)	1,638	0.77
Japan Trustee Services Bank, Ltd. (trust account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	1,577	0.74
Total	–	158,386	74.48

(Notes)
1. The 2,460 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)	24,793 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account)	10,115 thousand shares
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,257 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,750 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 7)	1,713 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,577 thousand shares

3. A report of possession of large volume was provided for public inspection on September 21, 2018. 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 Securities Co., Ltd. and two other persons
Date on which the duty to file report arose	September 14, 2018
Number of shares, etc. held	13,409,741 shares
Ownership ratio	6.23%

(7) Information on voting rights

1) Issued shares

(As of March 31, 2019)

Classification	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 2,460,200	–	–
Shares with full voting rights (others)	Common stock 212,528,300	2,125,283	–
Shares less than one unit	Common stock 126,538	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,283	–

(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 65 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of March 31, 2019)

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	2,460,200	–	2,460,200	1.14
Total	–	2,460,200	–	2,460,200	1.14

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 year ended March 31, 2019	2,325	8,160,894
Treasury stock acquired during the period after the reporting period to the filing date of this annual securities report	176	459,484

(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, 2019 to the filing date of this annual securities report.

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

Classification	Year ended March 31, 2019		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 and company split	–	–	–	–
Others	30	81,780	–	–
Total number of shares of treasury stock held	2,460,265	81,780	2,460,441	–

(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, 2019 to the filing date of this annual securities report.

3. Dividend Policy

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

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

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)	Dividends per share (Yen)
Resolution at the Board of Directors meeting held on October 25, 2018	9,144	43
Resolution at the Board of Directors meeting held on May 21, 2019	12,121	57

4. Corporate Governance, etc.

(1) Corporate governance

1) Basic concept on corporate governance

The Company firmly recognizes that it acts not only to improve its business performance but also to serve as a useful corporate citizen in society. Our commitment to fair and transparent corporate behavior underpins our corporate governance. We believe this commitment will in turn lead to greater corporate value and improved shareholder value.

In addition, the Group's own corporate codes of conduct, based on that of the Hitachi Group, guides our basic policy for corporate governance as one of the Hitachi Group companies, and serves as the foundation for the Hitachi brand and our CSR activities. We will foster the Hitachi Group's common values and share the same understanding of our corporate social responsibilities.

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 (13 meetings were held in the year ended March 31, 2019 (including 1 resolution based on documents))

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. As of the filing date of this annual securities report, the Board of Directors comprises 10 persons in total: Chairman of the Board Hideaki Takahashi, who is the chair, 3 Outside Directors made up of Kazushige Okuhara, Haruyuki Toyama and Junko Hirakawa, 4 Directors concurrently serving as Executive Officers made up of Tetsuo Katsurayama, Koji Sumioka, Seishi Toyoshima and Kotaro Hirano, and 2 Directors made up of Toshikazu Sakurai and Toshitake Hasunuma.

The Board of Directors has 3 statutory committees (Nominating, Audit, and Compensation Committees), and the majority of each committee is comprised of Outside Directors.

b. Committees

(i) Nominating Committee (5 meetings were held in the year ended March 31, 2019)

The Nominating Committee has the authority, etc. to determine proposals submitted to the shareholder's meetings for the election and dismissal of the Directors. As of the filing date, the Nominating Committee comprises 5 persons in total: Chairman of the Board Hideaki Takahashi, who is the chair, 3 Outside Directors made up of Kazushige Okuhara, Haruyuki Toyama and Junko Hirakawa, and President and Executive Officer Kotaro Hirano.

(ii) Audit Committee (21 meetings were held in the year ended March 31, 2019)

The Audit Committee has the authority to audit of the execution of duties of Directors and Executive Officers and to determine proposals submitted to the shareholder's meeting for the election and dismissal, etc. of accounting auditors. As of the filing date, the Audit Committee comprises 5 persons in total: Director Toshikazu Sakurai, who is the chair, 3 Outside Directors made up of Kazushige Okuhara, Haruyuki Toyama and Junko Hirakawa, and Director Toshitake Hasunuma.

(iii) Compensation Committee (3 meetings were held in the year ended March 31, 2019)

The Compensation Committee has the authority, etc. to determine compensation for individual Directors and Executive Officers. As of the filing date, the Compensation Committee comprises 3 persons in total: President and Executive Officer Kotaro Hirano, who is the chair, and 2 Outside Directors made up of Haruyuki Toyama and Junko Hirakawa.

c. 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 at the Executive Committee are reported to the Board of Directors meeting.

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 18 persons in total: President and Executive Officer Kotaro Hirano, who is the chair, Executive Vice President and Executive Officers Koji Sumioka and Yasushi Ochiai, Senior Vice President and Executive Officers Tetsuo Katsurayama, Michifumi Tabuchi and Naoyoshi Yamada, Vice President and Executive Officers Takaharu Ikeda, Sonosuke Ishii, Seishi Toyoshima and Hideshi Fukumoto, and Executive Officers Yusuke Kajita, Moriaki Kadoya, Masafumi Senzaki, Kazunori Nakamura, Masaaki Hirose, Hidehiko

Matsui, Makoto Yamazawa and David Harvey.

3) Internal control system and risk management system

Pursuant to provisions of laws and regulations, the Company, by resolutions at the Board of Directors, determines an overall system of internal controls of the Company and complies with such resolutions.

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 the duties of the Audit Committee and one of the personnel who works exclusively for the Bureau and is not subject to orders and instructions of Executive Officers has been assigned. The internal audit department and legal / general affairs department also assist the Audit Committee in addition to the personnel of the Audit Committee Bureau. 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 effect of instructions to such Directors and personnel from the Audit Committee

The Audit Committee Bureau is staffed with personnel who work exclusively for the Audit Committee Bureau and are not subject to orders and instructions of Executive Officers. The Audit Committee shall be informed in advance of planned transfers of personnel, 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 for reason of reporting

• Executive Officers shall report to the Audit Committee without delay 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 there shall be no disadvantageous treatment to the whistleblower 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 full-time member of the Audit Committee. The Audit Committee, by way of a resolution, shall appoint a member of the Committee to receive such reports.

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 appoints a full-time member and 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 of the status about 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 headquarter, major offices and subsidiaries, and make inquiries as necessary.

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 internal 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 department shall establish rules and guidelines as necessary, conduct training, and prepare and distribute manuals, etc. with respect to risks such as compliance, information security, environment, disaster, quality assurance and export control. Subsidiaries of the Company shall 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 operation 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 matters that may affect the Company and the Group, Executive Committee regulations, etc. require such matters shall be deliberated from various points of view in the Executive Committee and management 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 intellectual property management 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

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

- Internal audits by the Internal Audit 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” which 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 in charge of this system carries out necessary investigations, etc., replies to the whistle-blower, and also ensures there is no disadvantageous treatment to the whistle-blower.
- 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 the execution of duties by Directors of the subsidiaries to the Company

- Any significant operational matters regarding the subsidiary shall be deliberated in 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 operation of a corporate group consisting of the Company, its parent and subsidiaries

- The Company respects the basic philosophy of the Parent Company as a basis for the Hitachi brand and CSR activities. The Company fosters the Hitachi Group's common values and shares the same understanding of our corporate social responsibilities.
- The Parent Company informs the Company of common policies and regulations, etc. within the Hitachi Group, and the Company shall establish rules and regulations, etc. in conformity with such policies and regulations, etc.
- In order to ensure the appropriateness of the operation of the Hitachi Group, the Parent Company dispatches Directors to the Company and audits each department of the subsidiaries on a regular basis for checking the status of the development of systems depending on the size, etc. of the Company.
- The Parent Company establishes a support desk to respond to inquiries from the Company regarding corporate matters including legal, accounting, and general administrative issues as well as research and development activities in order to operate properly and efficiently as the Hitachi Group.
- The Parent Company as well as the Company and its subsidiaries have a policy to conduct transactions within the Hitachi Group fairly based on market prices.

4) Agreements to limit liability

The Company enters into an agreement to limit the liability for damages, as stipulated in Article 423, paragraph (1) of the Companies Act, with each of the Directors (excluding those who are Executive Directors, etc.). 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) Number of Directors

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

6) 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."

7) 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.

8) 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 of the 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 in such meeting and are entitled to vote."

(2) Directors and Executive Officers

1) Lists of Directors and Executive Officers

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

Directors and Executive Officers include 23 males and 1 female. (The ratio of female Directors and Executive Officers is 4.2% of the total.)

a. Directors

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Outside Director Nominating Committee Member Audit Committee Member	Kazushige Okuhara	January 27, 1948	4/1970	Joined Fuji Heavy Industries Ltd. (Currently called Subaru Corporation)	(Note 1)	3
			6/1993	Regional Manager of Regional Management Dept., Domestic Sales Div. (Chugoku, Shikoku and Kyusyu)		
			10/1999	Senior Managing Director, TOKYO SUBARU Inc.		
			6/2001	Corporate Vice President, Senior General Manager of Japan Region, Subaru Sales & Marketing Div., Chief General Manager of Subaru Parts & Accessories Div. and General Manager of Customer Service Center, Fuji Heavy Industries Ltd.		
			6/2003	Corporate Senior Vice President, Chief General Manager of Subaru Japan Sales & Marketing Div. and Chief General Manager of Subaru Marketing Div.		
			4/2005	Corporate Senior Vice President, General Manager of Human Resources Dept.		
			6/2006	Director of the Board, Corporate Executive Vice President, General Manager of Human Resources Dept.		
			6/2006	President, Chairman of the Business Reforms Promotion Committee, Subaru System Service Co., Ltd. (Currently called SUBARU IT CREATIONS CORPORATION)		
			6/2010	Representative Director of the Board and Deputy President, Fuji Heavy Industries Ltd.		
			6/2011	Representative Director of the Board and President, Subaru Kosan Co., Ltd.		
			6/2013	Retired from Subaru Kosan Co., Ltd.		
			6/2016	Outside Director, the Company (to present)		
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Haruyuki Toyama	March 23, 1959	4/1982	Joined the Bank of Japan	(Note 1)	3
			1/2000	Alternate Executive Director for Japan, International Monetary Fund		
			8/2004	General Manager, Okayama Branch		
			7/2006	Deputy Director General, Payment and Settlement Systems Dept.		
			3/2009	Director General, Financial Markets Dept.		
			5/2011	General Manager for the Americas		
			11/2012	Director General, International Dept.		
			8/2014	Retired from the Bank of Japan		
			3/2015	Registered as an attorney-at-law admitted in Japan		
			6/2015	Outside Director, the Company (to present)		
			1/2019	Special Counsel, IWATA GODO (to present)		

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Junko Hirakawa	October 9, 1947	4/1973	Registered as an attorney-at-law admitted in Japan	(Note 1)	–
			2/1979	Registered as an attorney-at-law admitted in New York, United States of America		
			7/1997	Partner of Hirakawa, Sato & Kobayashi (Currently called City-Yuwa Partners) (to present)		
			6/2006	Auditor, The Japan Association of Charitable Organizations (to present)		
			6/2011	Outside Director, Tokyo Financial Exchange Inc. (to present)		
			6/2012	Outside Statutory Auditor, Sumitomo Forestry Co., Ltd.		
			6/2014	Outside Director, Sumitomo Forestry Co., Ltd. (to present)		
			6/2015	Outside Director, the Company (to present)		
Director	Tetsuo Katsurayama	April 10, 1956	4/1981	Joined the Company	(Note 1)	3
			4/2012	Deputy General Manager, Finance Div., General Manager, Finance Dept., and General Manager, Foreign Exchange Center		
			4/2013	Executive Officer		
			4/2015	Vice President and Executive Officer		
			6/2015	Vice President and Executive Officer, Director		
			4/2017	General Manager, Finance Div. (to present)		
			4/2018	Senior Vice President and Executive Officer, Director (to present)		
Director Audit Committee (Chair)	Toshikazu Sakurai	August 5, 1957	4/1980	Joined the Company	(Note 1)	3
			4/2012	Director and General Manager of Rental Div., Hitachi Construction Machinery Japan Co., Ltd.		
			4/2015	General Manager, Japan Business Div., the Company		
				President and Director, Hitachi Construction Machinery Japan Co., Ltd.		
			4/2016	Executive Officer		
			4/2018	Adviser		
			6/2018	Director (to present)		

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Director	Koji Sumioka	April 14, 1955	4/1979 4/2009 4/2011 4/2012 4/2014 4/2015 6/2015 4/2016 4/2019	Joined the Company President and Director, Hitachi Construction Machinery (Shanghai) Co., Ltd. Vice President, Marketing Group, the Company Executive Officer President and Director, Hitachi Construction Machinery Japan Co., Ltd. Vice President and Executive Officer Representative Executive Officer, Senior Vice President and Executive Officer Representative Executive Officer, Senior Vice President and Executive Officer, Director Representative Executive Officer, Executive Vice President and Executive Officer, Director (to present) President, Corporate Management Group, General Manager, Operations Management Div., General Manager, Corporate Export Regulation Div., and General Manager, Business Process Innovation Div. (to present)	(Note 1)	8
Chairman of the Board Nominating Committee (Chair)	Hideaki Takahashi	August 20, 1952	4/1978 4/2005 4/2007 4/2011 6/2011 6/2013 7/2013 4/2014 4/2017 4/2018 6/2019	Joined Hitachi, Ltd. President and Representative Director, Hitachi Building Systems Co., Ltd. Vice President and Executive Officer, Hitachi, Ltd. Representative Executive Officer, President and Chief Executive Officer, Hitachi Cable, Ltd. (Currently called Hitachi Metals, Ltd.) Representative Executive Officer, President and Chief Executive Officer, Director Director, Hitachi Metals, Ltd. Representative Executive Officer, Executive Vice President, Director Representative Executive Officer, President and Chief Executive Officer, Director Chairman of the Board Representative Executive Officer, Executive Vice President and Executive Officer, Hitachi, Ltd. (to present) Chairman of the Board, the Company (to present)	(Note 1)	–

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Director	Seishi Toyoshima	August 30, 1960	4/1984	Joined Hitachi, Ltd.	(Note 1)	–
			10/2011	General Manager of Corporate Administration Division, Corporate Sales & Marketing Division		
			4/2012	General Manager of Human Resources and Corporate Administration Division, Information & Telecommunication Systems Company		
			4/2016	CHRO, General Manager of Human Resources and Corporate Administration Division, ICT Business Group		
			4/2017	Director, General Manager of General Affairs Division, Hitachi Appliances, Inc.		
				Director, Hitachi Consumer Marketing, Inc.		
			4/2018	Executive Managing Director, General Manager of General Affairs Division, CHRO and CRO, Hitachi Appliances, Inc.		
				Director, CHRO and CRO, Hitachi Consumer Marketing, Inc.		
			4/2019	Vice President and Executive Officer, the Company (to present)		
				General Manager of Human Capital Division and General Manager of Compliance & Risk Management Division, the Company (to present)		
			6/2019	Director (to present)		
Director Audit Committee Member	Toshitake Hasunuma	May 10, 1953	4/1977	Joined Hitachi, Ltd.	(Note 1)	–
			4/2004	General Manager, Finance Division of Information & Telecommunication Group		
			7/2006	Executive Audit Manager of Internal Auditing Office		
			4/2010	General Manager, Internal Auditing Office		
			6/2016	Director, Hitachi Metals, Ltd.		
			6/2019	Director, the Company (to present)		
Director Nominating Committee Member Compensation Committee (Chair)	Kotaro Hirano	June 4, 1958	4/1981	Joined the Company	(Note 1)	10
			4/2013	Deputy General Manager, Production & Procurement Div.		
			4/2014	Executive Officer		
			4/2016	Vice President and Executive Officer		
			4/2017	Representative Executive Officer, President and Executive Officer (to present)		
			6/2017	Director (to present)		
Total						30

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder's Meeting for the year ended March 31, 2019 to the conclusion of the Annual Shareholder's Meeting for the year ending March 31, 2020.

