Annual Securities Report

56th term (from April 1, 2019 to March 31, 2020)

Hitachi Construction Machinery Co., Ltd.

[Cover]

[Document Filed]	Annual Securities Report (“Yukashoken Hokokusho”)
[Applicable Law]	Article 24, paragraph (1) of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director, Kanto Local Finance Bureau
[Filing Date]	July 21, 2020
[Fiscal Year]	56th term (from April 1, 2019 to March 31, 2020)
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Part I Information on the Company

I. Overview of the Company

1. Transition of the Key Financial Data

(1) Five-year financial data

(Millions of yen, unless otherwise stated)

Fiscal year	52nd term	53rd term	54th term	55th term	56th term
As of and years ended	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Revenue	758,331	753,947	959,153	1,033,703	931,347
Income before income taxes	24,517	23,859	95,612	102,702	67,103
Net income attributable to owners of the parent	8,804	8,022	60,004	68,542	41,171
Comprehensive income attributable to owners of the parent	(22,394)	7,876	58,437	57,445	9,874
Total equity attributable to owners of the parent	395,963	399,619	448,502	486,407	473,537
Total assets	926,628	1,012,208	1,089,796	1,185,256	1,167,567
Equity per share attributable to owners of the parent (Yen)	1,861.93	1,879.14	2,109.04	2,287.31	2,226.80
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	41.41	37.72	282.16	322.31	193.61
Net income per share (Diluted) (Yen)	41.41	37.72	282.16	322.31	193.61
Equity attributable to owners of the parent ratio (%)	42.7	39.5	41.2	41.0	40.6
Profit on equity attributable to owners of the parent (%)	2.1	2.0	14.1	14.7	8.6
Price earnings ratio (Times)	43.18	73.57	14.55	9.11	11.31
Net cash provided by (used in) operating activities	114,874	87,961	84,528	(25,693)	22,682
Net cash provided by (used in) investing activities	18,255	(74,610)	(37,562)	(30,339)	(34,749)
Net cash provided by (used in) financing activities	(98,163)	(25,817)	(30,483)	43,928	10,993
Cash and cash equivalents at end of period	79,110	65,455	81,929	67,347	62,165
Employees (Number)	21,193	23,858	23,925	24,591	25,248
[The average number of temporary employees for the year]	[3,032]	[2,384]	[2,167]	[2,527]	[2,322]

(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").

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.

(2) Non-consolidated financial data

(Millions of yen, unless otherwise stated)

Fiscal year	52nd term	53rd term	54th term	55th term	56th term
As of and years ended	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Net sales	354,746	357,072	477,221	545,949	482,571
Ordinary income (loss)	(21,835)	13,883	51,569	57,703	34,434
Net income (loss)	(433)	17,209	46,287	50,503	33,832
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	202,394	216,277	252,936	281,616	295,232
Total assets	456,349	492,421	556,493	634,437	608,967
Net assets per share (Yen)	948.11	1,014.66	1,189.41	1,324.29	1,388.33
Dividends per share (Yen) [Of the above, interim dividends per share]	40.00 [30.00]	12.00 [4.00]	85.00 [36.00]	100.00 [43.00]	60.00 [36.00]
Net income (loss) per share (Yen)	(2.04)	80.92	217.66	237.49	159.10
Net income per share after adjustment for dilution (Yen)	–	80.92	217.66	237.49	159.10
Equity ratio (%)	44.2	43.8	45.5	44.4	48.5
Return on equity (%)	(0.2)	8.2	19.8	18.9	11.7
Price earnings ratio (Times)	–	34.29	18.86	12.37	13.76
Dividend payout ratio (%)	–	14.83	39.05	42.11	37.71
Employees (Number) [The average number of temporary employees for the year]	4,315 [651]	3,985 [381]	4,072 [384]	4,341 [461]	5,527 [561]
Total shareholder return (%) [Comparative indicator: TOPIX (Dividend-included)] (%)	87.0 [89.2]	134.5 [102.3]	201.8 [118.5]	151.0 [112.5]	118.3 [101.8]
Highest share price (Yen)	2,302	2,934	4,935	4,410	3,390
Lowest share price (Yen)	1,475	1,377	2,528	2,379	1,840

(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 54th term 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.

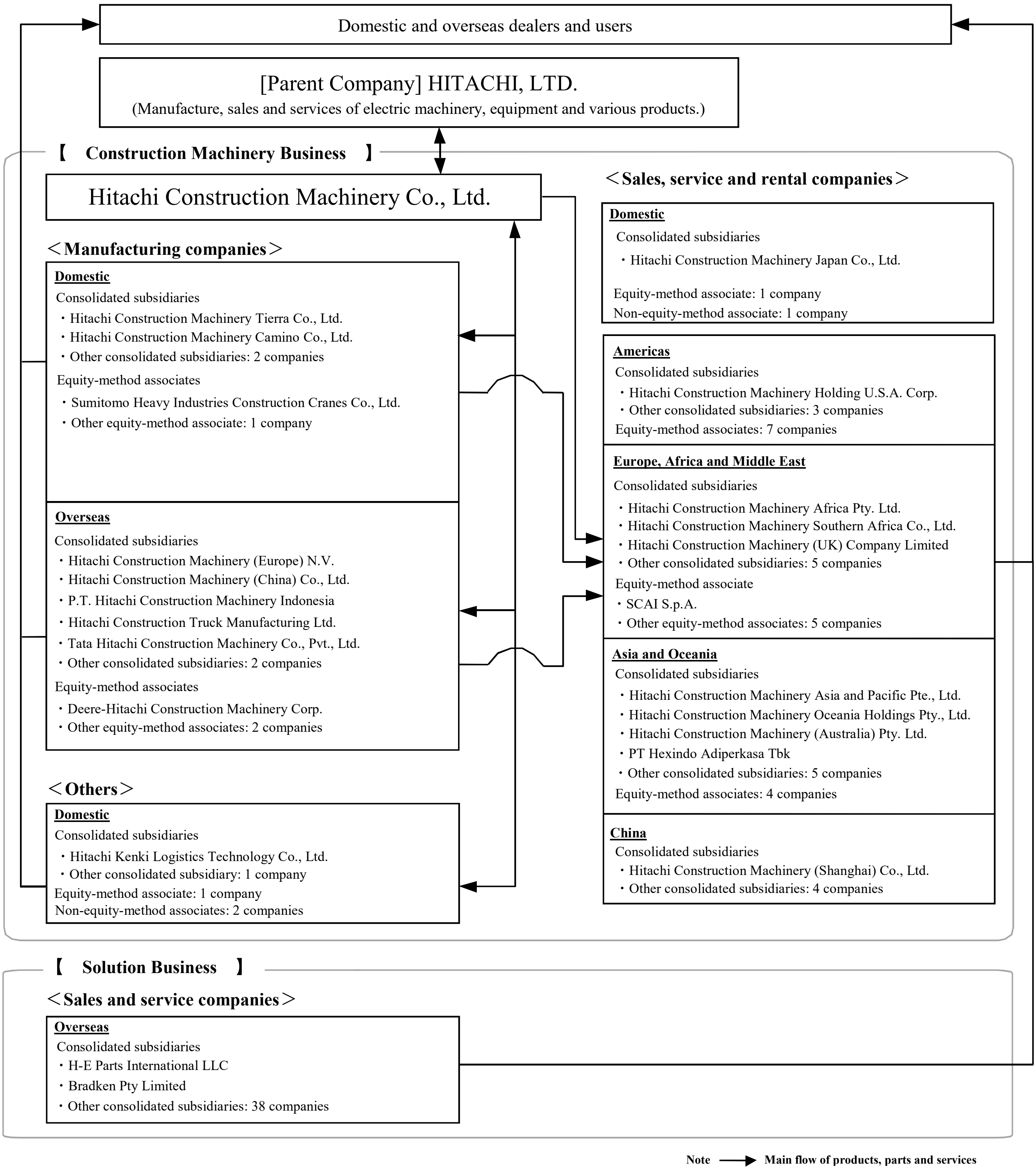
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions 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 Financial Leasing (China) Co., Ltd. (Former Hitachi Construction Machinery Leasing (China) Co., Ltd.) in China. (Currently a consolidated subsidiary)
April 2008	Established Hitachi Construction Machinery Japan Co., Ltd. (Currently a consolidated subsidiary)
September 2008	Established P.T. HEXA FINANCE INDONESIA.
October 2008	Merged Hitachi Kenki FineTech Co., Ltd. into the Company.
July 2009	Acquired management rights of Shintohoku Metal Co., Ltd. (Currently a consolidated subsidiary)
July 2009	Acquired management rights of Wenco International Mining Systems Ltd. in Canada. (Currently a consolidated subsidiary)
March 2010	Acquired management rights of Tata Hitachi Construction Machinery Co., Pvt., Ltd. in India. (Currently a consolidated subsidiary)
October 2010	Established Hitachi Construction Machinery Africa Pty. Ltd. in South Africa. (Currently a consolidated subsidiary)
March 2011	Established Hitachi Construction Machinery Middle East Corp. FZE in UAE. (Currently a consolidated subsidiary)
April 2011	Established LLC Hitachi Construction Machinery Eurasia in Russia. (Currently a consolidated subsidiary)
December 2011	Hitachi Construction Machinery Tierra Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)

April 2012	Merged Hitachi Kenki Business Frontier Co., Ltd. into the Company.
April 2012	Spun off and transferred the Company’s sales/service business in Japan to Hitachi Construction Machinery Japan Co., Ltd.
October 2012	Merged Tsukuba Tech Co., Ltd. into the Company.
April 2013	Hitachi Kenki Logistics Technology Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)
March 2014	Shintohoku Metal Co., Ltd. became a wholly owned subsidiary. (Currently a consolidated subsidiary)
March 2015	Transferred 70% of shares of P.T. HEXA FINANCE INDONESIA owned by the Company. (Currently an equity-method associate)
October 2015	KCM Corporation became a wholly owned subsidiary.
January 2016	Niigata Material Co., Ltd. became a wholly owned subsidiary through an exchange of shares.
April 2016	Spun off and transferred the Company’s wheel loader development/manufacturing business to KCM Corporation.
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)
April 2019	Established Hitachi Construction Machinery Oceania Holdings Pty., Ltd. in Australia. (Currently a consolidated subsidiary)
April 2019	Merged KCM Corporation into the Company.
July 2019	Established Hitachi Construction Machinery (Shanghai) Parts Manufacturing Co., Ltd. in China. (Currently a consolidated subsidiary)
August 2019	Transferred a portion of shares of stock of PEO Construction Machinery Operators Training Center Co., Ltd. (Former Hitachi Construction Machinery Operators Training Center Co., Ltd.) held by the Company. (Currently an equity-method associate)

3. Description of Business

The consolidated group (hereinafter referred to as the "Group") consists of the Company, its 80 consolidated subsidiaries and 27 associates. There are two reportable segments. The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large-sized hydraulic excavators, and wheel loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide development, production, distribution of parts and service solutions as part of the after-sales services for mining facilities and equipment that are not included in the Construction Machinery Business Segment.

The structure of the Group business is as follows:



4. Information on Subsidiaries and 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	51.5 [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. 1 Director of the Company concurrently holds the position of director or officer.
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.
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 region, and the Company sells products to the entity. 1 Director of the Company concurrently holds the position of director or officer.
P.T. Hitachi Construction Machinery Indonesia (Note 2)	Bekasi, Indonesia	(Thousands of US dollars) 17,200	Construction Machinery Business	82.0 [33.9]	The entity manufactures and sells some of the Company's construction machinery products and parts in the ASEAN region, and the Company provides guarantees in respect of loans. 1 Director of the Company concurrently holds the position of director or officer.
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. 3 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Financial 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 Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 29,122	Construction Machinery Business	100.0	The entity organizes sales and service of the construction machinery products of the Company in the Oceania region. 2 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery (Australia) Pty. Ltd. (Note 5)	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 22,741	Construction Machinery Business	80.0 [80.0]	The entity sells and provides services relating to construction machinery products of the Company in Australia, and the Company sells parts to the entity. The Company also borrows money. 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.	–	Solution Business	100.0	The entity provides services related to mining and construction machinery of the Company. 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	The entity is engaged in a manufacturing business of metal casting parts for mining and infrastructure industries, a business for wear parts in mining, a maintenance service business, and others. 2 Directors of the Company concurrently hold the position of director or officer.
64 other consolidated subsidiaries	–	–	–	–	–
[Equity-method associates]					
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.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
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.
22 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 the following subsidiaries (excluding revenue from intercompany transactions within the Group) exceeds 10% of the consolidated revenue.

Major financial information

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

Hitachi Construction Machinery (Australia) Pty. Ltd.	(Millions of yen)
1) Revenue	93,524
2) Income before income taxes	10,636
3) Net income	6,230
4) Total equity	36,673
5) Total assets	65,912

5. Employees

(1) Consolidated basis

(As of March 31, 2020)

Name of segment	Number of employees	
Construction Machinery Business	21,713	(1,812)
Solution Business	3,535	(510)
Total	25,248	(2,322)

(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, 2020)

Number of employees	Average age	Average length of service	Average annual salary
5,527 (561)	39.1	14.1 years	¥7,284,000

Name of segment	Number of employees	
Construction Machinery Business	5,527	(561)
Total	5,527	(561)

(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.

4. In the fiscal year under review, the number of employees in Construction Machinery Business Segment of the Company increased by 1,186 from the end of the previous fiscal year. This is due largely to the Group's drastic restructuring of the main domestic development and production bases to strengthen its global competitiveness, and the absorption-type merger of KCM Corporation, a consolidated subsidiary of the Company, as of April 1, 2019 to optimize the production system.

(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, 2020.

(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 become the "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. In addition, we recognize SDGs and ESG among others as business challenges, organize the role to be played by companies from the perspective of Outside-In, and put together the entire Group to promote ESG activities. Considering solution of these challenges as business chances, we conduct business management toward a sustainable society through our businesses.

(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

The business environment for the Group during the year ended March 31, 2020 showed a deteriorating trend from the fourth quarter due to widespread of the impact of the new coronavirus infection (COVID-19) in all corners across various regions and other factors, and demand for hydraulic excavators decreased in many regions, including China, Asia, India, Oceania, Africa, and Western Europe, year on year in construction machinery business.

As for mining machinery, although demand from major mining companies that own large-scale mines remained at a relatively high level, same as the previous year, demand from medium-sized mining companies declined. Consequently, demand as a whole decreased year on year.

Demand for construction machinery and mining machinery is expected to gradually expand in the medium- to long-term, but will fluctuate in the short term. To overcome various challenges arising mainly from this environment and continue sustainable growth while securing stable revenue, the Company has strived to improve and stabilize the revenue generating structure through the change of its business model from a business model centered on new machinery sales to the "value chain business" targeted at machinery that is operated across the world after new machinery sales by concentrating managerial resources on major products in response to changes in trends of the entire society and customer needs in mid-term management plan "CONNECT TOGETHER 2019" for the period of FY2017 through FY2019. In addition, the Company has implemented restructuring of business operations at business facilities around the world including Japan and worked on efficiency of the business management. From now on, the Company pursues further strengthening of the value chain business, provision of solutions deepened at any points of contact with customers using digital technologies, and establishment of corporate structure with high adaptability to changes, as the direction of the new mid-term management plan.

The detailed measures and numerical targets for the mid-term management plan, which began in FY2020, are not disclosed at this time, as it is difficult to calculate them appropriately and rationally due to the impact of COVID-19 on business activities and operating results. We will disclose the information on the Company's website as soon as it becomes possible to calculate it in the future.

2. Business Risks

The Group operates in a wide range of business fields, including production, sales, and finance, and conducts business activities worldwide. As a result, the business activities of the Group are affected by a wide range of factors, including market conditions, exchange rates, and finance. Major business and other risks that are anticipated to be incurred to the extent foreseeable as of March 31, 2020 are as follows.

(1) Market conditions

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

(2) Foreign currency exchange rate fluctuations

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

(3) Fluctuation in financial markets

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

(4) Procurement and production

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

(5) Credit management

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

(6) Public laws and tax practices

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

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

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

(8) Product liability

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

(9) Alliances and collaborative relationships

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

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

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

(11) Impact of natural and man-made disasters

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

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

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, 2020.

(1) Business results

The Group focused on the management measures outlined in CONNECT TOGETHER 2019, its three-year mid-term management plan, which ends in the fiscal year ended March 31, 2020. The Group positioned solutions utilizing ICT and IoT as Solution Linkage®, which lead to customer business issues of improving safety, productivity, and reducing lifecycle costs (including fuel, maintenance, repair, and other costs), and actively worked on these issues.

In the Parts and Services Business, we are working to increase the penetration of ConSite®. In particular, in FY2017, we began providing ConSite® OIL, the first in the construction machinery industry to remotely detect oil conditions using sensors and predict failures in engines and hydraulic components. Following Europe, Japan, and Australia, we launched this service in Southeast Asia and China in the fiscal year under review. Through these and other initiatives, we are working to reduce the lifecycle costs of our customers worldwide.

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

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

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

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

On the other hand, under growing uncertainty about the global outlook, the worsening of the new coronavirus infections (COVID-19) worldwide from the fourth quarter caused demand for hydraulic excavators to decline, the impact of decrease in resource prices on demand for mining machinery from small-and medium-sized mining companies, shipment delay due to typhoon occurred in Japan in the third quarter, and the appreciation of the yen in exchange rates compared with the previous fiscal year. As a result, revenues for the consolidated period (from April 1, 2019 to March 31, 2020) amounted to ¥931,347 million, which represents 90% of the amount reported for the previous fiscal year.

In terms of profit items, operating income was ¥72,849 million, which represents 71% of the amount reported for the previous fiscal year, income before income taxes was ¥67,103 million, which represents 65% of the amount reported for the previous fiscal year, and profit attributable to owners of the parent was ¥41,171 million, which represents 60% of the amount reported for the previous fiscal year, due to factors such as the decrease in revenue and the appreciation of the yen.

1) Construction Machinery Business

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

As a result, revenue for the consolidated fiscal year under review amounted to ¥840,762 million, which represents 90% of the amount reported for the previous fiscal year, due to a decline in sales of new machinery because of the slowdown in markets such as the effect of COVID-19, and the appreciation of the yen.

2) Solution Business

This segment is composed of Bradken, Pty Limited, which mainly conducts component service business for after-sales of mining equipment and machinery, and H-E Parts International LLC, which provides service solutions, which were both consolidated in FY2016, and their subsidiaries.

Revenue for the consolidated fiscal year under review totaled ¥91,975 million, which represents 95% of the amount reported for the previous fiscal year, due to the appreciation of the yen, despite a year-on-year increase in sales on a local currency basis due to strong sales of mining machinery in the Russian CIS, Asian, and other markets.

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

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥62,165 million, a decrease of ¥5,182 million from the beginning of the fiscal year under review. Statement and factors relating to each cash flow category are as follows:

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

Net cash provided by operating activities for the fiscal year under review based on ¥44,768 million in net income, and included ¥46,147 million in depreciation and amortization, a ¥646 million decrease in trade receivables and contract assets, a ¥9,213 million decrease in finance lease receivables, a ¥107 million decrease in inventories despite a ¥32,769 million decrease in trade payables, and a ¥31,404 million income tax paid as cash outflow.

As a result, net cash provided by operating activities for the fiscal year under review totaled ¥22,682 million.

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

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

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

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

(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	830,272	83
Solution Business	87,392	93
Total	917,664	84

(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	840,751	90
Solution Business	90,596	94
Total	931,347	90

(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, 2020.

In addition, significant accounting estimates based on future earnings forecasts including assessment of the realizability of deferred tax assets and impairment test of non-financial assets such as goodwill in the year ended March 31, 2020 are based on the assumption that impacts of stagnant economic activities due to the spread of the new coronavirus infection (COVID-19) will basically arise in the first half of FY2020 and partly reach the second half, although the Group conducts its business activities globally and circumstances are different depending on segments and regions.

On this assumption, there is no material impact on consolidated financial statements for the year ended March 31, 2020. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

1) Inventories

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

2) Property, plant and equipment and intangible assets

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

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

3) Trade receivables and other financial assets

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

In addition, impairment losses on trade receivables are recorded based on 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 ended March 31, 2020	Results for the year ended March 31, 2020	Year-on-year change
Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 9%	8.2%	Down 3.1% pts
Efficiency	Aim to achieve ROE of over 9%	8.6%	Down 6.1% pts
Net D/E ratio	Aim to achieve 0.4 or less	0.58	Up 0.09
Shareholder return	Aim to achieve consolidated dividend payout ratio of approx. 30% or more	31.0%	–

(Note) The assumed foreign exchange rates for the targets of the year ending March 31, 2021 are ¥105 for one US dollar, ¥120 for one euro, ¥15 for one Chinese yuan, and ¥72 for one Australian dollar.
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 ¥931,347 million, a 9.9% decrease from the previous fiscal year.

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

Cost of sales for the fiscal year under review was ¥680,590 million, a 7.5% decrease from the previous fiscal year. The ratio of cost of sales to revenue increased by 1.9 percentage points to 73.1%.

Selling, general and administrative expenses were ¥174,139 million, a 4.0% decrease from the previous fiscal year.

3) Operating income

Operating income decreased by 28.8% from the previous fiscal year to ¥72,849 million. The ratio of operating income to revenue decreased by 2.1 percentage points to 7.8%.

4) Financial income and expenses

Financial income and expenses were a net loss of ¥8,428 million for the fiscal year under review, an increase in loss of ¥4,118 million from the net loss of ¥4,310 million recorded in the previous fiscal year, primarily due to an increase in interest expenses of ¥1,322 million to ¥6,586 million for the fiscal year under review from ¥5,264 million for the previous fiscal year.

5) Income before income taxes

Income before income taxes was ¥67,103 million, a 34.7% decrease from the previous fiscal year.