2. Kazushige Okuhara, Haruyuki Toyama and Junko Hirakawa 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, President and Executive Officer CEO	Kotaro Hirano	June 4, 1958	See (1)	(Note)	10
Representative Executive Officer, Executive Vice President and Executive Officer CIO Officer responsible for Quality Assurance, President, Corporate Management Group, General Manager, Operations Management Div., General Manager, Corporate Export Regulation Div., and General Manager, Business Process Innovation Div.	Koji Sumioka	April 14, 1955	See (1)	(Note)	8
Executive Vice President and Executive Officer President, Marketing Group and General Manager, Africa Business Div.	Yasushi Ochiai	March 16, 1956	10/1989 Joined the Company 10/2010 General Manager, Marketing Div. 4/2011 Executive Officer 4/2013 Vice President and Executive Officer 4/2016 Senior Vice President and Executive Officer 4/2017 Executive Vice President and Executive Officer (to present) 4/2018 President, Marketing Group and General Manager, Africa Business Div. (to present)	(Note)	6
Senior Vice President and Executive Officer CFO General Manager, Finance Div.	Tetsuo Katsurayama	April 10, 1956	See (1)	(Note)	3
Senior Vice President and Executive Officer Officer responsible for "MONOZUKURI" (manufacturing), President, Development & Production Group and General Manager, Production & Procurement Div.	Michifumi Tabuchi	November 16, 1958	4/1984 Joined the Company 4/2004 General Manager, Manufacturing Dept., Component Div., Tsuchiura Works 4/2012 President and Director, Hitachi Construction Machinery (China) Co., Ltd. 4/2015 Executive Officer, the Company 4/2016 Vice President and Executive Officer 4/2017 Senior Vice President and Executive Officer (to present) 4/2019 President, Development & Production Group and General Manager, Production & Procurement Div. (to present)	(Note)	9
Senior Vice President and Executive Officer CSO General Manager, Corporate Strategy Div.	Naoyoshi Yamada	January 21, 1958	4/1982 Joined the Ministry of International Trade and Industry 4/2012 Director-General, Tohoku Bureau of Economy, Trade and Industry 6/2013 Retired from the Ministry of Economy, Trade and Industry 10/2013 Joined the Company 4/2016 Executive Officer 4/2017 Vice President and Executive Officer 4/2019 Senior Vice President and Executive Officer (to present) General Manager, Corporate Strategy Div. (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 General Manager, Life Cycle Support Operations Div.	Takaharu Ikeda	October 5, 1958	4/1982 4/2014 4/2015 4/2016 4/2018 4/2019	Joined the Company General Manager, Strategy Planning Div. Executive Officer President and Director, Hitachi Construction Machinery (Shanghai) Co., Ltd. General Manager, China Business Div. General Manager, Life Cycle Support Operations Div. (to present) Vice President and Executive Officer (to present)	(Note)	0
Vice President and Executive Officer President, Mining Group	Sonosuke Ishii	December 22, 1958	4/1982 8/2010 4/2011 4/2015 4/2017 4/2018 4/2019	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 (to present) Vice President and Executive Officer (to present)	(Note)	1
Vice President and Executive Officer CHRO General Manager of Human Capital Division, and General Manager of Compliance & Risk Management Division	Seishi Toyoshima	August 30, 1960	See (1)		(Note)	–
Vice President and Executive Officer CTO Vice President, Development & Production Group, General Manager, Research & Development Div., and General Manager, Client Solutions Div.	Hideshi Fukumoto	September 24, 1957	4/1982 4/2005 4/2011 4/2012 4/2014 4/2017 4/2019	Joined Hitachi, Ltd. Director, Machinery Research Institute Director, Technology Strategy Office, Research and Development Div. Joined the Company Executive Officer Vice President and Executive Officer (to present) Vice President, Development & Production Group, General Manager, Research & Development Div., and General Manager, Client Solutions Div. (to present)	(Note)	2
Executive Officer General Manager, China Business Div.	Yusuke Kajita	October 7, 1961	4/1987 4/2013 4/2016 4/2017 4/2018	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. (to present) Executive Officer (to present) General Manager, China Business Div. (to present)	(Note)	7

Position and responsibility	Name	Date of birth	Business experience	Term of office	Share ownership (Thousands of shares)
Executive Officer Vice President, Marketing Group and General Manager, America Business Div.	Moriaki Kadoya	November 8, 1958	4/1981 Joined the Company 4/2011 Deputy General Manager, Marketing Div. 4/2012 President and Director, Hitachi Construction Machinery (Europe) N.V. 4/2014 Executive Officer, the Company (to present) 4/2017 Vice President, Marketing Group and General Manager, America Business Div. (to present)	(Note)	16
Executive Officer General Manager, Marketing Div.	Masafumi Senzaki	July 16, 1965	4/1991 Joined the Company 4/2012 President and Director, Hitachi Construction Machinery Eurasia Manufacturing LLC 4/2017 General Manager, Russia and CIS Business Div., the Company President and Director, LLC Hitachi Construction Machinery Eurasia 4/2018 Executive Officer (to present) General Manager, Marketing Div. (to present)	(Note)	2
Executive Officer	Kazunori Nakamura	February 19, 1963	4/1987 Joined the Company 4/2016 General Manager, Application, New Product & Construction Equipment Div., Development & Production Group 4/2018 President and Director, Hitachi Construction Machinery Tierra Co., Ltd. (to present) 4/2019 Executive Officer, the Company (to present)	(Note)	5
Executive Officer Deputy General Manager, America Business Div.	Masaaki Hirose	July 30, 1959	10/1990 Joined the Company 4/2008 Executive Vice President and Director, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd 4/2013 CEO and Director, PT Hexindo Adiperkasa Tbk 4/2017 Deputy General Manager, America Business Div., the Company (to present) President and Director, Hitachi Construction Machinery Loaders America Inc. (to present) 4/2018 Executive Officer (to present)	(Note)	1
Executive Officer General Manager, Asia Business Div.	Hidehiko Matsui	April 19, 1961	4/1986 Joined the Company 4/2016 Deputy General Manager, Marketing Div., Marketing Group 4/2018 General Manager, Asia Business Div., Marketing Div., Marketing Group (to present) Chairman and President and Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. (to present) 4/2019 Executive Officer (to present)	(Note)	0
Executive Officer General Manager, Europe and Middle East Business Div.	Makoto Yamazawa	February 15, 1960	4/1983 Joined the Company 2/2005 President and Director, Hitachi Construction Machinery (Malaysia) Sdn. Bhd. 4/2014 Deputy General Manager, Global Mining Div., the Company 4/2016 General Manager, Europe and Middle East Business Div. (to present) President and Director, Hitachi Construction Machinery (Europe) N.V. (to present) 4/2018 Executive Officer (to present)	(Note)	–

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, Oceania Business Div.	David Harvey	January 10, 1960	1/1995	Joined Marubeni Construction and Mining Equipment (Currently called Hitachi Construction Machinery (Australia) Pty. Ltd.)	(Note)	–
			10/1999	Director		
			4/2012	President and Director (to present)		
			4/2015	General Manager, Oceania Business Div., the Company (to present)		
				Chairman, CablePrice (NZ) Limited (to present)		
			4/2018	Executive Officer, the Company (to present)		
Total						73

(Note) The term of Executive Officers is from April 1, 2019 to March 31, 2020.

2) Status of Outside Directors

There are 3 Outside Directors of the Company. As described in "1) Lists of Directors and Executive Officers, a. Directors," Kazushige Okuhara and Haruyuki Toyama hold shares of the Company. Besides this, the Company has no personal, capital or business relationship and no particular 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 consisting of Directors of which the majority are Outside Directors, and has been formed as a company with nominating committee, etc., for realizing a highly objective and transparent management. By appointing Outside Directors who are not from Hitachi, Ltd. and its group companies, and not from major trading partners of the Company, the Company believes that oversight of the executive operations of the Executive Officers can be further strengthened.

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 3 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 3 fiscal years, exceeds 2% of any of the companies' consolidated gross revenues;

• he or she has received during any of the last 3 fiscal years more than ¥10 million in direct compensation for his or her service as a specialist in law, accounting or tax, or as a consultant from the Company, other than director compensations 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 3 fiscal years are more than ¥10 million and 2% of that organization's annual gross revenues.

Also, 3 Outside Directors mentioned above 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 3 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 by utilizing Kazushige Okuhara's abundant experience as the business manager of an international company, Haruyuki Toyama's abundant experience and knowledge in the financial field, and Junko Hirakawa's abundant experience and knowledge as a legal expert to supervise the execution of duties by Executive Officers from an independent standpoint.

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

3 Outside Directors belong to the Audit Committee. Mutual cooperation with internal audit and accounting audit, as well as relationship with the internal control department are as described in "(3) Status of audit."

(3) Status of audit

1) Internal audit, the audit by the Audit Committee

a. Internal audit

The Company has established the Internal Audit Office as a department in charge of internal audit. The Internal Audit Office consists of a general manager and 7 full-time staff. The Internal Audit Office regularly audits whether the operation of each department and group companies is being carried out accurately, legitimately and reasonably.

b. 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.

The Audit Committee consists of a total of 5 members, comprised of 2 Directors and 3 Outside Directors appointed by a resolution of the Board of Directors. In addition to deliberations at committee meetings, the members make an on-site inspection of domestic and overseas sites to audit financial and accounting conditions as well as execution of business operations. Furthermore, the members also receive reports from relevant departments as well as conduct interviews with concerned parties including Executive Officers and other measures, to discuss and examine appropriate execution of business operations.

In the year ended March 31, 2019, the Audit Committee held 21 meetings, and made on-site inspections of domestic and overseas sites besides the meetings.

The individual attendance is as follows:

Osamu Okada (Number of attendance: 5/5) *Retired from office at a shareholder's meeting held in June 2018

Toshikazu Sakurai (Number of attendance: 16/16) *Assumed office at a shareholder's meeting held in June 2018

Kazushige Okuhara (Number of attendance: 21/21)

Haruyuki Toyama (Number of attendance: 20/21)

Junko Hirakawa (Number of attendance: 21/21)

Koji Tanaka (Number of attendance: 14/16) *Assumed office at a shareholder's meeting held in June 2018

c. Cooperation between Audit Committee and accounting auditors

Along with receiving the audit plan from the accounting auditor, the Audit Committee is also regularly informed of the results of the audits. It also exchanges opinions about the status of the internal control system that the accounting auditor has understood through audit, risk assessment and emphasized audit items.

d. Cooperation between Audit Committee and internal audit department

In addition to receiving the audit plan from the internal audit department, the Audit Committee is also regularly informed of the results of the audits. It also exchanges opinions about the status of the internal control system that was understood through audit, risk assessment and emphasized audit items to maintain and improve the audit accuracy. In addition, the Audit Committee may instruct the internal audit department whenever necessary about specific offices to be audited and emphasized audit items, etc.

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

The internal audit department exchanges opinions with the accounting auditors about the status, etc. of audits and the internal control system to improve and enhance the internal control system.

f. Internal control department

The Company has established the J-SOX Committee as an organization which is responsible for internal control. The J-SOX Committee is a deliberative body to determine implementation policy and assessment of effectiveness of internal control, and carries out operation of the internal control system, internal control testing, effectiveness evaluation, reporting, in collaboration with the J-SOX Committee of the group companies.

g. Relationship between internal control department and accounting auditors

The J-SOX Committee, acts as a point of contact for internal control audits by the accounting auditor, and regularly receives explanations about the results of the audits, in response to audit of each step of the development, operation, and evaluation of internal control. When the accounting auditor reports any deficiencies and material weakness in internal control, the J-SOX Committee rectifies and improves internal control.

h. Relationship between internal control department and Audit Committee

The J-SOX Committee regularly reports the results of evaluation of internal control to the Audit Committee and exchanges opinions to maintain and improve the internal control system.

i. Relationship between internal control department and internal audit department

The Company designates the Internal Audit Office, which is an internal audit department, as the Secretariat of the J-

SOX Committee. The Internal Audit Office regularly conducts operational audits and internal control audits in all the divisions and group companies. The J-SOX Committee receives reports on the results of the internal control audit from the Internal Audit Office as the Secretariat, and improves and assists the internal control system.