6) Income tax expense

Income tax expense for the current year amounted to ¥22,335 million, a 21.7% decrease 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 ¥612,779 million, a decrease of 9.1%, or ¥61,109 million, from the previous fiscal year-end. This was due mainly to a decrease of ¥28,321 million in trade receivables and ¥23,622 million in inventories. Non-current assets amounted to ¥554,788 million, an increase of 8.5%, or ¥43,420 million, from the previous fiscal year-end. This was due mainly to an increase of ¥57,853 million in right-of-use assets due to adoption of IFRS 16 from the beginning of the FY2019.

As a result, total assets decreased 1.5%, or ¥17,689 million, from the previous fiscal year-end to ¥1,167,567 million.

[Liabilities]

Current liabilities amounted to ¥371,366 million, a decrease of 21.1%, or ¥99,257 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥77,195 million in trade and other payables. Non-current liabilities increased by 57.6%, or ¥99,118 million, from the previous fiscal year-end to ¥271,090 million. This was mainly due to an increase of ¥47,795 million in lease liabilities due to adoption of IFRS 16 from the beginning of the FY2019 and ¥59,329 million in bonds and borrowings.

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

[Equity]

Total equity decreased by 3.2%, or ¥17,550 million, from the previous fiscal year-end to ¥525,111 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 ¥9,694 million, long-term borrowings of ¥61,868 million and bonds of ¥30,000 million, while repaying long-term borrowings of ¥22,486 million and bonds of ¥30,000 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.

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) 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. 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 ¥23,720 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).

We advanced the development of EX-7 series, a fully changed model of EX-6 series, which is the current ultra-large-sized hydraulic excavator that keeps a high operation rate based on the stable performance capacity and reliability, and is highly recognized by customers in the mining industry across the world, and have launched its sales sequentially since April 2019. For the purpose of improving safety and productivity in mining sites and increasing efficiency in supply chain in an entire mining site from excavation to processing, carrying out and shipment, we have made it possible to distribute a regular operation report to customers and provide appropriate maintenance and spare parts according to the mechanical status in a timely manner, by loading mine management systems using ICT and IoT technologies, and furthermore, various sensors for solutions with a combination of these systems into the model.

In July 2019, as a track-mounted environmental product to efficiently improve raw soils that are different in viscosity, moisture ratio, etc. on the site, we launched, for the Japanese market, a track-mounted soil recycler SR2000G-6, of which emissions of particulate matters (PM) and nitrogen oxide (NOx) in the exhaust gas have been considerably reduced and environmental performance has been enhanced by employing a large aftertreatment device and the "urea SCR system."

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 ¥22,239 million.

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

Ultra-large-sized hydraulic excavators	EX1200-7, EX2600-7, EX3600-7, EX5600-7
Track-mounted soil recycler	SR2000G-6
Mini excavator for civil construction use in the Chinese market	ZX60C-5A

(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 ¥1,481 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 ¥84,075 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, 2020)

Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
Tsuchiura Works/ Kasumigaura Works (Tsuchiura-city, Ibaraki and other) Notes 1, 2	Construction machinery manufacturing facility, etc. of hydraulic excavators, etc.	7,188	7,144	5,902 (4,973)	6,339	1,927	28,500	3,049
Hitachinaka Works (Hitachinaka-city, Ibaraki) Note 1	Manufacturing facility, etc. of components, etc. for hydraulic excavators	6,163	6,163	2,021 (66)	0	329	14,676	345
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	13,771	4,397	12,334 (495)	0	321	30,823	558
Ryugasaki Works (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loaders, etc.	1,444	957	2,212 (238)	0	210	4,823	439
Banshu Works (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loaders, etc.	571	1,162	699 (141)	0	416	2,848	472
Headquarter (Taito-ku, Tokyo and other) Note 2	Facilities, etc. in the registered office of the Company	1,364	138	17,066 (617)	2,521	350	21,439	556

2) Domestic subsidiaries

(As of March 31, 2020)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
Tada Kiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,747	985	2,292 (45)	1	48	5,073	184
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini-sized excavator	3,983	3,576	314 (153)	93	238	8,204	615

3) Overseas subsidiaries

(As of March 31, 2020)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
P.T. Hitachi Construction Machinery Indonesia Note 1	Factory (Cibitung, Indonesia)	Assembly plant of construction machinery	2,225	863	0 (0)	422	163	3,673	886
Hitachi Construction Machinery (China) Co., Ltd. Note 1	Headquarter/ Factory (Hefei, Anhui, China)	Assembly plant of construction machinery	2,550	1,988	0 (0)	508	0	5,046	2,214
Tata Hitachi Construction Machinery Co., Pvt., Ltd. Note 1	Factory (Kharagpur, India)	Assembly plant of construction machinery	4,844	5,430	0 (0)	806	48	11,128	905
LLC Hitachi Construction Machinery Eurasia	Factory (Tver region, Russian Federation)	Assembly plant of construction machinery	2,000	805	3 (400)	13	32	2,853	343

(Notes) 1. Land of Tsuchiura Works is presented including the land of the product durability testing facilities of 4,277 thousand m^2 costing ¥522 million located in 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).

2. It does not include construction in progress.

3. 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, 2020 (Shares)	Number of shares issued as of July 21, 2020 (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 legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From April 1, 2007 to March 31, 2008	19,020	215,115	38,941	81,577	38,941	81,084

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

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

(5) Composition of shareholders

(As of May 31, 2020)

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	31	367	548	13	22,507	23,527	–
Share ownership (units)	–	457,362	4,991	1,123,153	410,067	99	154,248	2,149,920	123,038
Ownership percentage of shares (%)	–	21.3	0.2	52.2	19.1	0.0	7.2	100.0	–

(Notes) 1. Of treasury stock of 2,462,019 shares, 24,620 units are included in the total units held by "Individual and others" and 19 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 May 31, 2020)

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	23,460	11.03
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	8,592	4.04
State Street Bank and Trust Company 510312 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O.BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	3,490	1.64
State Street Bank and Trust Company 510311 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O.BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	3,089	1.45
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	2,587	1.22
Japan Trustee Services Bank, Ltd. (trust account 7)	1-8-11 Harumi, Chuo-ku, Tokyo	2,323	1.09
Bank of New York GCM Client Accounts JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	PETERBOROUGH COURT 133 FLEET STREET LONDON EC4A 2BB UNITED KINGDOM (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	2,151	1.01
Japan Trustee Services Bank, Ltd. (trust account 9)	1-8-11 Harumi, Chuo-ku, Tokyo	1,949	0.92
JP MORGAN CHASE BANK 385781 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,861	0.88
Total	–	157,560	74.09

(Notes) 1. The 2,462 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)	23,460 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account)	8,592 thousand shares
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	2,587 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,323 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,949 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 May 31, 2020)

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 2,462,000	–	–
Shares with full voting rights (others)	Common stock 212,530,000	2,125,300	–
Shares less than one unit	Common stock 123,038	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,300	–

(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 19 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of May 31, 2020)

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	2,462,000	–	2,462,000	1.14
Total	–	2,462,000	–	2,462,000	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, 2020	1,602	4,618,927
Treasury stock acquired during the period after the reporting period to the filing date of this annual securities report (Note)	252	685,670

(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 July 1, 2020 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, 2020		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 (Note)	–	–	30	76,380
Total number of shares of treasury stock held	2,461,867	–	2,462,089	–

(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 July 1, 2020 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 28, 2019	7,656	36
Resolution at the Board of Directors meeting held on June 18, 2020	5,104	24

4. Corporate Governance, etc.

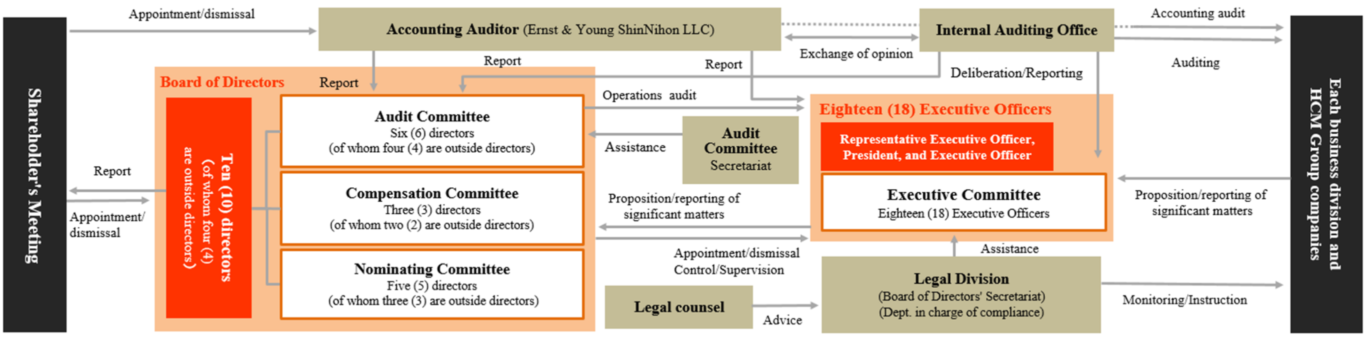
(1) Corporate governance

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.

■ Corporate governance system (as of the filing date)



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

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

Even amid the worsened spread of infections of COVID-19 from the fourth quarter, the Company has maintained and continued swift management decision-making and effective management oversight by making use of conference calls and online tools.

The Company has the following corporate governance structure:

a. Board of Directors (13 meetings were held in the year ended March 31, 2020 (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, 4 Outside Directors made up of Kazushige Okuhara, Maoko Kikuchi, Haruyuki Toyama and Junko Hirakawa, 3 Directors concurrently serving as Executive Officers made up of Michifumi Tabuchi, Seishi Toyoshima and Kotaro Hirano, and 2 Directors made up of Tetsuo Katsurayama and Kuniaki Minami.

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 (6 meetings were held in the year ended March 31, 2020)

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 (15 meetings were held in the year ended March 31, 2020)

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 6 persons in total: Director Tetsuo Katsurayama, who is the chair, 4 Outside Directors made up of Kazushige Okuhara, Maoko Kikuchi, Haruyuki Toyama and Junko Hirakawa, and

Director Kuniaki Minami.

(iii) Compensation Committee (4 meetings were held in the year ended March 31, 2020)

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 Michifumi Tabuchi and Yasushi Ochiai, Senior Vice President and Executive Officers Sonosuke Ishii and Naoyoshi Yamada, Vice President and Executive Officers Takaharu Ikeda, Seishi Toyoshima and Hideshi Fukumoto, and Executive Officers Yusuke Kajita, Moriaki Kadoya, Keiichiro Shiojima, Masafumi Senzaki, Kazunori Nakamura, Masaaki Hirose, Hidehiko Matsui, Satoshi Yamanobe, David Harvey and Sandeep Singh.

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 company regulations.

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

- A system shall be established in which each relevant 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."

9) 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) 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 2 females. (The ratio of female Directors and Executive Officers is 8.0% 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)	5
			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)		

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Outside Director Audit Committee Member	Maoko Kikuchi	July 14, 1965	4/1992	Joined the Ministry of Justice Public Prosecutors Office as a Public Prosecutor	(Note 1)	–
			8/1997	Joined Paul, Hastings, LLP, Los Angeles Office		
			3/1999	Registered as an attorney-at-law admitted in Japan		
			3/1999	Registered as an attorney-at-law admitted in New York, United States of America		
			3/1999	Joined Nagashima Ohno & Tsunematsu		
			4/2004	Joined the General Secretariat of the Japan Fair Trade Commission		
			5/2006	Joined Vodafone K.K. (Currently called SoftBank Corp.) Executive Manager of Legal Supervision Department		
			6/2010	CCO and General Manager of Legal Supervision Department and Corporate Security Office		
			4/2014	Executive Officer, in charge of Legal and Policy Planning Supervision, Microsoft Japan Co., Ltd.		
			6/2016	Standing Outside Audit & Supervisory Board Member, MITSUI-SOKO HOLDINGS Co., Ltd., Corporate Auditor of MITSUI-SOKO Co., Ltd., and Audit & Supervisory Board Member of MITSUI-SOKO Supply Chain Solutions, Inc.		
			6/2020	Outside Director, MITSUI-SOKO HOLDINGS Co., Ltd. (to present) Outside Audit and Supervisory Board Member, KADOKAWA CORPORATION (to present)		
			7/2020	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 Audit Committee (Chair)	Tetsuo Katsurayama	April 10, 1956	4/1981	Joined the Company	(Note 1)	4
			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.		
			4/2018	Senior Vice President and Executive Officer, Director		
			4/2020	Director (to present)		
Chairman of the Board Nominating Committee (Chair)	Hideaki Takahashi	August 20, 1952	4/1978	Joined Hitachi, Ltd.	(Note 1)	–
			4/2005	President and Representative Director, Hitachi Building Systems Co., Ltd.		
			4/2007	Vice President and Executive Officer, Hitachi, Ltd.		
			4/2011	Representative Executive Officer, President and Chief Executive Officer, Hitachi Cable, Ltd. (Currently called Hitachi Metals, Ltd.)		
			6/2011	Representative Executive Officer, President and Chief Executive Officer, Director		
			6/2013	Director, Hitachi Metals, Ltd.		
			7/2013	Representative Executive Officer, Executive Vice President, Director		
			4/2014	Representative Executive Officer, President and Chief Executive Officer, Director		
			4/2017	Chairman of the Board		
			4/2018	Representative Executive Officer, Executive Vice President and Executive Officer, Hitachi, Ltd.		
			6/2019	Chairman of the Board, the Company (to present)		
			4/2020	Senior Advisor, Hitachi, Ltd. (to present)		

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Director	Michifumi Tabuchi	November 16, 1958	4/1984	Joined the Company	(Note 1)	10
			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		
			4/2020	Representative Executive Officer and Executive Vice President (to present) Officer responsible for “MONOZUKURI” (manufacturing), General Manager of Production & Procurement Group and General Manager of Corporate Export Regulation Group (to present)		
			7/2020	Director (to present)		
Director	Seishi Toyoshima	August 30, 1960	4/1984	Joined Hitachi, Ltd.	(Note 1)	0
			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 Group and General Manager of Compliance & Risk Management Group, the Company (to present)		
			6/2019	Director (to present)		
Director Nominating Committee Member Compensation Committee (Chair)	Kotaro Hirano	June 4, 1958	4/1981	Joined the Company	(Note 1)	11
			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)		

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Director Audit Committee Member	Kuniaki Minami	July 4, 1960	4/1985	Joined Hitachi, Ltd.	(Note 1)	–
			4/2009	General Manager, Transport Systems Division, Information & Control Systems Company		
			4/2012	General Manager, Omori Works, Information Control System Division, Infrastructure Systems Company		
			10/2012	General Manager, Transport Systems Division, Infrastructure Systems Company		
			4/2015	General Manager, Government & Public Corporation Information Systems Division, Information & Telecommunication Systems Company		
			4/2016	General Manager, Government & Public Corporation Information Systems Division, Social Infrastructure Systems Business Unit		
			4/2017	CEO, Defense Systems Business Unit		
			4/2020	COO, Social Infrastructure Systems Business Unit (to present)		
			7/2020	Director, the Company (to present)		
Total						33

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder's Meeting for the year ended March 31, 2020 to the conclusion of the Annual Shareholder's Meeting for the year ending March 31, 2021.

2. Kazushige Okuhara, Maoko Kikuchi, 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)	11
Representative Executive Officer, Executive Vice President and Executive Officer Officer responsible for "MONOZUKURI" (manufacturing), General Manager, Production & Procurement Div., and General Manager, Corporate Export Regulation Div.	Michifumi Tabuchi	November 16, 1958	See (1)	(Note)	10
Executive Vice President and Executive Officer CMO	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.	(Note)	6
Senior Vice President and Executive Officer President, Mining Group	Sonosuke Ishii	December 22, 1958	4/1982 Joined the Company 8/2010 President and Director, Hitachi Construction Machinery Eurasia Sales LLC 4/2011 Deputy General Manager, Europe and Russia Business Div., the Company 4/2015 General Manager, Russia and CIS Business Div. 4/2017 Executive Officer 4/2018 President, Mining Group (to present) 4/2019 Vice President and Executive Officer 4/2020 Senior Vice President and Executive Officer (to present)	(Note)	1
Senior Vice President and Executive Officer CSO General Manager, Corporate Strategy Div., and General Manager, Operations Management 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) 4/2020 General Manager, Operations Management Div. (to present)	(Note)	1

<table>
<tr><th>Position and responsibility</th><th>Name</th><th>Date of birth</th><th colspan="2">Business experience</th><th>Term of office</th><th>Share ownership (Thousands of shares)</th></tr>
<tr><td>Vice President and Executive Officer
General Manager, Life Cycle Support Operations Div.</td><td>Takaharu Ikeda</td><td>October 5, 1958</td><td>4/1982
4/2014
4/2015

4/2016
4/2018
4/2019</td><td>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)</td><td>(Note)</td><td>1</td></tr>
<tr><td>Vice President and Executive Officer
CHRO
General Manager of Human Capital Division, and General Manager of Compliance & Risk Management Division</td><td>Seishi Toyoshima</td><td>August 30, 1960</td><td colspan="2">See (1)</td><td>(Note)</td><td>0</td></tr>
<tr><td>Vice President and Executive Officer
CTO
General Manager, Research & Development Div., and General Manager, Client Solutions Div.</td><td>Hideshi Fukumoto</td><td>September 24, 1957</td><td>4/1982
4/2005
4/2011
4/2012
4/2014
4/2017
4/2019
4/2020</td><td>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)</td><td>(Note)</td><td>3</td></tr>
<tr><td>Executive Officer
General Manager, China Business Div.</td><td>Yusuke Kajita</td><td>October 7, 1961</td><td>4/1987
4/2013
4/2016

4/2017
4/2018</td><td>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)</td><td>(Note)</td><td>7</td></tr>
<tr><td>Executive Officer
Deputy General Manager, Marketing Div. and General Manager, America Business Div.</td><td>Moriaki Kadoya</td><td>November 8, 1958</td><td>4/1981
4/2011
4/2012
4/2014
4/2017
4/2020</td><td>Joined the Company
Deputy General Manager, Marketing Div.
President and Director, Hitachi Construction Machinery (Europe) N.V.
Executive Officer, the Company (to present)
Vice President, Marketing Group
Deputy General Manager, Marketing Div. and General Manager, America Business Div. (to present)</td><td>(Note)</td><td>16</td></tr>
</table>

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer CFO General Manager, Finance Div.	Keiichiro Shiojima	November 24, 1965	4/1988 4/2009 4/2011 4/2016 4/2019 4/2020	Joined the Company General Manager, Accounting Dept., Japan Business Div., Marketing Group General Manager, Credit Management Dept., Finance Div. General Manager, Finance Dept., Finance Div., Corporate Management Group Deputy General Manager, Finance Div., Corporate Management Group Executive Officer (to present) General Manager, Finance Div. (to present)	(Note)	4
Executive Officer General Manager, Marketing Div.	Masafumi Senzaki	July 16, 1965	4/1991 4/2012 4/2017 4/2018	Joined the Company President and Director, Hitachi Construction Machinery Eurasia Manufacturing LLC General Manager, Russia and CIS Business Div., the Company President and Director, LLC Hitachi Construction Machinery Eurasia Executive Officer, the Company (to present) General Manager, Marketing Div. (to present)	(Note)	3
Executive Officer	Kazunori Nakamura	February 19, 1963	4/1987 4/2016 4/2018 4/2019	Joined the Company General Manager, Application, New Product & Construction Equipment Div., Development & Production Group President and Director, Hitachi Construction Machinery Tierra Co., Ltd. (to present) Executive Officer, the Company (to present)	(Note)	5
Executive Officer Associate General Manager, America Business Div.	Masaaki Hirose	July 30, 1959	10/1990 4/2008 4/2013 4/2017 4/2018 4/2019 4/2020	Joined the Company Executive Vice President and Director, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd CEO and Director, PT Hexindo Adiperkasa Tbk President and Director, Hitachi Construction Machinery Loaders America Inc. Executive Officer, the Company (to present) Chairman and Director, Hitachi Construction Machinery Loaders America Inc. (to present) Associate General Manager, America Business Div., the Company (to present)	(Note)	1
Executive Officer General Manager, Asia Business Div.	Hidehiko Matsui	April 19, 1961	4/1986 4/2016 4/2018 4/2019 4/2020	Joined the Company Deputy General Manager, Marketing Div., Marketing Group General Manager, Asia Business Div., Marketing Div., Marketing Group Chairman and President and Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. (to present) Executive Officer, the Company (to present) General Manager, Asia Business Div. (to present)	(Note)	5

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer Deputy General Manager, China Business Div.	Satoshi Yamanobe	April 4, 1963	4/1987	Joined Hitachi, Ltd.	(Note)	–
			4/2010	Joined the Company		
			4/2014	General Manager, Production Management Center, Production & Procurement Div.		
			4/2018	Deputy General Manager, Production & Procurement Div., Development & Production Group		
			4/2020	Executive Officer (to present)		
				General Manager, Production & Procurement Div.		
			7/2020	Deputy General Manager, China Business Div. (to present)		
				Executive Vice President, Hitachi Construction Machinery (China) Co., Ltd. (to present)		
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)		
			4/2019	President and Director, Hitachi Construction Machinery Oceania Holdings Pty., Ltd. (to present)		
Executive Officer General Manager, India Business Div.	Sandeep Singh	January 21, 1961	1/2003	Joined J.C. Bamford Excavators Limited	(Note)	–
				Executive Vice President		
			7/2008	Joined Toyota Kirloskar Motors		
				Deputy Managing Director		
			4/2012	Chief Operating Officer		
			4/2014	Joined Toyota Motor Asia Pacific Engineering and Manufacturing Company		
				Executive Managing Coordinator		
			8/2015	Joined Tata Hitachi Construction Machinery Co., Pvt., Ltd.		
				President and Director (to present)		
			4/2020	Executive Officer, the Company (to present)		
				General Manager, India Business Div. (to present)		
Total						74

(Note) The term of Executive Officers is from April 1, 2020 to March 31, 2021.