2) Status of accounting audit

a. Name of audit corporation

Ernst & Young ShinNihon LLC

(Note) On July 1, 2018, Ernst & Young ShinNihon LLC changed its Japanese corporate name from S*hinNihon Yugen Sekinin Kansa Hojin* to *EY ShinNihon Yugen Sekinin Kansa Hojin* but left its English name unchanged.

b. Certified Public Accountant who executed accounting audit

Names of CPAs, etc.		Audit corporation to which CPA belongs
Designated Limited Liability Partner Engagement Partner	Kiyomi Nakayama	Ernst & Young ShinNihon LLC
Designated Limited Liability Partner Engagement Partner	Takuya Tanaka	Ernst & Young ShinNihon LLC
Designated Limited Liability Partner Engagement Partner	Takuto Miki	Ernst & Young ShinNihon LLC

c. Composition of assistants involved in the auditing work

10 Certified Public Accountants and 28 other people are involved in the auditing work of the Company.

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

With regard to the election of the audit corporation, it is necessary to elect an audit corporation that is well-versed in accounting standards not only in Japan but also in other countries, taking into account International Financial Reporting Standards ("IFRS") adopted by the Company and the Group's overseas business deployment. The Company has considered that the audit corporation is suitable as an accounting auditor, as a result of comprehensively taking into account its global accounting audits, expertise and independence as an accounting auditor, structure that ensures the legitimate and proper practice of international accounting audits, and other factors.

e. Evaluation of the audit corporation by the Audit Committee

The Audit Committee evaluates the audit corporation in accordance with the exhaustive criteria for accounting auditor including communication with the Audit Committee and the top management in particular, audit systems and auditing manuals, and remuneration for auditing. Based on the policy described in f. below, the Audit Committee makes a resolution on reappointment of the accounting auditor.

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

If the Audit Committee considers that the accounting auditor falls under any of the provisions of Article 340, paragraph (1) of the Companies Act and judges it necessary to dismiss the accounting auditor immediately, the Audit Committee shall dismiss the accounting auditor, 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 general 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 to Certified Public Accountants, etc.

Category	Year ended March 31, 2018		Year ended March 31, 2019	
	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	80	18	85	23
Consolidated subsidiaries	39	–	37	–
Total	119	18	122	23

Description of non-audit services

Description of non-audit services is as follows:

(Year ended March 31, 2018)

The Company has paid fees to Certified Public Accountants, etc. for advisory services, etc. on the acquisition of shares, which are not the services stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act.

(Year ended March 31, 2019)

The Company has paid fees to Certified Public Accountants, etc. for review services, etc. for valuation of movable properties and real estate in PPA (allocation of acquisition cost in M&A transactions), which are not the services stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act.

b. Details of fees paid to the organizations which belong to the same network as the Company's Certified Public Accountants, etc.

(Year ended March 31, 2018)

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 ¥418 million for audit services and ¥82 million for non-audit services.

(Year ended March 31, 2019)

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 ¥520 million for audit services and ¥114 million for non-audit services.

Description of non-audit services

Description of non-audit services is as follows:

(Year ended March 31, 2018)

Non-audit services rendered for the Company and its consolidated subsidiaries were mainly tax related services.

(Year ended March 31, 2019)

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

(Year ended March 31, 2018)

Not applicable.

(Year ended March 31, 2019)

Not applicable.

d. Policy for determining audit fees

Audit fees to be paid to accounting auditors are determined with the approval of the Audit Committee, taking into account the number of days required for auditing, etc.

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 accounting auditors, status of development of the quality control structure, status of work 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. to accounting auditors 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’s Compensation Committee sets forth the policy on the determination of the amount 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 a monthly salary and year-end allowance.

• A monthly salary shall be set as a fixed amount in light of the duty that is the supervisory function. The payment base 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.

• Year-end allowance shall be, in principle, paid at the amount multiplying the amount of basic salary by a certain factor. However, the allowance may be reduced depending on operating results of the Company.

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 a monthly salary and performance-linked compensation.

• A standard yearly compensation is set in accordance with societal standards by taking into account the scope and range of the Company’s business, the abilities required of, and the responsibilities and risks to be borne by the Company’s Executive Officers.

• Monthly salaries are set to standard amounts according to job positions.

• The standard amount for performance-linked compensation is roughly 40% of standard yearly compensation for the Chairman and President. For other Executive Officers it is roughly 30% of standard yearly compensation. It is determined within a certain range depending on the degree of achievement of standard performance targets and achievement of individual roles.

• For foreign Executive Officers, standard compensation is set according to the benchmarks of compensation levels of the country or region in question from the viewpoint of retaining capable personnel, taking into account the competitiveness of the compensation.

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. The Compensation Committee consists of a total of 3 members, comprised of 1 Director and 2 Outside Directors. The Committee discusses and examines basic policies for compensation for Executive Officers and Directors, details of individual compensation appropriate compensation amount, and other matters.

In the year ended March 31, 2019, the Compensation Committee held 3 meetings, and the individual attendance is as follows:

Kotaro Hirano (Number of attendance: 3/3)

Haruyuki Toyama (Number of attendance: 3/3)

Junko Hirakawa (Number of attendance: 3/3)

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

<table>
<tr><th rowspan="2">Category</th><th rowspan="2">Total amount of compensation (Millions of yen)</th><th colspan="2">Total amount for each type of compensation (Millions of yen)</th><th rowspan="2">Number of eligible Directors and Executive Officers</th></tr>
<tr><th>Monthly salary</th><th>Year-end allowance and performance-linked compensation</th></tr>
<tr><td>Directors
(excluding Outside Directors)</td><td>32</td><td>28</td><td>5</td><td>4</td></tr>
<tr><td>Executive Officers</td><td>802</td><td>521</td><td>282</td><td>18</td></tr>
<tr><td>Outside Directors</td><td>44</td><td>41</td><td>4</td><td>3</td></tr>
</table>

(Notes) 1. Amounts are rounded to the nearest millions of yen.

2. The above table includes the compensation for 2 Directors who retired as of the conclusion of the 54th Annual Shareholder's Meeting held on June 25, 2018, for the fiscal year under review.

3. Directors who concurrently serve as Executive Officers receive only compensation as Executive Officers.

(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 individually and specifically examines all investment securities at the Board of Directors meeting each 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.

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	11	226
Other than unlisted stocks	10	6,419

(Stocks increased in the year ended March 31, 2019)

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

(Stocks decreased in the year ended March 31, 2019)

	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	Year ended March 31, 2018 Number of shares (Shares) Balance sheet amount (Millions of yen)	Year ended March 31, 2019 Number of shares (Shares) Balance sheet amount (Millions of yen)	Purpose of holding, quantitative holding effect, and reasons for the increase in the number of shares (Note 2)	Shareholding of the Company
KYB Corporation	892,000	892,000	• 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
	2,424	4,505		
Nippon Chuzo K. K.	718,921	718,921	• 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
	564	950		
Wakita & Co., LTD.	1,200,000	1,200,000	• 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
	1,326	1,426		
Kanamoto Co., Ltd.	344,581	344,581	• 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
	944	1,220		
IJT Technology Holdings Co., Ltd.	1,300,000	1,300,000	• 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
	755	1,153		
NISHIO RENT ALL CO., LTD.	66,000	66,000	• 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
	211	215		
NANYO Corporation	72,600	72,600	• 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
	153	172		
NIPPAN RENTAL Co., Ltd.	54,000	18,000	• 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
	42	40		

(Notes) 1. With regard to NIPPAN RENTAL Co., Ltd., the number of shares increased due to a share split at the ratio of three shares to one share as of July 1, 2018.

2. 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. Of the comparative information in the non-consolidated financial statements for the fiscal year ended March 31, 2019, any item included in Article 8-12, paragraph (2), item (ii), and Article 8-12, paragraph (3) of the Regulation on Financial Statements, as amended by the Cabinet Office Order Partially Amending the Regulation on Financial Statements, is prepared as per pre-revised Regulation on Financial Statements, in accordance with Article 2, paragraph (2) of the Supplementary Provisions of the Cabinet Office Order.

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, 2019 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, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and cash equivalents (note 21)	81,929	67,347
Trade receivables (notes 6, 22 and 23)	219,599	236,164
Contract assets (note 17)	-	2,070
Inventories (notes 8 and 23)	255,623	324,844
Income taxes receivable (note 11)	1,894	1,167
Other financial assets (note 22)	28,029	25,904
Other current assets	10,342	14,110
Subtotal	597,416	671,606
Assets held for sale	413	2,282
Total current assets	597,829	673,888
Non-current assets		
Property, plant and equipment (notes 4, 9 and 23)	299,987	311,245
Intangible assets (notes 4 and 10)	37,748	42,092
Goodwill (notes 4 and 10)	35,016	34,564
Investments accounted for using the equity method	29,549	32,628
Trade receivables (notes 6 and 22)	41,392	44,357
Deferred tax assets (note 11)	17,463	19,145
Other financial assets (note 22)	20,148	17,279
Other non-current assets	10,664	10,058
Total non-current assets	491,967	511,368
Total assets	1,089,796	1,185,256
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 22)	268,230	251,067
Contract liabilities (note 17)	-	8,503
Bonds and borrowings (notes 21 and 22)	69,892	185,641
Income taxes payable (note 11)	11,000	12,012
Other financial liabilities (note 22)	11,584	10,165
Other current liabilities	5,716	3,235
Total current liabilities	366,422	470,623
Non-current liabilities		
Trade and other payables (notes 12 and 22)	18,839	16,203
Contract liabilities (note 17)	-	2,314
Bonds and borrowings (notes 21 and 22)	160,773	119,167
Retirement and severance benefit (note 13)	17,341	17,958
Deferred tax liabilities (note 11)	11,314	8,726
Other financial liabilities (note 22)	2,354	1,158
Other non-current liabilities	7,723	6,446
Total non-current liabilities	218,344	171,972
Total liabilities	584,766	642,595
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	81,991	81,991
Retained earnings (note 14)	279,201	328,344
Accumulated other comprehensive income (note 15)	8,802	(2,428)
Treasury stock, at cost (note 14)	(3,069)	(3,077)
Total equity attributable to owners of the parent	448,502	486,407
Non-controlling interests	56,528	56,254
Total equity	505,030	542,661
Total liabilities and equity	1,089,796	1,185,256

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Years ended March 31, 2018 and 2019 (Millions of yen)

	2018	2019
Revenue (notes 4 and 17)	959,153	1,033,703
Cost of sales	(695,316)	(735,507)
Gross profit	263,837	298,196
Selling, general and administrative expenses	(170,255)	(181,355)
Other income (note 18)	6,658	5,369
Other expenses (note 18)	(4,503)	(19,914)
Operating income	95,737	102,296
Financial income (note 19)	2,910	3,781
Financial expenses (note 19)	(7,390)	(8,091)
Share of profits (losses) of investments accounted for using the equity method	4,355	4,716
Income before income taxes	95,612	102,702
Income tax expense (note 11)	(26,390)	(28,516)
Net income	69,222	74,186
Net income attributable to:		
Owners of the parent	60,004	68,542
Non-controlling interests	9,218	5,644
Total net income	69,222	74,186
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 20)	282.16	322.31
Net income per share (Diluted) (yen) (note 20)	282.16	322.31

3) Consolidated statements of comprehensive income

Years ended March 31, 2018 and 2019 (Millions of yen)

	2018	2019
Net income for the year	69,222	74,186
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 22)	1,444	(1,743)
Remeasurements of defined benefit obligations (notes 13 and 15)	(378)	(1,077)
Other comprehensive income of equity-method associates (note 15)	7	7
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	(2,425)	(8,988)
Net gains and losses from cash flow hedges measured at fair value (notes 15 and 22)	160	64
Other comprehensive income of equity-method associates (note 15)	(313)	(502)
Other comprehensive income, net of taxes	(1,505)	(12,239)
Comprehensive income	67,717	61,947
Comprehensive income attributable to:		
Owners of the parent	58,437	57,445
Non-controlling interests	9,280	4,502

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity
Year ended March 31, 2018

(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	Net gains and losses from cash flow hedges measured at fair value
Balance at beginning of year	81,577	82,553	228,026	(949)	7,571	(14)
Net income			60,004			
Other comprehensive income (note 15)				(283)	1,451	163
Comprehensive income	-	-	60,004	(283)	1,451	163
Acquisition of treasury stock (note 14)						
Sale of treasury stock (note 14)						
Dividends to shareholders of the Company (note 16)			(9,357)			
Changes in ownership interests in subsidiaries without a loss of control		(64)				
Changes in the scope of consolidation						
Transfer to retained earnings			30		(30)	
Expiration of subscription rights		(498)	498			
Transaction with owners	-	(562)	(8,829)	-	(30)	-
Balance at end of year	81,577	81,991	279,201	(1,232)	8,992	149

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of year	3,910	10,518	(3,055)	399,619	50,811	450,430
Net income		-		60,004	9,218	69,222
Other comprehensive income (note 15)	(2,898)	(1,567)		(1,567)	62	(1,505)
Comprehensive income	(2,898)	(1,567)	-	58,437	9,280	67,717
Acquisition of treasury stock (note 14)		-	(14)	(14)		(14)
Sale of treasury stock (note 14)		-	0	0		0
Dividends to shareholders of the Company (note 16)		-		(9,357)	(3,999)	(13,356)
Changes in ownership interests in subsidiaries without a loss of control	(119)	(119)		(183)	419	236
Changes in the scope of consolidation		-		-	17	17
Transfer to retained earnings		(30)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	(119)	(149)	(14)	(9,554)	(3,563)	(13,117)
Balance at end of year	893	8,802	(3,069)	448,502	56,528	505,030

See accompanying notes to consolidated financial statements.

Year ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasure-ments of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Net gains and losses from cash flow hedges measured at fair value
Balance at beginning of year	81,577	81,991	279,201	(1,232)	8,992	149
Cumulative effects of changes in accounting policies (note 3)			32			
Restated balance	81,577	81,991	279,233	(1,232)	8,992	149
Net income			68,542			
Other comprehensive income (note 15)				(1,098)	(1,741)	64
Comprehensive income	-	-	68,542	(1,098)	(1,741)	64
Acquisition of treasury stock (note 14)						
Sale of treasury stock						
Dividends to shareholders of the Company (note 16)			(19,564)			
Changes in ownership interests in subsidiaries without a loss of control						
Changes in the scope of consolidation						
Transfer to retained earnings			133		(133)	
Expiration of subscription rights						
Transaction with owners	-	-	(19,431)	-	(133)	-
Balance at end of year	81,577	81,991	328,344	(2,330)	7,118	213

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	893	8,802	(3,069)	448,502	56,528	505,030
Cumulative effects of changes in accounting policies (note 3)		-		32		32
Restated balance	893	8,802	(3,069)	448,534	56,528	505,062
Net income		-		68,542	5,644	74,186
Other comprehensive income (note 15)	(8,322)	(11,097)		(11,097)	(1,142)	(12,239)
Comprehensive income	(8,322)	(11,097)	-	57,445	4,502	61,947
Acquisition of treasury stock (note 14)		-	(8)	(8)		(8)
Sale of treasury stock		-		-		-
Dividends to shareholders of the Company (note 16)		-		(19,564)	(4,795)	(24,359)
Changes in ownership interests in subsidiaries without a loss of control		-		-		-
Changes in the scope of consolidation		-		-	19	19
Transfer to retained earnings		(133)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	-	(133)	(8)	(19,572)	(4,776)	(24,348)
Balance at end of year	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Years ended March 31, 2018 and 2019 (Millions of yen)

	2018	2018
Net income	69,222	74,186
Depreciation	32,306	32,343
Amortization of intangible assets	5,526	4,611
Impairment losses	549	2,143
Income tax expense	26,390	28,516
Share of profits (losses) of investments accounted for using the equity method	(4,355)	(4,716)
Gain (loss) on sales of property, plant and equipment	(574)	(458)
Financial income	(2,910)	(3,781)
Financial expenses	7,390	8,091
(Increase) decrease in accounts and notes receivable and contract assets	(27,497)	(19,101)
(Increase) decrease in finance lease receivables	(14,257)	(7,115)
(Increase) decrease in inventories	(24,664)	(76,497)
Increase (decrease) in accounts and notes payable	53,337	(18,583)
Increase (decrease) in retirement and severance benefit	(248)	(587)
Other	(17,667)	(11,995)
Subtotal	102,548	7,057
Interest received	2,548	2,525
Dividends received	1,179	1,800
Interest paid	(5,089)	(5,357)
Income taxes paid	(16,658)	(31,718)
Net cash provided by operating activities	84,528	(25,693)
Capital expenditures	(16,887)	(26,231)
Proceeds from sale of property, plant and equipment	4,603	5,251
Acquisition of intangible assets	(4,464)	(8,536)
Acquisition of investments in securities and other financial assets (including investments in associates)	(21,416)	(1,315)
Sales of investments in securities and other financial assets (including investments in associates)	469	318
(Increase) decrease in short-term loans receivable, net	116	303
Collection of long-term loans receivable	88	47
Other	(71)	(176)
Net cash used in investing activities	(37,562)	(30,339)
Increase (decrease) in short-term borrowings, net (note 21)	(33,864)	67,386
Proceeds from long-term borrowings and bond (notes 21 and 22)	90,386	36,197
Payments on long-term borrowings and bond (notes 21 and 22)	(70,844)	(28,766)
Payments on finance lease payables (note 21)	(4,700)	(6,388)
Dividends paid to owners of the parent (note 16)	(9,361)	(19,562)
Dividends paid to non-controlling interests	(2,103)	(4,933)
Other	3	(6)
Net cash used in financing activities	(30,483)	43,928
Effect of exchange rate changes on cash and cash equivalents	(9)	(2,478)
Net increase (decrease) in cash and cash equivalents	16,474	(14,582)
Cash and cash equivalents at beginning of period (note 21)	65,455	81,929
Cash and cash equivalents at end of period (note 21)	81,929	67,347

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 associates 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) 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 (22) Financial instruments and related disclosures

The information regarding uncertainties arising from assumptions and estimates that could result in material adjustments in the subsequent consolidated financial statements is included in the following notes:

- (3) *(i) Impairment of non-financial assets*
- (3) *(j) Retirement and severance benefits* and (13) Employee benefits
- (3) *(l) Contingencies* and (26) Commitments and contingencies
- (3) *(m) Revenue recognition*
- (3) *(o) Deferred taxes and income taxes* and (11) Deferred taxes and income taxes

(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) Associates

Associates 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 associates are accounted for using the equity method. (hereinafter referred to as the "equity-method associate")

The consolidated financial statements of the Company include changes in profit or loss and other comprehensive income (OCI) of these equity-method associates 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 associates 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). The carrying amount of financial assets measured at amortized cost is subsequently 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.

(Changes in accounting policies)

While the Group had historically adopted IFRS 9 "Financial Instruments" (issued in November 2009, amended in October 2010), it has adopted IFRS 9 "Financial Instruments" (amended in July 2014) from the beginning of the fiscal year under review. IFRS 9 "Financial Instruments" (amended in July 2014) amends guidance for hedge accounting and classification and measurement of financial instruments and introduces impairment guidance based on expected credit losses on financial assets. As a transitional measure upon the adoption of IFRS 9 "Financial Instruments" (amended in July 2014), the Group applied this standard and recognized the cumulative effect of the initial application of this standard as an adjustment to the beginning balance of retained earnings for the fiscal year under review. The effect of the application of this standard on the Group's beginning balance of retained earnings, the consolidated statements of financial position and the consolidated statements of income for the fiscal year under review is immaterial.

(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, costs of dismantling, removing and restoration of 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

Decision on whether an arrangement is or contains a lease is made based on the substance of the arrangement at inception of the lease. Leases where all risks and rewards of ownership of the asset are substantially transferred to the lessee under the arrangement are classified as finance leases. Leases other than finance leases are classified as operating leases.

(i) Leases as lessee

Lease assets and liabilities under finance leases are initially recognized at the lower of the present value of minimum lease payments or fair value at inception of the lease. Depreciation of lease assets is recorded using the straight-line method over the shorter of the lease term or estimated useful life, except in the case where it is reasonably certain that the ownership will be transferred by the end of the lease term. Lease payments are allocated at a constant rate to the balance of lease liabilities and accounted for as a reduction in financial expenses and lease liabilities.

Lease payments under operating leases are recognized as expenses using the straight-line method over the lease term.

(ii) Leases as lessor

For finance leases, net investment in lease at inception of the lease is recorded as trade receivables, and unearned income is allocated over the lease term at a constant rate to the net investment in lease and recognized in the fiscal year to which the income is attributed.

Lease payments receivable under operating leases are recognized equally over the lease term.

(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.

(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 (26) 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. In estimating the stand-alone selling price, the Group considers various factors such as market conditions, market price of

competing products, etc., cost of products, and customers' business conditions.
The transaction price is the amount of consideration to which the Group 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.
For transactions whereby control over goods and services, etc. is transferred over time, the Group 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 Group 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.

(Changes in accounting policies)
From the beginning of the fiscal year under review, the Group has adopted IFRS 15 "Revenue from Contracts with Customers." As a transitional measure upon the adoption of this standard, the Group applied this standard retrospectively and recognized the cumulative effect of the initial application of this standard as an adjustment to the beginning balance of retained earnings for the fiscal year under review. Due to the application of this standard, unbilled receivables, which were previously included in "Trade receivables," are presented as "Contract assets," and consideration received from customers before performance obligations are satisfied, which was previously included in "Trade and other payables" or "Other non-current liabilities," is presented as "Contract liabilities." The effect of the application of this standard on the Group's beginning balance of retained earnings, the consolidated statements of financial position and the consolidated statements of income for the fiscal year under review is immaterial.

(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 associates 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. A deferred tax asset is recognized 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 accounting standards not yet adopted by the Company

IFRS 16 "Leases" (hereinafter referred to as "IFRS 16") is the principal new accounting standards and interpretations issued or amended prior to the approval date of the consolidated financial statements that is not yet adopted by the Company as of March 31, 2019.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and lessees are required to account for all leases under a single on-balance sheet model. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and the Group will adopt IFRS 16 on April 1, 2019. As a transitional measure upon the adoption of IFRS 16, the Group will apply this standard and a method of recognizing the cumulative effect of the initial application of this standard as an adjustment to the beginning balance of retained earnings at the date of initial application.

The Group's leases will consist mainly of the leasing of real estate, and the impact of adopting IFRS 16 on the consolidated statements of financial position at the beginning of the subsequent consolidated fiscal year will include an increase in assets of approximately ¥40.1 billion associated with the recognition of right-of-use assets, an increase in liabilities of approximately ¥41.6 billion associated with the recognition of lease liabilities, and a decrease in equity of approximately ¥1.5 billion associated with the recognition of an adjustment to the beginning balance of retained earnings at the date of initial application. The impact on the consolidated statements of income is immaterial. In addition, with respect to the consolidated statements of cash flows, while lease payments for operating leases were previously included in cash flows from operating activities, adjustments for depreciation expense for right-of-use assets will be included in cash flows from operating activities and payments of lease liabilities will be included in cash flows from financing activities as a result of adopting IFRS 16; therefore, compared with the previous accounting standard, cash flows from operating activities will increase while cash flows from financing activities will decrease.

IFRSs	Title	Mandatory effective date (Fiscal year beginning on or after)	To be adopted by the Group	Description of new standards and amendments
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revised lease definition and mainly lessee accounting

(s) Subsequent events

The Group has assessed events that occurred up to June 25, 2019, the filing date of this annual securities report.

Notes to Consolidated Financial Statements

(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 which is 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 and economic characteristics of customers in a comprehensive manner, the Group 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 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.

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

For the year ended March 31, 2018

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
Outside customers	866,866	92,287	959,153	-	959,153
Intersegment transactions	-	351	351	(351)	-
Total revenues	866,866	92,638	959,504	(351)	959,153
Segment profit (*1)	93,509	2,228	95,737	-	95,737
Financial income	-	-	-	2,910	2,910
Financial expenses	-	-	-	(7,390)	(7,390)
Share of profits (losses) of investments accounted for using the equity method	4,355	-	4,355	-	4,355
Income before income taxes	97,864	2,228	100,092	(4,480)	95,612
Segment assets	960,134	137,535	1,097,669	(7,873)	1,089,796
Segment liabilities	530,684	61,955	592,639	(7,873)	584,766
Other items:					
Depreciation and amortization of intangible assets	(31,800)	(6,032)	(37,832)	-	(37,832)
Impairment losses	(549)	-	(549)	-	(549)
Business structure reform expenses	(59)	(1,326)	(1,385)	-	(1,385)
Investments accounted for using the equity method	29,549	-	29,549	-	29,549
Capital expenditure	43,419	2,882	46,301	-	46,301

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

(*2) Adjustments represent eliminations of intersegment transactions and corporate amounts not attributable to any particular operating segment.

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

Notes to Consolidated Financial Statements

For the year ended March 31, 2019

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
Outside customers	937,727	95,976	1,033,703	-	1,033,703
Intersegment transactions	-	871	871	(871)	-
Total revenues	937,727	96,847	1,034,574	(871)	1,033,703
Segment profit (*1)	101,702	594	102,296	-	102,296
Financial income	-	-	-	3,781	3,781
Financial expenses	-	-	-	(8,091)	(8,091)
Share of profits (losses) of investments accounted for using the equity method	4,716	-	4,716	-	4,716
Income before income taxes	106,418	594	107,012	(4,310)	102,702
Segment assets	1,053,931	139,410	1,193,341	(8,085)	1,185,256
Segment liabilities	584,628	66,052	650,680	(8,085)	642,595
Other items:					
Depreciation and amortization of intangible assets	(31,506)	(5,448)	(36,954)	-	(36,954)
Impairment losses	(111)	(2,032)	(2,143)	-	(2,143)
Business structure reform expenses	(1,819)	(3,092)	(4,911)	-	(4,911)
Investments accounted for using the equity method	32,628	-	32,628	-	32,628
Capital expenditure	62,713	3,703	66,416	-	66,416

(*1) Segment profit is based on operating income.
(*2) Adjustments represent eliminations of intersegment transactions and corporate amounts not attributable to any particular 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 outside customers by product and service is as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Mining machinery	137,740	160,762
Construction machinery and others	821,413	872,941
Total	959,153	1,033,703

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)

	Year ended March 31, 2018	Year ended March 31, 2019
Japan	193,220	206,075
The Americas	152,400	185,741
Europe	104,184	111,643
Russia-CIS, Africa, and Middle East	95,337	89,947
Asia and Oceania	292,398	320,357
China	121,614	119,940
Total	959,153	1,033,703

Revenues from outside customers attributable to any individual country and region other than Japan and China were not material for the previous fiscal year and the fiscal year under review.

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Japan	211,887	227,306
The Americas	31,548	30,258
Europe	11,549	14,828
Asia	46,685	49,532
Oceania	68,964	64,136
Other Areas	2,118	1,841
Total	372,751	387,901

As of March 31, 2018 and March 31, 2019, an individual country in which balances of property, plant and equipment, intangible 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 ¥64,740 million as of March 31, 2018 and ¥60,185 million as of March 31, 2019. The balances of property, plant and equipment, intangible assets and goodwill in any individual country and region other than Japan and Australia are not material.

(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 combination

For the year ended March 31, 2018

Not applicable.

For the year ended March 31, 2019

Not applicable.

(6) Trade receivables

The components of trade receivables are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Accounts and notes receivable and electronically recorded monetary claims - operating	204,593	215,296
Finance lease receivables	66,123	72,575
Allowance for doubtful receivables	(9,725)	(7,350)
Total	260,991	280,521

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Current assets	219,599	236,164
Non-current assets	41,392	44,357
Total	260,991	280,521

(7) Leases

(a) Lessee

The Company and certain consolidated subsidiaries use leased facilities and equipment, mainly including buildings, machinery and equipment and vehicles, under finance lease or operating lease. No restrictions were imposed by contingent rent payable and the escalation clause and lease agreements.

The undiscounted amounts and present value of minimum lease payments under finance leases are as follows:

(Millions of yen)

	As of March 31, 2018		As of March 31, 2019	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	7,256	6,355	8,284	7,521
After 1 year but not more than 5 years	14,072	11,951	10,053	8,238
More than 5 years	7,402	3,526	7,009	3,523
Minimum lease payments, total	28,730		25,346	
Finance charges	(6,898)		(6,064)	
Present value of minimum lease payments, total	21,832		19,282	

Finance lease assets are principally assets acquired by subsidiaries to provide operating leases and included in other property, plant and equipment. The carrying amount of the finance lease assets as of March 31, 2018 and March 31, 2019 was ¥13,614 million and ¥15,486 million, respectively.