2) Status of Outside Directors

There are 4 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, 4 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 4 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, Maoko Kikuchi's experience as the business manager of an international company and abundant experience as a legal expert, 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

4 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) The audit by the Audit Committee, internal audit

a. Audit by the Audit Committee

As an internal organization of the Board of Directors, the Audit Committee audits whether the execution of duties by Directors and Executive Officers is in compliance with laws and regulations, Articles of Incorporation, and the basic management policies, and whether it is being carried out effectively.

As of the filing date, the Audit Committee consists of a total of 6 members, comprised of 2 Directors and 4 Outside Directors appointed by a resolution of the Board of Directors. For the Audit Committee Secretariat, one of the personnel to assist the duties of the Audit Committee has been assigned.

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.

Moreover, even amid the worsened spread of infections of COVID-19 from the fourth quarter, the Company made appropriate inquiries on audits, etc. by making use of conference call system and online tools. In addition, the Company cooperated with the accounting auditors to maintain and continue reliable audits by likewise using appropriate conferencing systems where necessary.

In the year ended March 31, 2020, the Audit Committee held 15 meetings, and made on-site inspections of domestic and overseas sites besides the meetings.

The individual attendance is as follows:

Category	Name	Number of attendance/Number of meetings held (Note 1)	Attendance rate (Note 1)
Director (full-time)	Toshikazu Sakurai (Note 3)	15/15	100%
Outside Director	Kazushige Okuhara	15/15	100%
Outside Director	Haruyuki Toyama	15/15	100%
Outside Director	Junko Hirakawa	15/15	100%
Director	Koji Tanaka (Note 2)	4/4	100%
Director	Toshitake Hasunuma (Note 3)	11/11	100%

Notes: 1. These number are based on the number of meetings held during each member's term of office.
2. He retired due to the expiration of his term of office as of the conclusion of the 55th Annual Shareholder's Meeting held on June 24, 2019.
3. They retired due to the expiration of their term of office as of the conclusion of the 56th Annual Shareholder's Meeting held on July 20, 2020.

• Major matters to be examined by the Audit Committee

These matters include audit policy, audit plan, status of improvement and operation of the internal control system, appropriateness of execution of the duties of Directors, election and dismissal of accounting auditors, legality of business reports and supplementary schedules, audit approach of accounting auditors, and reasonableness of audit results of the Company and the Group.

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

The full-time member attends important internal meetings, and gathers information by reviewing important approval documents, etc., making on-site inspections of sites of the Company and the Group, and making interviews with relevant departments. Besides, the full-time member performs monitoring of establishment and operation of the internal control system where appropriate.

Mr. Toshikazu Sakurai, Director, who retired due to the expiration of his term of office as of the conclusion of the 56th Annual Shareholder's Meeting held on July 20, 2020, as the full-time member of the Audit Committee, has ample experience in business operations such as sales and marketing, services, and rental in the Company and the Group, and business management, is well-versed in circumstances, etc. unique to each company, such as actual conditions of business operations, and contributed to an increase in the effectiveness of the Audit Committee by monitoring and verifying the improvement of the environment for audits, as well as the system for ensuring the appropriateness of business operations, and its operation.

b. 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 10 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.

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.

Due to the impact of the worsened spread of infections of COVID-19 from the fourth quarter, account closing procedures of the Group at the year-end and related audit procedures delayed in regions that had a lockdown. However, the Audit Committee shared information on the status of implementation of audits appropriately, including reports that an audit was carried out, by making use of online tools and others.

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

b. Continuous auditing period

44 years

c. Certified Public Accountant who executed accounting audit

Kazuhiro Ishiguro

Takuya Tanaka

Takuto Miki

d. Composition of assistants involved in the auditing work

16 Certified Public Accountants and 27 other people are involved in the auditing work of the Company.

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

With regard to the election of the audit corporation, it is necessary 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.

f. 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 regarding decisions on the dismissal or non-reappointment of the accounting auditor described in g. below, the Audit Committee makes a resolution on reappointment of the accounting auditor.

g. 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, 2019		Year ended March 31, 2020	
	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	85	23	109	8
Consolidated subsidiaries	37	–	36	–
Total	122	23	145	8

Description of non-audit services

Description of non-audit services is as follows:

(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.

(Year ended March 31, 2020)

The Company has paid fees to Certified Public Accountants, etc. for services related to preparation of comfort letter, 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, 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 (of which ¥520 million was paid by consolidated subsidiaries) for audit services and ¥114 million (of which ¥26 million was paid by the Company and ¥88 million by consolidated subsidiaries) for non-audit services.

(Year ended March 31, 2020)

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 ¥541 million (of which ¥541 million was paid by consolidated subsidiaries) for audit services and ¥105 million (of which ¥24 million was paid by the Company and ¥81 million by consolidated subsidiaries) for non-audit services.

Description of non-audit services

Description of non-audit services is as follows:

(Year ended March 31, 2019)

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

(Year ended March 31, 2020)

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, 2019)

Not applicable.

(Year ended March 31, 2020)

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, 2020, the Compensation Committee held 4 meetings, and the individual attendance is as follows:

Kotaro Hirano (Number of attendance: 4/4)

Haruyuki Toyama (Number of attendance: 4/4)

Junko Hirakawa (Number of attendance: 4/4)

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>57</td><td>54</td><td>4</td><td>6</td></tr>
<tr><td>Executive Officers</td><td>640</td><td>505</td><td>135</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 3 Directors who retired as of the conclusion of the 55th Annual Shareholder's Meeting held on June 24, 2019, 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	12	230
Other than unlisted stocks	11	5,523

(Stocks increased in the year ended March 31, 2020)

	Number of stock names (Stock names)	Total purchase price for the shares increased (Millions of yen)	Reasons of increase of shares
Unlisted stocks	1	4	Due to the absorption-type merger of KCM Corporation that held shares of Showa Concrete Industry Co., Ltd.
Other than unlisted stocks	1	333	Due to change of the status of KOKEN BORING MACHINE CO., LTD. from an equity-method associate to specified investment securities as a result of the sale of part of shares held of the said company

(Stocks decreased in the year ended March 31, 2020)

	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, 2020	Year ended March 31, 2019	Purpose of holding, quantitative holding effect, and reasons for the increase in the number of shares (Note 1)	Shareholding of the Company
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
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
	1,846	2,424		
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
	381	564		
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
	1,186	1,326		
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
	725	944		
IJTT Co., Ltd. (Note 2)	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
	541	755		
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
	150	211		
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
	91	153		

Stock name	Year ended March 31, 2020 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 1)	Shareholding of the Company
NIPPAN RENTAL Co., Ltd.	54,000	54,000	• 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
	28	42		
KOKEN BORING MACHINE CO., LTD. (Note 3)	1,533,000	2,300,000	• Purpose of holding Strengthening of service response capability for underground excavation equipment • Quantitative holding effect As a result of strengthened mutual cooperation, certain effects were seen on the Company's revenue.	No
	576	–		

(Notes) 1. Because actual results of individual transactions are affected by economic trends, such results are not stated as quantitative holding effect.

2. IJTT Co., Ltd. changed its company name from IJT Technology Holdings Co., Ltd. in April 2019.

3. The status of KOKEN BORING MACHINE CO., LTD. was changed from an equity-method associate to specified investment securities due to the sale of part of shares held of the said company in April 2019.

V. Financial Information

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

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

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

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

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements of the Company for the fiscal year ended March 31, 2020 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, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and cash equivalents (note 21)	67,347	62,165
Trade receivables (notes 6, 22 and 23)	236,164	207,843
Contract assets (note 17)	2,070	4,701
Inventories (notes 8 and 23)	324,844	301,222
Income taxes receivable (note 11)	1,167	3,671
Other financial assets (note 22)	25,904	20,309
Other current assets	14,110	12,868
Subtotal	671,606	612,779
Assets held for sale	2,282	–
Total current assets	673,888	612,779
Non-current assets		
Property, plant and equipment (notes 4, 9 and 23)	311,245	315,465
Right-of-use assets (notes 4 and 7)	–	57,853
Intangible assets (notes 4 and 10)	42,092	37,883
Goodwill (notes 4 and 10)	34,564	30,538
Investments accounted for using the equity method	32,628	33,177
Trade receivables (notes 6 and 22)	44,357	39,572
Deferred tax assets (note 11)	19,145	15,094
Other financial assets (note 22)	17,279	16,394
Other non-current assets	10,058	8,812
Total non-current assets	511,368	554,788
Total assets	1,185,256	1,167,567

	As of March 31, 2019	As of March 31, 2020
		(Millions of yen)
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 22)	251,067	173,872
Lease liabilities (note 7)	–	12,996
Contract liabilities (note 17)	8,503	6,593
Bonds and borrowings (notes 21 and 22)	185,641	160,447
Income taxes payable (note 11)	12,012	4,756
Other financial liabilities (note 22)	10,165	10,019
Other current liabilities	3,235	2,683
Total current liabilities	470,623	371,366
Non-current liabilities		
Trade and other payables (notes 12 and 22)	16,203	5,965
Lease liabilities (note 7)	–	47,795
Contract liabilities (note 17)	2,314	2,282
Bonds and borrowings (notes 21 and 22)	119,167	178,496
Retirement and severance benefit (note 13)	17,958	17,084
Deferred tax liabilities (note 11)	8,726	6,119
Other financial liabilities (note 22)	1,158	3,255
Other non-current liabilities	6,446	10,094
Total non-current liabilities	171,972	271,090
Total liabilities	642,595	642,456
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	81,991	80,475
Retained earnings (note 14)	328,344	347,668
Accumulated other comprehensive income (note 15)	(2,428)	(33,101)
Treasury stock, at cost (note 14)	(3,077)	(3,082)
Total equity attributable to owners of the parent	486,407	473,537
Non-controlling interests	56,254	51,574
Total equity	542,661	525,111
Total liabilities and equity	1,185,256	1,167,567

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Years ended March 31, 2019 and 2020 (Millions of yen)

	2019	2020
Revenue (notes 4 and 17)	1,033,703	931,347
Cost of sales	(735,507)	(680,590)
Gross profit	298,196	250,757
Selling, general and administrative expenses	(181,355)	(174,139)
Other income (note 18)	5,369	8,543
Other expenses (note 18)	(19,914)	(12,312)
Operating income	102,296	72,849
Financial income (note 19)	3,781	2,880
Financial expenses (note 19)	(8,091)	(11,308)
Share of profits of investments accounted for using the equity method	4,716	2,682
Income before income taxes	102,702	67,103
Income taxes (note 11)	(28,516)	(22,335)
Net income	74,186	44,768
Net income attributable to:		
Owners of the parent	68,542	41,171
Non-controlling interests	5,644	3,597
Total net income	74,186	44,768
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 20)	322.31	193.61
Net income per share (Diluted) (yen) (note 20)	322.31	193.61