Future lease payments receivable under non-cancelable subleases as of March 31, 2018 and March 31, 2019 were ¥8,974 million and ¥8,395 million, respectively.

The future minimum lease payments under non-cancelable operating leases are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Within 1 year	4,581	4,638
After 1 year but not more than 5 years	9,881	10,118
More than 5 years	4,438	4,795

Total minimum operating lease expenses for the previous fiscal year and the fiscal year under review are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Minimum operating lease expenses	12,133	12,866

(b) Lessor

Certain consolidated subsidiaries lease mainly construction machinery under finance and operating lease arrangements principally over the period of three to six years. No restrictions were imposed by contingent rent payable and the escalation clause and lease agreements.

The amounts of gross investment in lease and present value of minimum lease payments receivable under finance leases are as follows:

(Millions of yen)

	As of March 31, 2018		As of March 31, 2019	
	Gross investment in lease	Present value of minimum lease payments receivable	Gross investment in lease	Present value of minimum lease payments receivable
Within 1 year	37,287	34,650	42,052	39,259
After 1 year but not more than 5 years	32,848	31,189	34,892	33,169
More than 5 years	291	284	151	147
Minimum lease payments receivable, total	70,426		77,095	
Unearned income	(4,303)		(4,520)	
Present value of minimum lease payments receivable	66,123		72,575	

The amounts of the allowance for uncollectable minimum lease payments receivable as of March 31, 2018 and 2019 are ¥1,803 million and ¥1,152 million, respectively.

The future minimum lease payments receivable under non-cancelable operating leases are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Within 1 year	2,560	2,790
After 1 year but not more than 5 years	3,332	2,686
More than 5 years	19	9

Notes to Consolidated Financial Statements

(8) Inventories

The components of inventories are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Merchandise and finished goods	186,550	235,787
Work in process	36,585	45,782
Raw materials and supplies	32,488	43,275
Total	255,623	324,844

For the previous fiscal year and the fiscal year under review, the amounts of inventories expensed and included as cost of sales were ¥693,742 million and ¥726,483 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 ¥739 million and ¥3,694 million, respectively, and reversals of valuation losses were ¥917 million and ¥1,309 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, 2017	58,685	106,714	63,090	8,519	57,126	3,709	297,843
Acquisition	661	1,012	4,025	1,092	23,589	11,458	41,837
Sales and disposals	(197)	(295)	(466)	(87)	(3,693)	(60)	(4,798)
Depreciation	(33)	(6,886)	(11,538)	(3,082)	(10,767)	-	(32,306)
Impairment losses	(36)	(81)	(248)	-	-	(131)	(496)
Acquisitions and divestitures	-	-	-	-	-	-	-
Currency translation effect	(65)	64	(2,038)	(87)	(27)	(262)	(2,415)
Transfer from construction in progress	79	3,430	2,826	1,502	-	(7,837)	-
Other	(144)	622	(6)	173	(93)	(230)	322
March 31, 2018	58,950	104,580	55,645	8,030	66,135	6,647	299,987
Acquisition	69	982	4,511	1,134	28,210	22,726	57,632
Sales and disposals	(58)	(352)	(1,136)	(54)	(4,634)	(1,780)	(8,014)
Depreciation	(36)	(6,956)	(11,277)	(3,076)	(10,998)	-	(32,343)
Impairment losses	(59)	(475)	(806)	(421)	(4)	(69)	(1,834)
Acquisitions and divestitures	(85)	(372)	99	(19)	-	245	(132)
Currency translation effect	(427)	(845)	(317)	-	(55)	(265)	(1,909)
Transfer from construction in progress	59	2,989	6,671	2,816	239	(12,774)	-
Other	(2,270)	(719)	(171)	109	953	(44)	(2,142)
March 31, 2019	56,143	98,832	53,219	8,519	79,846	14,686	311,245

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	Constructio n in progress	Total
Gross carrying amount							
March 31, 2018	59,742	205,548	235,096	62,428	133,216	6,647	702,677
March 31, 2019	56,543	204,179	231,277	62,270	146,301	14,763	715,333
Accumulated depreciation and impairment losses							
March 31, 2018	(792)	(100,968)	(179,451)	(54,398)	(67,081)	-	(402,690)
March 31, 2019	(400)	(105,347)	(178,058)	(53,751)	(66,455)	(77)	(404,088)

(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, 2017	36,640	8,697	31,391	76,728
Purchases	-	4,383	81	4,464
Amortization	-	(2,907)	(2,619)	(5,526)
Impairment losses	-	-	-	-
Sales and disposals	-	(10)	(36)	(46)
Acquisitions and divestitures	-	-	-	-
Currency translation effect	(1,624)	227	(1,484)	(2,881)
Other	-	25	-	25
March 31, 2018	35,016	10,415	27,333	72,764
Purchases	-	8,717	65	8,782
Amortization	-	(3,022)	(1,589)	(4,611)
Impairment losses	(322)	-	-	(322)
Sales and disposals	-	(19)	-	(19)
Acquisitions and divestitures	433	-	-	433
Currency translation effect	(563)	726	(545)	(382)
Other	-	11	-	11
March 31, 2019	34,564	16,828	25,264	76,656

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” in the consolidated statements of income.

Notes to Consolidated Financial Statements

(Millions of yen)

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2018	35,016	50,329	36,076	121,421
March 31, 2019	34,886	59,046	35,558	129,490
Accumulated amortization and impairment losses				
March 31, 2018	-	(39,914)	(8,743)	(48,657)
March 31, 2019	(322)	(42,218)	(10,294)	(52,834)

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 ¥24,571 million and ¥24,774 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 2016 (¥7,166 million in the year ended March 31, 2018, and ¥7,183 million in the year ended March 31, 2019), and goodwill due to the inclusion of Bradken Limited as a consolidated subsidiary following the takeover offer in 2017 (¥19,424 million in the year ended March 31, 2018, and ¥18,705 million in the year ended March 31, 2019).

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 9 to 13%) 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 2.5%) not exceeding the long-term average growth rate of the market to which the CGU belongs.

Although the value in use per CGU exceeded the carrying amount as of March 31, 2019, the carrying amount may exceed the value in use if the discount rate increases by approximately 1%.

Notes to Consolidated Financial Statements

(11) Deferred taxes and income taxes

The components of income tax expense are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Income tax expense		
Current tax expense	29,075	32,496
Deferred tax expense	(2,685)	(3,980)
Temporary differences originated and reversed	(728)	(2,979)
Changes in write-down of deferred tax assets	(1,957)	(1,001)
Total	26,390	28,516

(Fiscal year ended March 31, 2018)

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 23.4%, an inhabitant tax of 16.3% and business tax of 3.8%. Based on these taxes, a combined statutory income tax rate is 30.9%. However, overseas subsidiaries are subject to a corporate tax, etc. in their locations. In the United States, the Tax Cuts and Jobs Act was enacted on December 22, 2017, and a reduction in the rate of federal corporate income tax and others will be implemented from the fiscal year beginning on or after January 1, 2018. Due to this act, the rate of federal corporate income tax applicable to the Company's consolidated subsidiaries in the United States was changed from 35% to 21%. The effect of those changes in tax rates is immaterial.

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

(Fiscal year ended March 31, 2019)

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 23.2%, an inhabitant tax of 16.3% 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.

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, 2018	As of March 31, 2019
Combined statutory income tax rate	30.9	30.6
Unitary taxation system including foreign subsidiaries	1.1	0.9
Income not taxable for tax purpose, such as dividends received	(9.0)	(9.9)
Elimination of dividends received	10.7	10.4
Difference in statutory tax rates of foreign subsidiaries	(2.5)	(2.9)
Change in write-down of deferred tax assets	(2.0)	(1.0)
Other, net	(1.6)	(0.3)
Effective income tax rate	27.6	27.8

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, 2017	Recognized in profit or loss	Recognized in OCI	March 31, 2018
Deferred tax assets				
Allowance for doubtful receivables	1,558	165	-	1,723
Accrued bonuses	1,806	531	-	2,337
Accrued expenses	5,981	(570)	-	5,411
Retirement and severance benefits	2,672	1,424	448	4,544
Net operating loss carryforwards	3,461	(400)	-	3,061
Unrealized profits of inventories	2,309	580	-	2,889
Unrealized gain on fixed assets	524	66	-	590
Other	9,612	(1,508)	424	8,528
Total deferred tax assets	27,923	288	872	29,083
Offset with deferred tax liabilities	(5,415)	(6,205)	-	(11,620)
Reported deferred tax assets	22,508	(5,917)	872	17,463
Deferred tax liabilities				
Investments in subsidiaries and investments in associates	(8,141)	(477)	(135)	(8,753)
Assets acquired in business combinations	(11,405)	2,340	(157)	(9,222)
Investments in securities	(3,356)	-	(599)	(3,955)
Other	(1,538)	534	-	(1,004)
Total deferred tax liabilities	(24,440)	2,397	(891)	(22,934)
Offset with deferred tax assets	5,415	6,205	-	11,620
Reported deferred tax liabilities	(19,025)	8,602	(891)	(11,314)
Net deferred tax assets	3,483	2,685	(19)	6,149

Notes to Consolidated Financial Statements

(Millions of yen)

	April 1, 2018	Recognized in profit or loss	Recognized in OCI	March 31, 2019
Deferred tax assets				
Allowance for doubtful receivables	1,723	1,659	-	3,382
Accrued bonuses	2,337	670	-	3,007
Accrued expenses	5,411	1,373	-	6,784
Retirement and severance benefits	4,544	156	188	4,888
Net operating loss carryforwards	3,061	712	-	3,773
Unrealized profits of inventories	2,889	231	-	3,120
Unrealized gain on fixed assets	590	173	-	763
Other	8,528	(693)	(1,365)	6,470
Total deferred tax assets	29,083	4,281	(1,177)	32,187
Offset with deferred tax liabilities	(11,620)	(1,422)	-	(13,042)
Reported deferred tax assets	17,463	2,859	(1,177)	19,145
Deferred tax liabilities				
Investments in subsidiaries and investments in associates	(8,753)	(243)	288	(8,708)
Assets acquired in business combinations	(9,222)	501	268	(8,453)
Investments in securities	(3,955)	-	911	(3,044)
Other	(1,004)	(559)	-	(1,563)
Total deferred tax liabilities	(22,934)	(301)	1,467	(21,768)
Offset with deferred tax assets	11,620	1,422	-	13,042
Reported deferred tax liabilities	(11,314)	1,121	1,467	(8,726)
Net deferred tax assets	6,149	3,980	290	10,419

The total temporary differences related to excess amounts over the tax basis of investments in subsidiaries and investments in associates for which deferred tax liabilities are not recognized are ¥23,453 million and ¥25,438 million, respectively, as of March 31, 2018 and 2019.

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, 2019.

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, 2018	As of March 31, 2019
Deductible temporary differences	9,715	9,629
Tax loss carryforwards		
Expiring within 1 year	345	148
Expiring after 1 year but not more than 5 years	366	2,140
Expiring after 5 years	64,742	56,076
Total tax loss carryforwards	65,453	58,364

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, 2018	As of March 31, 2019
Accounts and notes payable and electronically recorded obligations - operating	186,236	161,230
Finance lease payables	21,832	19,282
Accounts payable-other	26,206	32,084
Accrued expenses	38,704	44,747
Other	14,091	9,927
Total	287,069	267,270

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Current liabilities	268,230	251,067
Non-current liabilities	18,839	16,203
Total	287,069	267,270

Notes to Consolidated Financial Statements

(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 resource 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.

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)

	Year ended March 31, 2018	Year ended March 31, 2019
Present value of defined benefit obligations at beginning of year	88,031	92,598
Service cost	5,050	4,523
Interest cost	1,245	1,222
Actuarial gain or (loss)	2,106	2,159
Benefits paid	(4,367)	(4,151)
Acquisitions and divestitures	-	(7)
Other	533	34
Present value of defined benefit obligations at end of year	92,598	96,378

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Fair value of plan assets at beginning of year	74,194	78,853
Interest income	1,665	970
Employers' contributions	4,538	4,542
Employees' contributions	450	78
Benefits paid	(3,578)	(3,283)
Return on plan assets (excluding the amount recognized as interest income)	1,229	909
Other	355	(134)
Fair value of plan assets at end of year	78,853	81,935

Changes in the effect of asset ceiling are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Balance of the effect of asset ceiling at beginning of year	-	-
Interest income	-	-
Remeasurements	-	-
Effect of limiting net plan assets to the asset ceiling	-	170
Other	-	-
Balance the effect of asset ceiling at end of year	-	170

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Present value of defined benefit obligations (funded)	(78,432)	(81,709)
Fair value of plan assets	78,853	81,935
Funding position	421	226
Effect of asset ceiling	-	(170)
Present value of defined benefit obligations (unfunded)	(14,166)	(14,669)
Net assets (liabilities) in the consolidated statements of financial position	(13,745)	(14,613)
Amount in the consolidated statements of financial position		
Liabilities	(17,341)	(17,958)
Assets (other non-current assets)	3,596	3,345

The components of actuarial gain or loss are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Arising from changes in financial assumptions	(371)	(2,046)
Arising from changes in demographic assumptions	(1,507)	49
Other	(228)	(162)

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, 2018	As of March 31, 2019
Discount rate	1.4	1.4

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, 2018	As of March 31, 2019
Increase by 0.5%	(6,045)	(7,529)
Decrease by 0.5%	6,488	8,234

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, 2018	As of March 31, 2019
Duration	15.4	15.4

Notes to Consolidated Financial Statements

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, 2018		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	3,148	-	3,148
Government bonds	1,260	1,579	2,839
Hedge funds	-	5,949	5,949
Securitization products	-	422	422
Cash and cash equivalents	1,882	-	1,882
Life insurance general accounts	-	10,753	10,753
Commingled funds	-	52,607	52,607
Other	5	1,248	1,253
Total	6,295	72,558	78,853

(Millions of yen)

	As of March 31, 2019		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	-	-	-
Government bonds	1,153	708	1,861
Hedge funds	-	7,076	7,076
Securitization products	-	446	446
Cash and cash equivalents	461	-	461
Life insurance general accounts	-	11,665	11,665
Commingled funds	-	59,355	59,355
Other	4	1,067	1,071
Total	1,618	80,317	81,935

Commingled funds represent pooled institutional investments. As of March 31, 2018, commingled funds were approximately allocated to 27% in listed stocks, 44% in government bonds, 11% in corporate bonds and other debt securities and 18% in other assets. As of March 31, 2019, they were approximately allocated to 28% in listed stocks, 40% in government bonds, 12% in corporate bonds and other debt securities, and 20% 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 recalculation of the contribution amounts at the end of the fiscal year every five years.

Basic assumptions (expected interest rates, mortality rates, withdrawal rate, etc.) are reviewed to recalculate the appropriate level of contribution.

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 ¥4,451 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 ¥1,940 million and ¥1,867 million, respectively.

(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 ¥141,631 million and ¥152,357 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, 2018	As of March 31, 2019
Total number of authorized shares	700,000,000	700,000,000

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

	Issued shares outstanding (Number of shares)
April 1, 2017	215,115,038
Change during the year	-
March 31, 2018	215,115,038
Change during the year	-
March 31, 2019	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:

	Treasury stock (Number of shares)
April 1, 2017	2,454,022
Acquisition of treasury stock	3,978
Sales of treasury stock	(30)
March 31, 2018	2,457,970
Acquisition of treasury stock	2,325
Sales of treasury stock	(30)
March 31, 2019	2,460,265

(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.

Notes to Consolidated Financial Statements

(15) Other comprehensive income (OCI)

Components of OCI are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Foreign currency translation adjustments		
OCI arising during the year	(2,005)	(9,469)
Reclassification adjustment	-	-
OCI before tax effect	(2,005)	(9,469)
Tax effects	(420)	481
OCI, net of tax effect	(2,425)	(8,988)
Remeasurements of defined benefit obligations		
OCI arising during the year	(877)	(1,250)
Reclassification adjustment	-	-
OCI before tax effects	(877)	(1,250)
Tax effect	499	173
OCI, net of tax effect	(378)	(1,077)
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the year	2,020	(2,598)
Reclassification adjustment	-	-
OCI before tax effect	2,020	(2,598)
Tax effect	(576)	855
OCI, net of tax effect	1,444	(1,743)
Net gains and losses from cash flow hedges measured at fair value		
OCI arising during the year	(151)	779
Reclassification adjustment	376	(686)
OCI before tax effect	225	93
Tax effect	(65)	(29)
OCI, net of tax effect	160	64
Other comprehensive income of equity-method associates		
OCI arising during the year	(315)	(501)
Reclassification adjustment	19	-
OCI before tax effect	(296)	(501)
Tax effect	(10)	6
OCI, net of tax effect	(306)	(495)
Total OCI		
OCI arising during the year	(1,328)	(13,039)
Reclassification adjustment	395	(686)
OCI before tax effect	(933)	(13,725)
Tax effect	(572)	1,486
OCI, net of tax effect	(1,505)	(12,239)

Notes to Consolidated Financial Statements

(16) Dividends

Dividends paid on common stock are as follows:

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors meeting held on May 22, 2017	Common stock	1,701	8	March 31, 2017	May 31, 2017
The Board of Directors meeting held on October 25, 2017	Common stock	7,656	36	September 30, 2017	November 30, 2017
The Board of Directors meeting held on May 21, 2018	Common stock	10,420	49	March 31, 2018	May 31, 2018
The Board of Directors meeting held on October 25, 2018	Common stock	9,144	43	September 30, 2018	November 30, 2018

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	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors meeting held on May 21, 2019	Common stock	12,122	57	March 31, 2019	May 31, 2019

(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.

Fiscal year ended March 31, 2019

(Millions of yen)

	Construction Machinery Business	Solution Business	Total revenues
Japan	205,923	152	206,075
The Americas	141,797	43,944	185,741
Europe	109,411	2,232	111,643
Russia-CIS, Africa, and Middle East	82,340	7,607	89,947
Asia and Oceania	278,511	41,846	320,357
China	119,745	195	119,940
Total	937,727	95,976	1,033,703

(b) Information about satisfaction of performance obligations

The following is information about satisfaction of performance obligations related to major goods 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 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. 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. Payment terms and conditions are general terms and conditions, and there are no transactions containing a significant financial component. 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. Payment terms and conditions are general terms and conditions, and there are no transactions containing a significant financial component.

(c) Information about contract balances
The following table shows the beginning and ending balances of trade receivables, contract assets and contract liabilities from contracts with customers for the fiscal year under review.

(Millions of yen)

	April 1, 2018	March 31, 2019
Trade receivables	258,813	280,521
Contract assets	2,178	2,070
Contract liabilities	13,110	10,817

Of the revenue recognized during the fiscal year under review, the amount included in contract liabilities at the beginning of the fiscal year was ¥10,568 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 ¥1,109 million.

(d) Transaction price allocated to remaining performance obligations
Because the expected period during which performance obligations for contracts for goods and services are satisfied is one year or less in the Group, the disclosure is omitted in accordance with a practical expedient.

(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) Other income and expenses
The main components of other income are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Gain on sales of property, plant and equipment	623	529
Proceeds from grants	453	522
Others	5,582	4,318
Total	6,658	5,369

Notes to Consolidated Financial Statements

The main components of other expenses are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Loss on sales of property, plant and equipment	49	71
Loss on disposal of property, plant and equipment	514	776
Impairment losses	549	2,143
Business structure reform expenses (*1)	1,385	4,911
Others (*2)	2,006	12,013
Total	4,503	19,914

(*1) Business structure reform expenses

Business structure reform expenses recognized for the previous fiscal year and the fiscal year under review include a special severance payment, etc.

(*2) Others

"Others" recognized for the fiscal year under review includes a provision in the amount of ¥8,781 million for concerns of collectability of VAT receivables which were overpaid by subsidiary in China in previous periods.

(19) Financial income and financial expenses

Main components of financial income are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Interest income		
Financial assets measured at amortized cost	2,434	2,382
Dividend income		
FVTOCI financial assets	275	527
Other	201	872
Total	2,910	3,781

Main components of financial expenses are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Interest expenses		
Financial liabilities measured at amortized cost	4,951	5,264
Foreign exchange loss	1,652	1,827
Other	787	1,000
Total	7,390	8,091

Notes to Consolidated Financial Statements

(20) Earnings per share (EPS) information

The basis of computations of net income attributable to owners of the parent used to derive basic and diluted EPS are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net income attributable to owners of the parent	60,004	68,542
Adjustments for dilutive effect	-	-
Diluted net income attributable to owners of the parent	60,004	68,542

(Number of shares)

	Year ended March 31, 2018	Year ended March 31, 2019
Weighted average number of shares on which basic EPS is calculated	212,659,005	212,655,771
Effect of dilutive securities	-	-
Weighted average number of shares on which diluted EPS is calculated	212,659,005	212,655,771

	Year ended March 31, 2018	Year ended March 31, 2019
EPS attributable to owners of the parent		
Net income per share (Basic) (yen)	282.16	322.31
Net income per share (Diluted) (yen)	282.16	322.31

	Year ended March 31, 2018	Year ended March 31, 2019
Outline of potential shares excluded from the calculation of diluted EPS attributable to owners of the parent because they have no dilutive effect	-	-

(21) Cash and cash equivalents

The balance of cash and cash equivalents reported in the consolidated statements of financial position as of March 31, 2018 and 2019 is consistent with that reported in the consolidated statements of cash flows.

Changes in liabilities arising from financing activities are as follows:

Year ended March 31, 2018

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Finance lease payables	Total
April 1, 2017	81,058	59,902	107,741	25,592	274,293
Changes involving cash flows	(33,864)	(10,000)	29,542	(4,700)	(19,022)
Changes not involving cash flows					
Newly reported lease obligations	-	-	-	1,017	1,017
Currency translation effect, etc.	(623)	1	(3,092)	(77)	(3,791)
March 31, 2018	46,571	49,903	134,191	21,832	252,497

Notes to Consolidated Financial Statements

Year ended March 31, 2019

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Finance lease payables	Total
April 1, 2018	46,571	49,903	134,191	21,832	252,497
Changes involving cash flows	67,386	-	7,431	(6,388)	68,429
Changes not involving cash flows					
Newly reported lease obligations	-	-	-	3,870	3,870
Acquisitions and divestitures	245	-	-	-	245
Currency translation effect, etc.	(1,245)	43	283	(32)	(951)
March 31, 2019	112,957	49,946	141,905	19,282	324,090

(22) Financial instruments and related disclosures

(a) Financial risks

The Group is engaged in business activities world-wide 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 world-wide and have 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. Under the interest rate swaps, the Group receives variable interest rate payments on long-term debts and makes fixed interest rate payments, thereby creating fixed interest rate long-term debt.

Interest rate sensitivity analysis

The sensitivity analysis for interest rate as of March 31, 2018 and 2019 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, 2018 and 2019, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Impact on income before income taxes	402	(961)

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, 2018 and 2019 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, 2018 and 2019, while all other variables are held constant.

(Millions of yen)

	Currency	As of March 31, 2018	As of March 31, 2019
Impact on income before income taxes	US Dollar	(15)	(14)
	Euro	2	5

c. Equity instruments volatility risk

The Group holds listed stock of entities with 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, 2018 and 2019 fell by 10%, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Impact on OCI, net of taxes	(695)	(445)

(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 (26) Commitments and contingencies.

The contractual amount of financial assets by due dates, which are past due but not impaired is as follows:

(Millions of yen)

	As of March 31, 2018			
	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Accounts and notes receivable and electronically recorded monetary claims - operating	8,961	1,431	1,007	785
Finance lease receivables	68	163	-	-
Other financial assets	-	-	-	-

Financial assets listed above are not held as collateral or other credit enhancement as of March 31, 2018.

The changes in the balance of allowance for doubtful receivables are as follows:

(Millions of yen)

	Accounts and notes receivable and electronically recorded monetary claims - operating	Finance lease receivables	Other financial assets	Total
April 1, 2017	8,071	2,199	1	10,271
Impairment loss provision	1,289	465	554	2,308
Amounts written off	(190)	-	-	(190)
Reversal of impairment loss	(1,180)	(946)	(220)	(2,346)
Acquisitions and divestitures	-	-	-	-
Other	(68)	85	40	57
March 31, 2018	7,922	1,803	375	10,100

As of March 31, 2018 the amount of trade receivables and other financial assets individually determined to be impaired based on the financial condition and delinquency, etc. of relevant customers was ¥6,139 million and the same amount was recognized as allowance for doubtful receivables.

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 year ended March 31, 2019 are 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

(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, 2018 (before changes in accounting policies)	6,564	1,358	7,922	195,686	3,154	198,840
Cumulative effects of changes in accounting	39	-	39	5,753	-	5,753
April 1, 2018 (after changes in accounting policies)	6,603	1,358	7,961	201,439	3,154	204,593
Net change during the year	(704)	247	(457)	19,110	(3,525)	15,585
Credit-impairment (a)	(698)	698	-	(4,029)	4,029	-
Write-off (b)	(96)	(1,013)	(1,109)	(96)	(1,013)	(1,109)
Other (c)	(163)	(34)	(197)	(1,667)	(36)	(1,703)
March 31, 2019	4,942	1,256	6,198	214,757	2,609	217,366

(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, 2018 (before changes in accounting policies)	24	1,779	1,803	58,824	7,299	66,123
Cumulative effects of changes in accounting	-	-	-	-	-	-
April 1, 2018 (after changes in accounting policies)	24	1,779	1,803	58,824	7,299	66,123
Net change during the year	(1)	(46)	(47)	7,181	24	7,205
Credit-impairment (a)	-	-	-	-	-	-
Write-off (b)	-	(562)	(562)	-	(562)	(562)
Other (c)	-	(42)	(42)	-	(191)	(191)
March 31, 2019	23	1,129	1,152	66,005	6,570	72,575

(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, 2018 (before changes in accounting policies)	224	151	375	27,647	151	27,798
Cumulative effects of changes in accounting	-	-	-	-	-	-
April 1, 2018 (after changes in accounting policies)	224	151	375	27,647	151	27,798
Net change during the year	(13)	157	144	(1,754)	157	(1,597)
Credit-impairment (a)	-	-	-	-	-	-
Write-off (b)	-	-	-	-	-	-
Other (c)	(6)	(115)	(121)	(20)	(115)	(135)
March 31, 2019	205	193	398	25,873	193	26,066

(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 treasury department within the Group prepares and updates cash management plans based on the report from each department. The Group maintains the commitment line and credit line to mitigate the 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 derivative that are settled on a net basis are presented on a gross basis for each transaction.

(Millions of yen)

	As of March 31, 2018				
	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 (excluding finance lease payables)	265,237	265,237	261,875	3,362	-
Short-term borrowings	46,571	46,749	46,749	-	-
Bonds	49,903	50,392	160	50,232	-
Long-term borrowings	134,191	137,190	26,152	67,517	43,521
Derivative liabilities					
Forward exchange contracts	374	374	336	38	-
Interest rate swaps	50	50	50	-	-
Currency swaps	1,338	1,338	-	592	746

(Millions of yen)

	As of March 31, 2019				
	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 (excluding finance lease payables)	247,988	247,988	243,546	4,442	-
Short-term borrowings	112,957	113,546	113,546	-	-
Bonds	49,946	50,232	30,112	20,120	-
Long-term borrowings	141,905	145,167	44,145	72,293	28,729
Derivative liabilities					
Forward exchange contracts	694	694	694	-	-
Interest rate swaps	30	30	30	-	-
Currency swaps	213	213	-	-	213

(Note 1) Information on finance lease payables is provided in (7) Leases.

(Note 2) The weighted average interest rate for short-term borrowings for the fiscal year under review is 0.52%, and the weighted average interest rate for long-term borrowings is 1.77%.

(Note 3) Guarantee obligations described in (26) 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) March 31, 2018	(Millions of yen) March 31, 2019	Security	Interest rates (%)	Maturity date
The Company	Unsecured debenture #15	2014	29,969	29,996	Unsecured	0.319	June 14, 2019
The Company	Unsecured debenture #16	2014	9,979	9,986	Unsecured	0.487	June 16, 2021
The Company	Unsecured debenture #17	2017	9,955	9,964	Unsecured	0.16	December 13, 2022

(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 finance lease payables) of interest-bearing liabilities, net of cash and cash equivalents.