3) Consolidated statements of comprehensive income

Years ended March 31, 2019 and 2020 (Millions of yen)

	2019	2020
Net income	74,186	44,768
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)	(1,743)	(1,422)
Remeasurements of defined benefit obligations (notes 13 and 15)	(1,077)	(105)
Other comprehensive income of equity-method associates (note 15)	7	8
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	(8,988)	(33,521)
Net gains and losses from cash flow hedges measured at fair value (notes 15 and 22)	64	15
Other comprehensive income of equity-method associates (note 15)	(502)	(658)
Other comprehensive income, net of taxes	(12,239)	(35,683)
Comprehensive income	61,947	9,085
Comprehensive income attributable to:		
Owners of the parent	57,445	9,874
Non-controlling interests	4,502	(789)

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity

Year ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Net gains and losses from cash flow hedges measured at fair value
Balance at beginning of period	81,577	81,991	279,201	(1,232)	8,992	149
Cumulative impact of change in accounting policy			32			
Balance at beginning of period reflecting change in accounting policy	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)						
Dividends to shareholders of the Company (note 16)			(19,564)			
Changes in the scope of consolidation						
Transfer to retained earnings			133		(133)	
Change in liabilities for written put options over non-controlling interests (note 14)						
Transaction with owners	–	–	(19,431)	–	(133)	–
Balance at end of period	81,577	81,991	328,344	(2,330)	7,118	213

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of period	893	8,802	(3,069)	448,502	56,528	505,030
Cumulative impact of change in accounting policy		–		32		32
Balance at beginning of period reflecting change in accounting policy	893	8,802	(3,069)	448,534	56,528	505,062
Net income		–		68,542	5,644	74,186
Other comprehensive income (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)
Dividends to shareholders of the Company (note 16)		–		(19,564)	(4,795)	(24,359)
Changes in the scope of consolidation		–		–	19	19
Transfer to retained earnings		(133)		–		–
Change in liabilities for written put options over non-controlling interests (note 14)		–		–		–
Transaction with owners	–	(133)	(8)	(19,572)	(4,776)	(24,348)
Balance at end of period	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661

See accompanying notes to consolidated financial statements.

Year ended March 31, 2020

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Net gains and losses from cash flow hedges measured at fair value
Balance at beginning of period	81,577	81,991	328,344	(2,330)	7,118	213
Cumulative impact of change in accounting policy (note 3)			(1,447)			
Balance at beginning of period reflecting change in accounting policy	81,577	81,991	326,897	(2,330)	7,118	213
Net income			41,171			
Other comprehensive income (note 15)				(230)	(1,415)	15
Comprehensive income	–	–	41,171	(230)	(1,415)	15
Acquisition of treasury stock (note 14)						
Dividends to shareholders of the Company (note 16)			(19,776)			
Changes in the scope of consolidation						
Transfer to retained earnings			(624)	627	(3)	
Change in liabilities for written put options over non-controlling interests (note 14)		(1,516)				
Transaction with owners	–	(1,516)	(20,400)	627	(3)	–
Balance at end of period	81,577	80,475	347,668	(1,933)	5,700	228

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	(7,429)	(2,428)	(3,077)	486,407	56,254	542,661
Cumulative impact of change in accounting policy (note 3)		–		(1,447)	(39)	(1,486)
Balance at beginning of period reflecting change in accounting policy	(7,429)	(2,428)	(3,077)	484,960	56,215	541,175
Net income		–		41,171	3,597	44,768
Other comprehensive income (note 15)	(29,667)	(31,297)		(31,297)	(4,386)	(35,683)
Comprehensive income	(29,667)	(31,297)	–	9,874	(789)	9,085
Acquisition of treasury stock (note 14)		–	(5)	(5)		(5)
Dividends to shareholders of the Company (note 16)		–		(19,776)	(3,939)	(23,715)
Changes in the scope of consolidation		–		–		–
Transfer to retained earnings		624		–		–
Change in liabilities for written put options over non-controlling interests (note 14)		–		(1,516)	87	(1,429)
Transaction with owners	–	624	(5)	(21,297)	(3,852)	(25,149)
Balance at end of period	(37,096)	(33,101)	(3,082)	473,537	51,574	525,111

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Years ended March 31, 2019 and 2020		(Millions of yen)
	2019	2020
Net income	74,186	44,768
Depreciation	32,343	41,443
Amortization of intangible assets	4,611	4,704
Impairment losses	2,143	6,002
Income tax expense	28,516	22,335
Gains on business restructuring	–	(3,105)
Equity in net earnings of associates	(4,716)	(2,682)
(Gain) loss on sales of property, plant and equipment	(458)	(424)
Financial income	(3,781)	(2,880)
Financial expenses	8,091	11,308
(Increase) decrease in trade receivables and contract assets	(19,101)	646
(Increase) decrease in finance lease receivables	(7,115)	9,213
(Increase) decrease in inventories	(76,497)	107
Increase (decrease) in trade payables	(18,583)	(32,769)
Increase (decrease) in retirement and severance benefit	(587)	133
Other	(11,995)	(43,258)
Subtotal	7,057	55,541
Interest received	2,525	2,086
Dividends received	1,800	3,382
Interest paid	(5,357)	(6,923)
Income tax paid	(31,718)	(31,404)
Net cash provided by (used in) operating activities	(25,693)	22,682
Capital expenditures	(26,231)	(32,044)
Proceeds from sale of property, plant and equipment	5,251	2,951
Acquisition of intangible assets	(8,536)	(7,311)
Proceeds from sales investments in securities and other financial assets (including investments in associates)	(1,315)	–
Sales of investments in securities and other financial assets (including investments in associates)	318	1,635
(Increase) decrease in short-term loan receivables, net	303	(1)
Collection of long-term loan receivables	47	33
Other	(176)	(12)
Net cash provided by (used in) investing activities	(30,339)	(34,749)
Increase (decrease) in short-term borrowings, net (note 21)	67,386	9,694
Proceeds from bonds and long-term borrowings (notes 21 and 22)	36,197	91,868
Payments on bonds and long-term borrowings (notes 21 and 22)	(28,766)	(52,486)
Payments on lease liabilities (note 21)	(6,388)	(12,770)
Dividends paid to owners of the parent (note 16)	(19,562)	(19,764)
Dividends paid to non-controlling interests	(4,933)	(5,544)
Other	(6)	(5)
Net cash provided by (used in) financing activities	43,928	10,993
Effect of exchange rate changes on cash and cash equivalents	(2,478)	(4,108)
Net increase (decrease) in cash and cash equivalents	(14,582)	(5,182)
Cash and cash equivalents at beginning of period (note 21)	81,929	67,347
Cash and cash equivalents at end of period (note 21)	67,347	62,165

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), liabilities for written put options over non-controlling interests and assets and liabilities associated with defined benefit plans. The consolidated financial statements are presented in millions of Japanese yen, the functional currency of the Company. For all the financial information presented in Japanese yen, figures are rounded to the nearest million yen.

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

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

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

- (3) *(a) Basis of consolidation*
- (3) *(d) Financial instruments* and (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
- (10) Goodwill and other intangible assets

Viewpoint for the impact of the new coronavirus infection in making accounting estimates

Significant accounting estimates based on future earnings forecasts including assessment of the realizability of deferred tax assets and impairment test of non-financial assets such as goodwill in the year ended March 31, 2020 are based on the assumption that impacts of stagnant economic activities due to the spread of the new coronavirus infection (COVID-19) will basically arise in the first half of FY2020 and partly reach the second half, although the Group conducts its business activities globally and circumstances are different depending on segments and regions.

On this assumption, there is no material impact on the consolidated financial statements for the year ended March 31, 2020. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

(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. (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.

(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

(i) Lessee

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

<u>Right-of-use asset</u>

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

<u>Lease liability</u>

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

Notes to Consolidated Financial Statements

(ii) Lessor

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

(Changes in accounting policies)

Beginning from FY2019, the Group has adopted IFRS 16 “Leases” (“IFRS 16”). IFRS 16 is the standard that sets out the principle of recognition, measurement, presentation, and disclosure for leases, and is accounted by the single accounting model that the lessee recognizes all lease contracts in the consolidated statement of financial position.

In applying IFRS 16, the Group applied the standard retrospectively in accordance with a transitional measure and recognized the cumulative effect of applying the standard as an adjustment to the opening balance of retained earnings of this fiscal year.

The effects on the beginning balance of the statement of financial position for this fiscal year are as follows: ¥40,333 million increase in assets due to mainly recognizing right-of-use assets, ¥41,819 million increase in liabilities due to mainly recognizing lease liabilities, and ¥1,486 million decrease in equity due to an adjustment of the beginning balance of retained earnings and non-controlling interests. And the effect on the consolidated statements of income is immaterial. As to the consolidated statements of cash flows, payments of operating leases was included in net cash provided by operating activities; however, due to the application of IFRS 16, adjustments related to depreciation of right-of-use assets are included in net cash provided by operating activities, and payments of lease liabilities are included in net cash provided by financing activities. As a result, net cash provided by operating activities increased and net cash provided by financing activities decreased compared to the case where previous accounting standard is applied.

The Group elects to use the practical expedient under which it is not required to perform a review for the existence of a lease in a contract judged under IAS 17 “Leases” (“IAS 17”) and IFRIC 4 “Determining whether an Arrangement contains a Lease” in prior periods at the commencement date of IFRS 16. In addition, when IFRS 16 is applied to a lease that is classified as an operating lease under IAS 17, the following practical expedients are mainly elected to use.

- A lessee accounts for the leases for which the lease term ends within 12 months of the date of initial application, in the same way as short-term leases.
- A lessee uses hindsight, in determining the lease term if the contract contains options to extend or terminate the lease.

The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognized in the consolidated statements of financial position at the beginning of the year ended March 31, 2020 is 1.53%.

The major reconciliation between the future minimum lease payments under non-cancelable operating leases as of March 31, 2019 disclosed in accordance with IAS 17 and the lease liabilities recognized in the consolidated statements of financial position at the beginning of the year ended March 31, 2020 is as follows:

(Millions of yen)

Non-cancelable operating leases as of March 31, 2019	19,551
Decrease due to the measurement of the discounted present value of lease liabilities	(3,289)
Decrease due to the application of the practical expedient related to short-term leases	(3,810)
Lease liabilities classified as finance leases under IAS 17	19,282
Discounted cancelable operating lease contracts, etc. as of March 31, 2019	29,393
Lease liabilities as of April 1, 2019	61,127

(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.

(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

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

(s) Subsequent events

The Group has assessed events that occurred up to July 21, 2020, 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 that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The reportable segments are determined based on the operating segment.

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

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

For the year ended March 31, 2019

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	937,727	95,976	1,033,703	–	1,033,703
Intersegment transactions	–	871	871	(871)	–
Total revenues	937,727	96,847	1,034,574	(871)	1,033,703
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 amounts of companies that do not belong to any operating segment.