Net interest-bearing liabilities as of the transition date, March 31, 2018 and 2019 amounted to ¥148,736 million and ¥237,461 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 equivalent, trade receivables and trade and other payable are settled in a short period, and thus, their carrying amount reasonably approximates the fair value. Fair value of non-current items are determined at the present value of expected cash flows from principal and interests discounted by the rate that would be reasonably applied to new transactions.

Other financial assets, other financial liabilities, derivative assets and derivative 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. Fair value of derivative instruments, which are FVTPL financial assets or financial liabilities, is determined based on the prices obtained from financial institutions.

Bonds and borrowings

Fair value of unsecured debentures and borrowings is determined based on the expected future cash flows from principal and interests 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 the financial assets and financial liabilities measured at amortized cost are as follows. Financial assets and financial liabilities whose carrying amount reasonably approximates the fair value are excluded. 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)

	As of March 31, 2018		As of March 31, 2019	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Assets				
Trade receivables (*1)	260,991	262,089	280,521	281,951
Liabilities				
Trade and other payables (*2)	(287,069)	(287,421)	(267,270)	(267,628)
Bonds and borrowings (*3)	(230,665)	(232,795)	(304,808)	(305,814)

(*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, 2018	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	10,046	-	7,993	18,039
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	1,914	-	1,914
Other financial assets	-	-	680	680
Total financial assets	10,046	1,914	8,673	20,633
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	(1,762)	-	(1,762)
Total financial liabilities	-	(1,762)	-	(1,762)

(Millions of yen)

As of March 31, 2019	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	6,417	-	8,537	14,954
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	1,711	-	1,711
Other financial assets	-	-	602	602
Total financial assets	6,417	1,711	9,139	17,267
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	(937)	-	(937)
Total financial liabilities	-	(937)	-	(937)

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)

	Year ended March 31, 2018	Year ended March 31, 2019
Balance at beginning of the year	7,088	8,673
Total gain/(loss)	1,642	566
Other comprehensive income	1,642	566
Purchased	103	1
Sold	(159)	(92)
Change brought about by acquisitions and divestitures	-	(5)
Other	(1)	(4)
Balance at end of the year	8,673	9,139

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.

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, 2018	As of March 31, 2019
ELLE Construction Machinery (China) Co., LTD.	2,626	3,142
KYB Corporation	4,505	2,424
Wakita & Co., LTD.	1,426	1,426
Kanamoto Co., Ltd.	1,220	944
IJT Technology Holdings Co., Ltd.	1,153	755

See (19) 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 ¥30 million and ¥133 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)

	Year ended March 31, 2018	Year ended March 31, 2019
Fair value at the time of derecognition	437	338
Accumulated gains at the time of derecognition	43	103

(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

Notes to Consolidated Financial Statements

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 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.

The fair values of fair value hedges and cash flow hedges are as follows:

(Millions of yen)

	As of March 31, 2018	
	Assets	Liabilities
Fair value hedge		
Forward exchange contracts	1,317	(167)
Interest rate swaps	-	-
Currency swaps	144	(414)
Total	1,461	(581)
Cash flow hedge		
Forward exchange contracts	322	(169)
Interest rate swaps	57	(50)
Currency swaps	-	(119)
Total	379	(338)

The fair values of derivative assets and liabilities for which hedge accounting was not applied were ¥74 million for derivative assets, and ¥(843) million for derivative liabilities, respectively.

Derivative profit or loss recognized related to fair value hedges are as follows:

(Millions of yen)

Recognized in profit or loss	Derivatives	Year ended March 31, 2018
Financial income	Forward exchange contracts	-
	Interest rate swaps	-
	Currency swaps	-
Total		-
Financial expenses	Forward exchange contracts	2,664
	Interest rate swaps	-
	Currency swaps	179
Total		2,843

The amounts recognized in the consolidated statements of comprehensive income and the consolidated statements of income related to cash flow hedges are detailed in the following tables: "Gain (loss) recognized in OCI, effective portion of derivatives designated as hedging instruments," and "Gain (loss) reclassified from OCI into profit or loss, effective portion of derivatives designated as hedging instruments."

Notes to Consolidated Financial Statements

Gain (loss) recognized in OCI, effective portion of derivatives designated as hedging instruments

(Millions of yen)

Derivatives	Year ended March 31, 2018
Forward exchange contracts	302
Interest rate swaps	109
Currency swaps	(562)
Total	(151)

Gain (loss) reclassified from OCI into profit or loss, effective portion of derivatives designated as hedging instruments

(Millions of yen)

Derivatives	Recognized in profit or loss	Year ended March 31, 2018
Forward exchange contracts	Financial income and financial expenses	194
Interest rate swaps	Financial income and financial expenses	12
Currency swaps	Financial income and financial expenses	(582)
Total		(376)

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 year ended March 31, 2019, hedge ineffectiveness recognized in profit or loss was not material.

As of March 31, 2019, the period in which the cash flows from the hedged items are expected to occur and in which they are expected to affect profit or loss is from April 2018 to September 2024.

The notional amount and carrying amount of hedging instruments for the year ended March 31, 2019 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.

(Millions of yen)

	Notional amount		Carrying amount	
		More than 1 year	Assets	Liabilities
Fair value hedge				
Currency exchange risk	64,778	-	748	(564)
Cash flow hedge				
Currency exchange risk	3,238	-	293	(130)
Interest rate risk	(5,177)	-	12	(30)

The fair values of derivative assets and liabilities for which hedge accounting was not applied were ¥658 million for derivative assets, and ¥(213) million for derivative liabilities, respectively.

The carrying amount of hedged items for which fair value hedges are applied in the year ended March 31, 2019 is as follows:

(Millions of yen)

Hedged items related to fair value hedges	Recognized in consolidated statements of financial position	Carrying amount	
		Assets	Liabilities
Currency exchange risk	Trade receivables, other financial assets, trade and other payables	85,891	(21,113)

For the year ended March 31, 2019, 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.

For the year ended March 31, 2019, changes in the fair value of hedging instruments recorded in AOCI for which cash flow hedges are applied are as follows:

(Millions of yen)

	April 1, 2018	Changes in fair value of hedging instruments recognized in OCI	Amount reclassified to profit or loss	March 31, 2019
Currency exchange risk	204	803	(684)	323
Interest rate risk	6	(24)	(2)	(20)

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 in “Interest expenses” for hedges of interest rate risk.

(23) 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, 2018	As of March 31, 2019
Accounts and notes receivable	6,216	2,828
Inventories	8,081	13,739
Other property, plant and equipment	36,957	43,464
Total	51,254	60,031

Notes to Consolidated Financial Statements

(24) Principal consolidated subsidiaries

The Company's consolidated financial statements include the consolidated subsidiaries listed below.

Name of subsidiary	Business location	Principal business activities (Note)	Ownership percentage (%)	
			As of March 31, 2018	As of March 31, 2019
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
KCM Corporation	Kako-gun, Hyogo	Construction Machinery Business	100.0	100.0
Hitachi Construction Truck Manufacturing Ltd.	Guelph, Ontario, Canada	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	81.3
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 (Shanghai) Co., Ltd.	Shanghai, China	Construction Machinery Business	54.4	54.4
Hitachi Construction Machinery Leasing (China) Co., Ltd.	Shanghai, China	Construction Machinery Business	85.3	85.3
Tata Hitachi Construction Machinery Co., Pvt., Ltd	Bangalore, Karnataka, India	Construction Machinery Business	60.0	60.0
Hitachi Construction Machinery Holding U.S.A. Corp.	Kernersville, North Carolina, USA	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
Bradken Pty Limited	Newcastle, New South Wales, Australia	Solution Business	100.0	100.0

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

Notes to Consolidated Financial Statements

(25) Related party transactions

(a) Compensation for Directors and Executive Officers of the Company

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Monthly salary, year-end allowance and performance-linked compensation	848	878

(b) Transaction between the Company and the Parent Company and other related parties

Transaction between the Company and the Parent Company and other related parties and receivable and payable balances are as follows:

For the year ended March 31, 2018

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayments of borrowings	26,487	-
		Depositing into the cash pooling system	2,486	2,486
		Interest on borrowings	27	-

For the year ended March 31, 2019

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Borrowing of funds	37,508	37,508
		Withdrawal of funds	2,486	-
		Interest on borrowings	61	-

(c) Transaction between consolidated subsidiaries of the Company and other related parties

For the year ended March 31, 2018

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Providing collateral	14,680	-

For the year ended March 31, 2019

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Providing collateral	19,548	-

(26) 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, 2018	As of March 31, 2019
Guarantee obligations	36,488	44,658
Guarantee commitment	292	193
Total	36,780	44,991

Notes to Consolidated Financial Statements

(27) Subsequent events

Not applicable.

(28) Approval of consolidated financial statements

The consolidated financial statements were approved on June 25, 2019 by Kotaro Hirano, President & CEO of the Company.

Notes to Consolidated Financial Statements

(2) Others

Quarterly information for the fiscal year under review

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2018	Six months ended September 30, 2018	Nine months ended December 31, 2018	Year ended March 31, 2019
Revenue	240,211	490,413	743,192	1,033,703
Income before income taxes	25,026	48,714	78,886	102,702
Net income attributable to owners of the parent	15,711	30,243	51,307	68,542
Net income attributable to owners of the parent per share (basic) (Yen)	73.88	142.22	241.27	322.31

	First quarter (April 1 to June 30, 2018)	Second quarter (July 1 to September 30, 2018)	Third quarter (October 1 to December 31, 2018)	Fourth quarter (January 1 to March 31, 2019)
Net income attributable to owners of the parent per share (basic) (Yen)	73.88	68.34	99.05	81.05

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated statements of financial position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	3,823	7,824
Notes receivable - trade	57	2
Electronically recorded monetary claims - operating (*1)	1,359	1,388
Accounts receivable - trade (*1)	126,524	158,554
Merchandise and finished goods	46,018	51,555
Work in process	11,798	16,506
Raw materials and supplies	615	1,295
Prepaid expenses	2,256	1,994
Deposit paid in subsidiaries and associates	2,486	-
Short-term loans receivable (*1)	32,401	55,472
Accounts receivable - other (*1)	30,697	41,051
Others	1,908	1,448
Allowance for doubtful accounts	(974)	(809)
Total current assets	258,966	336,280
Non-current assets		
Property, plant and equipment		
Buildings	31,332	29,780
Structures	3,141	3,031
Machinery and equipment	18,121	16,716
Vehicles	395	210
Tools, furniture and fixtures	2,211	2,462
Land	36,777	36,711
Construction in progress	733	3,163
Total property, plant and equipment	92,709	92,073
Intangible assets		
Software	6,515	9,276
Others	140	125
Total intangible assets	6,655	9,401
Investments and other assets		
Investment securities	9,905	6,644
Shares of subsidiaries and associates	150,858	151,144
Investments in capital of subsidiaries and associates	18,942	18,942
Long-term loans receivable from subsidiaries and associates	7,304	7,363
Long-term prepaid expenses	1,081	1,024
Prepaid pension cost	7,505	7,527
Deferred tax assets	1,353	2,756
Others	1,331	1,372
Allowance for doubtful accounts	(116)	(90)
Total investments and other assets	198,162	196,683
Total non-current assets	297,527	298,157
Total assets	556,493	634,437

See accompanying notes to financial statements.

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Electronically recorded obligations - operating (*1)	23,833	12,961
Accounts payable - trade (*1)	118,748	131,066
Short-term loans payable to subsidiaries and associates	6,500	47,561
Current portion of bonds	-	30,000
Lease obligations	98	95
Accounts payable - other (*1)	10,388	13,736
Accrued expenses	9,645	12,886
Income taxes payable	6,729	5,119
Deposits received (*1)	4,779	4,401
Unearned revenue	1,309	1,436
Others	185	701
Total current liabilities	182,213	259,963
Non-current liabilities		
Bonds payable	50,000	20,000
Long-term loans payable	60,267	61,307
Lease obligations	2,860	2,765
Provision for retirement benefits	5,489	5,687
Asset retirement obligations	184	194
Others	2,545	2,904
Total non-current liabilities	121,344	92,858
Total liabilities	303,557	352,821
Net assets		
Shareholders' equity		
Common stock	81,577	81,577
Capital surplus		
Legal capital surplus	81,084	81,084
Other capital surplus	3,875	3,875
Total capital surplus	84,959	84,959
Retained earnings		
Legal retained earnings	2,169	2,169
Other retained earnings		
Reserve for special depreciation	37	12
Reserve for reduction entry	808	1,171
General reserve	12,952	12,952
Retained earnings brought forward	69,054	99,655
Total retained earnings	85,020	115,959
Treasury stock, at cost	(3,069)	(3,077)
Total shareholders' equity	248,487	279,417
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,344	2,082
Deferred gains or losses on hedges	104	117
Total valuation and translation adjustments	4,449	2,199
Total net assets	252,936	281,616
Total liabilities and net assets	556,493	634,437

See accompanying notes to financial statements.

2) Non-consolidated statements of income

Years ended March 31, 2018 and 2019 (Millions of yen)

	2018	2019
Net sales (*1)	477,221	545,949
Cost of sales (*1)	390,506	454,759
Gross profit	86,715	91,190
Selling, general and administrative expenses (*2)	63,108	68,126
Operating income	23,607	23,064
Non-operating income		
Interest income (*1)	836	753
Dividend income (*1)	28,859	34,825
Miscellaneous income (*1)	2,969	6,460
Total non-operating income	32,664	42,038
Non-operating expenses		
Interest expenses (*1)	879	649
Foreign exchange losses	680	1,776
Miscellaneous loss (*1)	3,143	4,973
Total non-operating expenses	4,703	7,399
Ordinary income	51,569	57,703
Extraordinary income		
Gain on sales of investment securities	31	16
Gain on reversal of subscription rights to shares	498	-
Total extraordinary income	530	16
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	1,711	242
Loss on sales of shares of subsidiaries and associates	-	773
Impairment loss	367	65
Total extraordinary losses	2,078	1,080
Income before income taxes	50,021	56,639
Income taxes - current	4,510	6,546
Income taxes - deferred	(776)	(411)
Net income	46,287	50,503

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

Year ended March 31, 2018

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreci-ation	Reserve for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of year	81,577	81,084	3,875	84,959	2,169	62	814	12,952	32,093	48,090
Changes of items during period										
Dividends of surplus				-					(9,357)	(9,357)
Net income				-					46,287	46,287
Acquisition of treasury stock				-						-
Disposal of treasury stock				-						-
Reversal of reserve for special depreciation				-		(25)			25	-
Provision of reserve for reduction entry				-						-
Reversal of reserve for reduction entry				-			(5)		5	-
Expiration of subscription rights				-						-
Net changes of items other than shareholders' equity				-						-
Total changes of items during period	-	-	-	-	-	(25)	(5)	-	36,960	36,930
Balance at end of year	81,577	81,084	3,875	84,959	2,169	37	808	12,952	69,054	85,020

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	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 year	(3,055)	211,571	4,182	26	4,208	498	216,277
Changes of items during period							
Dividends of surplus		(9,357)			-		(9,357)
Net income		46,287			-		46,287
Acquisition of treasury stock	(14)	(14)			-		(14)
Disposal of treasury stock	0	0			-		0
Reversal of reserve for special depreciation		-			-		-
Provision of reserve for reduction entry		-			-		-
Reversal of reserve for reduction entry		-			-		-
Expiration of subscription rights		-			-	(498)	(498)
Net changes of items other than shareholders' equity		-	163	78	240	-	240
Total changes of items during period	(14)	36,916	163	78	240	(498)	36,658
Balance at end of year	(3,069)	248,487	4,344	104	4,449	-	252,936

Year ended March 31, 2019

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreci-ation	Reserve for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of year	81,577	81,084	3,875	84,959	2,169	37	808	12,952	69,054	85,020
Changes of items during period										
Dividends of surplus				-					(19,564)	(19,564)
Net income				-					50,503	50,503
Acquisition of treasury stock				-						-
Disposal of treasury stock				-						-
Reversal of reserve for special depreciation				-		(25)			25	-
Provision of reserve for reduction entry				-			382		(382)	-
Reversal of reserve for reduction entry				-			(19)		19	-
Expiration of subscription rights				-						-
Net changes of items other than shareholders' equity				-						-
Total changes of items during period	-	-	-	-	-	(25)	363	-	30,601	30,939
Balance at end of year	81,577	81,084	3,875	84,959	2,169	12	1,171	12,952	99,655	115,959

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	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 year	(3,069)	248,487	4,344	104	4,449	-	252,936
Changes of items during period							
Dividends of surplus		(19,564)					(19,564)
Net income		50,503					50,503
Acquisition of treasury stock	(8)	(8)					(8)
Disposal of treasury stock		-					-
Reversal of reserve for special depreciation		-					-
Provision of reserve for reduction entry		-					-
Reversal of reserve for reduction entry		-					-
Expiration of subscription rights		-					-
Net changes of items other than shareholders' equity		-	(2,262)	12	(2,250)	-	(2,250)
Total changes of items during period	(8)	30,930	(2,262)	12	(2,250)	-	28,681
Balance at end of year	(3,077)	279,417	2,082	117	2,199	-	281,616

Notes to Non-Consolidated Financial Statements

Significant accounting policies

1. Valuation standards and valuation methods for securities
   (1) Investments in subsidiaries and associates
   Stated at cost based on the moving-average method.
   (2) Securities
   Securities with fair value
   Stated at fair value as of the end of the fiscal year. (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.)
   Securities without fair value
   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)
   Depreciated 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 that are not deemed to transfer ownership are depreciated using the straight-line method over the period of the lease, with zero residual value.

4. Allowances and provisions
   (1) Allowance for doubtful accounts
   To prepare for bad debt losses from uncollectible receivables, general provision for doubtful accounts is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. 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 are as follows:
   (i) The method to attribute expected benefits to periods of service
   In calculating retirement benefits obligations, expected benefit is attributed to periods of service up to the current fiscal year based on the benefit formula basis.
   (ii) 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. 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.

6. 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.
   In addition, the Company uses interest rate swaps corresponding to term of each long-term loan payable to fix the risk of cash flow fluctuation from long-term loan payable.
   (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 and sales contracts denominated in foreign currencies.
   Through interest related derivative transactions, the Company aims to fix interest rate for each long-term loan payable at the prevailing market rate as of each fund procurement since the Company emphasizes obtaining long-term loans 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.

7. Accounting for consumption taxes
   Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

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.

10. Consolidated tax return
    The Company adopted consolidated income tax return filing.

Changes in presentation

(Changes in line with the application of the “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018; hereinafter referred to as the “Partial Amendments to Tax Effect Accounting Standard”) effective from the beginning of the fiscal year under review. Accordingly, deferred tax assets were presented under “Investments and other assets” and deferred tax liabilities were presented under “Non-current liabilities.”

Consequently, in the non-consolidated statements of financial position for the previous fiscal year, ¥4,287 million of “Deferred tax assets” under “Current assets” was offset by ¥2,934 million of “Deferred tax liabilities” under “Non-current liabilities” and presented as ¥1,353 million of “Deferred tax assets” under “Investments and other assets,” and total assets decreased by ¥2,934 million compared with the amount before the change.

Furthermore, in the “Notes on income taxes,” the contents described in the “Accounting Standard for Tax Effect Accounting” explanatory note (Note 8) (1) set out in paragraph (4) of the Partial Amendments to Tax Effect Accounting Standard have been added; provided, however, content related to the previous fiscal year among said contents are not described in accordance with the transitional treatment as presented in paragraph (7) of the Partial Amendments to Tax Effect Accounting Standard.

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated financial position

*1. Monetary claims and monetary debts to subsidiaries and associates

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Short-term monetary claims	155,224	203,447
Short-term monetary debts	66,918	76,256

*2. Guarantee obligations

The Company provides guarantees and guarantee commitments in respect of loans of the following subsidiaries and associates from financial institutions.

(1) Guarantees

(Millions of yen)

As of March 31, 2018		As of March 31, 2019	
ACME Business Hold co, LLC	23,373	ACME Business Hold co, LLC	24,555
Marubeni Equipment Finance (Oceania) Pty Ltd.	3,585	Eurasian Machinery LLP	4,995
SCAI S.p.A.	2,610	Marubeni Equipment Finance (Oceania) Pty Ltd.	4,049
Other	757	PT Hexindo Adiperkasa Tbk	2,734
		SCAI S.p.A.	2,491
		Other	2,205
Total	30,325	Total	41,029

(2) Guarantee commitment

(Millions of yen)

As of March 31, 2018		As of March 31, 2019	
OKUBO GEAR Co., LTD	292	OKUBO GEAR Co., LTD	193
Total	292	Total	193

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and associates

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Operating transaction		
Sales	340,942	394,682
Purchase	187,965	242,691
Non-operating transaction	33,237	42,662

Notes to Non-Consolidated Financial Statements

*2. Main components of selling, general and administrative expenses and approximate ratio are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Packing and shipping expenses	11,834	14,068
Employees' salaries	7,688	8,283
Retirement benefit expenses	978	967
Subcontract expenses	7,796	9,850
Depreciation and amortization	1,666	1,661
R&D expenses	16,782	16,778
Approximate ratio (%)		
Selling expenses	33	33
Administrative expenses	67	67

Notes on securities

Investments in subsidiaries and associates

As of March 31, 2018

(Millions of yen)

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Investments in subsidiaries	624	9,551	8,927
Investments in associates	499	1,336	837
Total	1,123	10,887	9,764

As of March 31, 2019

(Millions of yen)

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Investments in subsidiaries	624	9,711	9,087
Investments in associates	499	1,065	566
Total	1,123	10,776	9,652

(Note) Investments in subsidiaries and associates whose fair values are extremely difficult to determine are as follows:

(Millions of yen)

Type of securities	As of March 31, 2018	As of March 31, 2019
Investments in subsidiaries	140,054	140,186
Investments in associates	9,681	9,835

Those securities are not included in the tables "Investments in subsidiaries and associates" above as no quoted market price is available and it is extremely difficult to determine their fair values.

Notes to Non-Consolidated Financial Statements

Notes on income taxes

1. Components of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Deferred tax assets		
Net operating loss carryforwards	2,935	1,938
Accrued business tax	407	322
Provision for bonuses	1,353	1,620
Accrued expenses	1,021	2,293
Allowance for doubtful accounts	298	248
Write down of inventories	1,435	992
Loss on valuation of shares of subsidiaries and associates	14,928	15,002
Write down of securities	69	69
Provision for retirement benefits	1,681	1,741
Impairment loss	85	12
Excess over depreciation limit	1,051	1,143
Others	341	296
Subtotal of deferred tax assets	25,604	25,676
Valuation allowance on tax loss carryforwards	-	(1,594)
Valuation allowance on total deductible temporary differences	-	(16,346)
Subtotal of valuation allowance	(18,988)	(17,940)
Total	6,616	7,736
Deferred tax liabilities		
Insurance receivables	369	1,154
Prepaid pension costs	2,298	2,305
Reserve for reduction entry	357	517
Reserve for special depreciation	16	5
Valuation difference on available-for-sale securities	1,917	919
Others	306	80
Total	5,263	4,980
Net deferred tax assets	1,353	2,756

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, 2018	As of March 31, 2019
Effective statutory tax rates (%)	30.9	30.6
(Adjustments)		
Income not taxable for tax purpose, such as dividend income	(17.1)	(17.9)
Withholding tax on dividends received by foreign subsidiaries	0.2	0.4
Change in valuation allowance	(9.3)	(1.8)
Foreign tax credit	(0.7)	(0.2)
Other	3.5	(0.3)
Effective income tax rates after tax effect accounting	7.5	10.8

Subsequent events

Transactions under common control

1. Transaction

   The Company resolved, at the meeting of its Board of Directors held on December 25, 2018, to implement an absorption-type merger of KCM Corporation (hereinafter referred to as "KCM"), a consolidated subsidiary of the Company, with the effective date of April 1, 2019, and merged with KCM on April 1, 2019.

   (1) Purpose of absorption-type merger

   There is currently vigorous demand in the construction machinery industry, both in the strong domestic market and in major overseas markets. In this environment surrounding the Company, competition on a global scale is becoming more intense, making an optimal production system an urgent necessity. Under these circumstances, the Company has decided to implement an absorption-type merger of KCM as a result of numerous fundamental examinations of optimal development and production systems, for the purpose of establishing unification of the R&D department and a consistent production system of everything from parts to completed products.

   (2) Method of absorption-type merger

   The merger is an absorption-type merger with the Company being as the surviving company, and KCM was dissolved.

   (3) Merger ratio and cash payment on merger

   The Company holds all shares of KCM, and there are no issuance of new shares, no increase in common stock and no cash payment on merger due to this merger.

2. Outline of accounting procedures to be applied

   The absorption-type merger will be accounted for as a transaction under common control, in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

3. Amounts of assets accepted and liabilities assumed on the date of the business combination, and the major breakdown thereof

(Millions of yen)

Assets	Amount	Liabilities	Amount
Current assets	17,752	Current liabilities	19,130
Non-current assets	8,340	Non-current liabilities	2,162
Total	26,092	Total	21,292

Notes to Non-Consolidated Financial Statements

4) Non-consolidated supplementary schedules
[Supplementary schedule of property, plant and equipment, etc.]

(Millions of yen)

Asset type	Balance as of April 1, 2018	Increase during reporting period	Decrease during reporting period	Depreciation and amortization during reporting period	Balance as of March 31, 2019	Accumulated depreciation
Property, plant and equipment						
Buildings	31,332	576	40 (4)	2,087	29,780	33,471
Structures	3,141	257	13 (1)	354	3,031	9,403
Machinery and equipment	18,121	2,704	155	3,955	16,716	80,757
Vehicles	395	8	0	193	210	1,442
Tools, furniture and fixtures	2,211	1,585	5	1,329	2,462	27,293
Land	36,777	-	65 (56)	-	36,711	-
Construction in progress	733	7,316	4,887	-	3,163	-
Total property, plant and equipment	92,709	12,447	5,166 (61)	7,918	92,073	152,366
Intangible assets						
Software	6,515	6,450	1,884	1,806	9,276	33,522
Others	140	-	-	15	125	2,177
Total intangible assets	6,655	6,450	1,884	1,821	9,401	35,700

(Note) Amount in the parentheses under "Decrease during reporting period" represents impairment loss included in the reported amount for each asset type.

[Supplementary schedule of provisions]

(Millions of yen)

Account	Balance as of April 1, 2018	Increase during reporting period	Decrease during reporting period	Balance as of March 31, 2019
Allowance for doubtful accounts	1,090	899	1,090	899

(Note) The "Decrease during reporting period" is the reversal of the balance of allowance for doubtful accounts.

(2) Major property, plant, equipment and debt

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	(Special account) Head Office, Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Shareholder register administrator	(Special account) Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Forwarding office	—
Additional purchase and sales fee	No fee
Additional share purchase request handling stoppage period	The period starting 10 business days before the respective ends of March, June, September and December, up to each of those dates, and the period stipulated by the filing 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/jp/
Special benefits for shareholders	Not applicable.

(Note) 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

54th term (from April 1, 2017 to March 31, 2018)

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2018

(2) Quarterly Securities Reports and Written Confirmations

1st quarter of the 55th term (from April 1, 2018 to June 30, 2018)

Filed to Director-General of Kanto Local Finance Bureau on August 8, 2018

2nd quarter of the 55th term (from July 1, 2018 to September 30, 2018)

Filed to Director-General of Kanto Local Finance Bureau on November 13, 2018

3rd quarter of the 55th term (from October 1, 2018 to December 31, 2018)

Filed to Director-General of Kanto Local Finance Bureau on February 14, 2019

(3) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2018

Extraordinary Securities Report (results of the exercise of voting rights at the shareholder's meeting) based on Article 24-5, paragraph (4) of the Financial Instruments and Exchange Act and Article 19, paragraph (2), item (ix)-2 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on February 25, 2019

Extraordinary Securities Report (change in the representative executive officer) based on Article 24-5, paragraph (4) of the Financial Instruments and Exchange Act and Article 19, paragraph (2), item (ix) of the Cabinet Office Order on Disclosure of Corporate Affairs.

(4) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2018

(5) Amended Shelf Registration Statement

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2018

Filed to Director-General of Kanto Local Finance Bureau on February 25, 2019

Part II Information about Company Which Provides Guarantee to the Company, etc.

Not applicable.