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

Notes to Consolidated Financial Statements

For the year ended March 31, 2020

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	840,751	90,596	931,347	–	931,347
Intersegment transactions	11	1,379	1,390	(1,390)	–
Total revenues	840,762	91,975	932,737	(1,390)	931,347
Segment profit (*1)	72,132	717	72,849	–	72,849
Financial income	–	–	–	2,880	2,880
Financial expenses	–	–	–	(11,308)	(11,308)
Share of profits (losses) of investments accounted for using the equity method	2,682	–	2,682	–	2,682
Income before income taxes	74,814	717	75,531	(8,428)	67,103
Segment assets	1,048,853	126,206	1,175,059	(7,492)	1,167,567
Segment liabilities	585,762	64,186	649,948	(7,492)	642,456
Other items:					
Depreciation and amortization of intangible assets	(41,082)	(5,065)	(46,147)	–	(46,147)
Impairment losses	(25)	(5,977)	(6,002)	–	(6,002)
Business structure reform expenses	(142)	(512)	(654)	–	(654)
Investments accounted for using the equity method	33,177	–	33,177	–	33,177
Capital expenditure	87,304	4,082	91,386	–	91,386

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

(b) Information on products and services

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

(Millions of yen)

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

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, 2019	Year ended March 31, 2020
Japan	206,075	205,604
The Americas	185,741	186,321
Europe	111,643	103,565
Russia-CIS, Africa, and Middle East	89,947	78,228
Asia and Oceania	320,357	282,606
China	119,940	75,023
Total	1,033,703	931,347

In the years ended March 31, 2019 and 2020, an individual country to which revenues from external customers were material, other than Japan and China, was Australia included in Asia and Oceania. Revenues attributable to Australia were ¥126,066 million in the year ended March 31, 2020, and ¥139,511 million in the year ended March 31, 2019.

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

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Japan	227,306	265,571
The Americas	30,258	27,165
Europe	14,828	22,831
Asia	49,532	59,665
Oceania	64,136	64,580
Other Areas	1,841	1,927
Total	387,901	441,739

As of March 31, 2019 and March 31, 2020, an individual country in which balances of property, plant and equipment, intangible assets, right-of-use assets and goodwill were material was Australia, which was included in the Oceania, other than Japan. The balances in Australia included in those in the Oceania were ¥60,185 million as of March 31, 2019 and ¥60,209 million as of March 31, 2020.

(d) Significant customer information

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

(5) Business combinations

For the year ended March 31, 2019

Not applicable.

For the year ended March 31, 2020

Not applicable.

Notes to Consolidated Financial Statements

(6) Trade receivables

The components of trade receivables are as follows:

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Accounts and notes receivable and electronically recorded monetary claims - operating	215,296	193,993
Finance lease receivables	72,575	61,494
Allowance for doubtful receivables	(7,350)	(8,072)
Total	280,521	247,415

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

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Current assets	236,164	207,843
Non-current assets	44,357	39,572
Total	280,521	247,415

(7) Leases

(a) Lessee

The Company and certain consolidated subsidiaries use leased facilities and equipment, mainly including buildings, machinery and equipment and vehicles, under lease. In the year ended March 31, 2019, IAS 17 was adopted, and future minimum lease payments of finance leases and their present value as of March 31, 2019 are as follows:

(Millions of yen)

	As of March 31, 2019	
	Minimum lease payments	Present value of minimum lease payments
Within 1 year	8,284	7,521
After 1 year but not more than 5 years	10,053	8,238
More than 5 years	7,009	3,523
Minimum lease payments, total	25,346	
Finance charges	(6,064)	
Present value of minimum lease payments, total	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, 2019 was ¥15,486 million.

Future lease payments receivable under non-cancelable subleases as of March 31, 2019 was ¥8,395 million.

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

(Millions of yen)

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

Total minimum operating lease expenses are as follows:

(Millions of yen)

	Year ended March 31, 2019
Minimum lease expenses	12,866

From the beginning of the fiscal year under review, the Group has adopted IFRS 16 “Leases.” The Company and certain subsidiaries, as lessees, lease facilities centered on buildings, machinery, equipment and vehicles. To some of leases contracts, extension options and termination options have been granted. There is no restriction or special condition imposed by a lease.

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

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2020	11,808	30,553	15,277	215	57,853

The increase in right-of-use assets in the year ended March 31, 2020 is ¥14,929 million.

Expenses and cash outflows related to leases are as follows:

(Millions of yen)

	As of March 31, 2020
Depreciation expense for right-of-use assets	
Land	595
Buildings and structures	4,764
Machinery, equipment and vehicles	3,906
Tools, furniture and fixtures	54
Total	9,319
Interest expenses on lease liabilities	1,351
Expenses for short-term leases	10,411
Total expenses related to leases	21,081
Total cash outflows related to leases	24,532

Maturity analysis of lease liabilities in the year ended March 31, 2020 is provided in “(22) Financial instruments and related disclosures.”

(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, 2019	
	Gross investment in lease	Present value of minimum lease payments receivable
Within 1 year	42,052	39,259
After 1 year but not more than 5 years	34,892	33,169
More than 5 years	151	147
Minimum lease payments receivable, total	77,095	
Unearned income	(4,520)	
Present value of minimum lease payments receivable	72,575	

The amount of the allowance for uncollectable minimum lease payments receivable as of March 31, 2019 was ¥1,152 million.

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

(Millions of yen)

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

Certain consolidated subsidiaries, as lessors, lease construction machinery, etc. under finance leases or operating leases. From the beginning of the fiscal year under review, the Group has adopted IFRS 16 “Leases.”

Revenue from leases is as follows:

(Millions of yen)

	As of March 31, 2020
Lease revenue under finance leases	
Financial income on net investment in the lease	3,180
Lease revenue under operating leases	50,130
Total revenue from leases	53,310

Notes to Consolidated Financial Statements

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

(Millions of yen)

	As of March 31, 2020
Undiscounted lease payments receivable	
Within 1 year	36,763
After 1 year but not more than 2 years	14,432
After 2 years but not more than 3 years	5,414
After 3 years but not more than 4 years	4,412
After 4 years but not more than 5 years	2,418
More than 5 years	335
Total	63,774
Unearned financial income on lease payments receivable	(2,280)
Net investment in the lease	61,494

Maturity analysis of undiscounted lease payments receivable under operating leases in the year ended March 31, 2020 is as follows:

(Millions of yen)

	As of March 31, 2020
Within 1 year	4,164
After 1 year but not more than 2 years	1,126
After 2 years but not more than 3 years	344
After 3 years but not more than 4 years	167
After 4 years but not more than 5 years	125
More than 5 years	68
Total	5,994

Notes to Consolidated Financial Statements

(8) Inventories

The components of inventories are as follows:

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Merchandise and finished goods	235,787	229,444
Work in process	45,782	38,787
Raw materials and supplies	43,275	32,991
Total	324,844	301,222

For the previous fiscal year and the fiscal year under review, the amounts of inventories expensed and included as cost of sales were ¥726,483 million and ¥673,413 million, respectively. For the previous fiscal year and the fiscal year under review, valuation losses recorded for inventories that were written down to net realizable value were ¥3,694 million and ¥3,967 million, respectively, and reversals of valuation losses were ¥1,309 million and ¥892 million, respectively.

Notes to Consolidated Financial Statements

(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, 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 (before changes in accounting policies)	56,143	98,832	53,219	8,519	79,846	14,686	311,245
Reclassification of line items due to changes in accounting policies	–	(3,946)	–	–	(9,606)	–	(13,552)
April 1, 2019 (after changes in accounting policies)	56,143	94,886	53,219	8,519	70,240	14,686	297,693
Acquisition	573	2,752	3,463	1,698	36,878	23,782	69,146
Sales and disposals	–	(363)	(551)	(107)	(4,469)	(753)	(6,243)
Depreciation	(92)	(6,555)	(9,949)	(3,533)	(11,995)	–	(32,124)
Impairment losses	(24)	(228)	(475)	(32)	–	(36)	(795)
Acquisitions and divestitures	–	(302)	(523)	(8)	–	–	(833)
Currency translation effect	(1,221)	(4,598)	(3,056)	(771)	(907)	(855)	(11,408)
Transfer from construction in progress	1,137	4,988	10,596	2,526	2,419	(21,666)	–
Other	–	32	(236)	576	(342)	(1)	29
March 31, 2020	56,516	90,612	52,488	8,868	91,824	15,157	315,465

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

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Gross carrying amount							
March 31, 2019	56,543	204,179	231,277	62,270	146,301	14,763	715,333
March 31, 2020	56,677	197,462	222,697	60,083	161,410	15,169	713,498
Accumulated depreciation and impairment losses							
March 31, 2019	(400)	(105,347)	(178,058)	(53,751)	(66,455)	(77)	(404,088)
March 31, 2020	(161)	(106,850)	(170,209)	(51,215)	(69,586)	(12)	(398,033)

(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, 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, etc.	(563)	726	(545)	(382)
Other		11		11
March 31, 2019	34,564	16,828	25,264	76,656
Purchases	–	7,289	22	7,311
Amortization	–	(3,286)	(1,418)	(4,704)
Impairment losses	–	(133)	(3,167)	(3,300)
Sales and disposals	–	(41)	(1)	(42)
Acquisitions and divestitures	–	(41)	–	(41)
Currency translation effect, etc.	(3,894)	48	(3,501)	(7,347)
Other	(132)	(112)	132	(112)
March 31, 2020	30,538	20,552	17,331	68,421

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.

(Millions of yen)

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2019	34,886	59,046	35,558	129,490
March 31, 2020	30,860	61,718	31,494	124,072
Accumulated amortization and impairment losses				
March 31, 2019	(322)	(42,218)	(10,294)	(52,834)
March 31, 2020	(322)	(41,166)	(14,163)	(55,651)

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 ¥24,774 million and ¥23,720 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 (¥7,183 million in the year ended March 31, 2019, and ¥7,043 million in the year ended March 31, 2020), and goodwill due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in 2017 (¥18,705 million in the year ended March 31, 2019, and ¥15,720 million in the year ended March 31, 2020).

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 8 to 11%) 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.

The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU exceeded the carrying amount as of March 31, 2020, the carrying amount may exceed the value in use if the discount rate increases by approximately 2%.

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, 2019	Year ended March 31, 2020
Income tax expense		
Current tax expense	32,496	20,578
Deferred tax expense	(3,980)	1,757
Temporary differences originated and reversed	(2,979)	(2,572)
Changes in write-down of deferred tax assets	(1,001)	4,329
Total	28,516	22,335

(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.

(Fiscal year ended March 31, 2020)
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.

Notes to Consolidated Financial Statements

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, 2019	As of March 31, 2020
Combined statutory income tax rate	30.6	30.6
Unitary taxation system including foreign subsidiaries	0.9	1.6
Income not taxable for tax purpose, such as dividends received	(9.9)	(18.4)
Elimination of dividends received	10.4	20.0
Difference in statutory tax rates of foreign subsidiaries	(2.9)	(3.3)
Changes in write-down of deferred tax assets	(1.0)	6.5
Other, net	(0.3)	(3.7)
Effective income tax rate	27.8	33.3

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, 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

(Millions of yen)

	April 1, 2019	Impact of change in accounting policy	Restated balance	Recognized in profit or loss	Recognized in OCI	Changes in the scope of consolida-tion	March 31, 2020
Deferred tax assets							
Allowance for doubtful receivables	3,382	–	3,382	(2,612)	–	–	770
Accrued bonuses	3,007	–	3,007	131	–	(22)	3,116
Accrued expenses	6,784	–	6,784	(1,970)	–	–	4,814
Retirement and severance benefits	4,888	–	4,888	494	(232)	–	5,150
Net operating loss carryforwards	3,773	–	3,773	(398)	–	–	3,375
Unrealized profits of inventories	3,120	–	3,120	(1,396)	–	–	1,724
Unrealized gain on fixed assets	763	–	763	716	–	–	1,479
Other	6,470	290	6,760	1,765	(1,833)	(13)	6,679
Total deferred tax assets	32,187	290	32,477	(3,270)	(2,065)	(35)	27,107
Offset with deferred tax liabilities	(13,042)	–	(13,042)	1,029			(12,013)
Reported deferred tax assets	19,145	290	19,435	(2,241)	(2,065)	(35)	15,094
Deferred tax liabilities							
Investments in subsidiaries and investments in associates	(8,708)	–	(8,708)	321	685	–	(7,702)
Assets acquired in business combinations	(8,453)	–	(8,453)	1,086	1,067	–	(6,300)
Investments in securities	(3,044)	–	(3,044)	–	371	–	(2,673)
Other	(1,563)	–	(1,563)	106	–	–	(1,457)
Total deferred tax liabilities	(21,768)	–	(21,768)	1,513	2,123	–	(18,132)
Offset with deferred tax assets	13,042	–	13,042	(1,029)	–	–	12,013
Reported deferred tax liabilities	(8,726)	–	(8,726)	484	2,123	–	(6,119)
Net deferred tax assets	10,419	290	10,709	(1,757)	58	(35)	8,975

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 ¥25,438 million and ¥20,263 million, respectively, as of March 31, 2019 and 2020.

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, 2020.

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, 2019	As of March 31, 2020
Deductible temporary differences	9,629	16,432
Tax loss carryforwards		
Expiring within 1 year	148	–
Expiring after 1 year but not more than 5 years	2,140	6,745
Expiring after 5 years	56,076	46,386
Total tax loss carryforwards	58,364	53,131

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, 2019	As of March 31, 2020
Accounts and notes payable and electronically recorded obligations - operating	161,230	110,571
Finance lease payables	19,282	–
Accounts payable - other	32,084	29,342
Accrued expenses	44,747	33,987
Other	9,927	5,937
Total	267,270	179,837

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

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Current liabilities	251,067	173,872
Non-current liabilities	16,203	5,965
Total	267,270	179,837

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.

Notes to Consolidated Financial Statements

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, 2019	Year ended March 31, 2020
Present value of defined benefit obligations at beginning of year	92,598	96,378
Service cost	4,523	4,593
Interest cost	1,222	1,189
Actuarial gain or (loss)	2,159	(1,988)
Benefits paid	(4,151)	(3,810)
Acquisitions and divestitures	(7)	–
Increase or (decrease) due to termination of the plan	–	(13,162)
Other	34	(1,286)
Present value of defined benefit obligations at end of year	96,378	81,914

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Fair value of plan assets at beginning of year	78,853	81,935
Interest income	970	846
Employers’ contributions	4,542	4,470
Employees’ contributions	78	111
Benefits paid	(3,283)	(3,010)
Return on plan assets (excluding the amount recognized as interest income)	909	(2,023)
Increase or (decrease) due to termination of the plan	–	(11,839)
Other	(134)	(1,178)
Fair value of plan assets at end of year	81,935	69,312

Changes in the effect of asset ceiling are as follows:

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance of the effect of asset ceiling at beginning of year	–	170
Interest income	–	–
Remeasurements	–	3
Effect of limiting net plan assets to the asset ceiling	170	–
Other	–	(12)
Balance the effect of asset ceiling at end of year	170	161

Notes to Consolidated Financial Statements

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

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Present value of defined benefit obligations (funded)	(81,709)	(67,324)
Fair value of plan assets	81,935	69,312
Funding position	226	1,988
Effect of asset ceiling	(170)	(161)
Present value of defined benefit obligations (unfunded)	(14,669)	(14,590)
Net assets (liabilities) in the consolidated statements of financial position	(14,613)	(12,763)
Amount in the consolidated statements of financial position		
Liabilities	(17,958)	(17,084)
Assets (other non-current assets)	3,345	4,321

The components of actuarial gain or loss are as follows:

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Arising from changes in financial assumptions	(2,046)	2,199
Arising from changes in demographic assumptions	49	439
Other	(162)	(650)

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, 2019	As of March 31, 2020
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, 2019	As of March 31, 2020
Increase by 0.5%	(7,529)	(6,206)
Decrease by 0.5%	8,234	6,871

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, 2019	As of March 31, 2020
Duration	15.4	15.9

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

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

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

The fair values of plan assets invested are as follows:

(Millions of yen)

	As of March 31, 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

(Millions of yen)

	As of March 31, 2020		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	–	–	–
Government bonds	1,273	1,844	3,117
Hedge funds	–	6,015	6,015
Securitization products	–	461	461
Cash and cash equivalents	756	–	756
Life insurance general accounts	–	502	502
Commingled funds	–	57,366	57,366
Other	13	1,082	1,095
Total	2,042	67,270	69,312

Commingled funds represent pooled institutional investments. As of March 31, 2019, commingled funds 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. As of March 31, 2020, they were approximately allocated to 23% in listed stocks, 37% in government bonds, 15% in corporate bonds and other debt securities, and 25% 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 ¥4,604 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 ¥1,867 million and ¥1,971 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 ¥152,357 million and ¥147,841 million, respectively.

Notes to Consolidated Financial Statements

(14) Equity

(a) Common stock

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

(Number of shares)

	As of March 31, 2019	As of March 31, 2020
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, 2018	215,115,038
Change during the year	–
March 31, 2019	215,115,038
Change during the year	–
March 31, 2020	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, 2018	2,457,970
Acquisition of treasury stock	2,325
Sales of treasury stock	(30)
March 31, 2019	2,460,265
Acquisition of treasury stock	1,602
Sales of treasury stock	–
March 31, 2020	2,461,867

(b) Surplus

(i) Capital surplus

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

(ii) Retained earnings

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

(iii) Written put options over non-controlling interests

Certain subsidiaries of the Group grant written put options over non-controlling interests to non-controlling interests of the subsidiaries. Non-controlling interests over which put options are exercised are recognized at fair value as financial liabilities, and non-controlling interests related to the put options are derecognized with the difference accounted for as capital surplus. The fair value hierarchy and assessment process are provided in "(22) Financial instruments and related disclosures."

Notes to Consolidated Financial Statements

(15) Other comprehensive income (OCI)

Components of OCI are as follows:

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Foreign currency translation adjustments		
OCI arising during the year	(9,469)	(34,203)
Reclassification adjustment	–	–
OCI before tax effect	(9,469)	(34,203)
Tax effect	481	682
OCI, net of tax effect	(8,988)	(33,521)
Remeasurements of defined benefit obligations		
OCI arising during the year	(1,250)	(38)
Reclassification adjustment	–	–
OCI before tax effect	(1,250)	(38)
Tax effect	173	(67)
OCI, net of tax effect	(1,077)	(105)
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the year	(2,598)	(1,872)
Reclassification adjustment	–	–
OCI before tax effect	(2,598)	(1,872)
Tax effect	855	450
OCI, net of tax effect	(1,743)	(1,422)
Net gains and losses from cash flow hedges measured at fair value		
OCI arising during the year	779	1,490
Reclassification adjustment	(686)	(1,469)
OCI before tax effect	93	21
Tax effect	(29)	(6)
OCI, net of tax effect	64	15
Other comprehensive income of equity-method associates		
OCI arising during the year	(501)	(650)
Reclassification adjustment	–	–
OCI before tax effect	(501)	(650)
Tax effect	6	–
OCI, net of tax effect	(495)	(650)
Total OCI		
OCI arising during the year	(13,039)	(35,273)
Reclassification adjustment	(686)	(1,469)
OCI before tax effect	(13,725)	(36,742)
Tax effect	1,486	1,059
OCI, net of tax effect	(12,239)	(35,683)

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 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
The Board of Directors meeting held on May 21, 2019	Common stock	12,121	57	March 31, 2019	May 31, 2019
The Board of Directors meeting held on October 28, 2019	Common stock	7,656	36	September 30, 2019	November 29, 2019

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 June 18, 2020	Common stock	5,104	24	March 31, 2020	June 19, 2020

(17) Revenue recognition

(a) Disaggregation of revenue

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

For the 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

Notes to Consolidated Financial Statements

For the year ended March 31, 2020

(Millions of yen)

	Construction Machinery Business	Solution Business	Total revenues
Japan	205,459	145	205,604
The Americas	143,679	42,642	186,321
Europe	102,530	1,035	103,565
Russia-CIS, Africa, and Middle East	69,726	8,502	78,228
Asia and Oceania	244,519	38,087	282,606
China	74,838	185	75,023
Total	840,751	90,596	931,347

(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, 2019	March 31, 2020
Trade receivables	280,521	247,415
Contract assets	2,070	4,701
Contract liabilities	10,817	8,875

Of the revenue recognized during the previous fiscal year, 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 previous fiscal year were ¥1,109 million.

Of the revenue recognized during the fiscal year under review, the amount included in contract liabilities at the beginning of the fiscal year was ¥8,034 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 ¥208 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, 2019	Year ended March 31, 2020
Gain on sales of property, plant and equipment	529	454
Subsidy income	522	570
Gain on business restructuring (*1)	–	3,105
Other	4,318	4,414
Total	5,369	8,543

(*1) Gain on business restructuring

Gain on business restructuring for the year ended March 31, 2020 is mainly recognized for sales of the Company's portion of shares of stock in Hitachi Construction Machinery Operators Training Center Co., Ltd., a consolidated subsidiary of the Group.

The main components of other expenses are as follows:

(Millions of yen)

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

(*1) Impairment losses

Impairment losses for the year ended March 31, 2020 mainly include a portion of assets of the Americas' cash-generating units of H-E Parts International LLC, a consolidated subsidiary belonging to the Solution Business Segment, and its group of ¥5,684 million (property, plant and equipment of ¥766 million, right-of-use assets of ¥1,619 million, and intangible assets of ¥3,299 million) which was recognized because of the decrease in estimated profit due to the change in the business environment in North America.

In addition, the recoverable amount of the assets on which the impairment losses were recognized was measured at ¥5,693 million on the basis of fair value less costs of disposal. A market approach was mainly used in measuring the fair value, and the comparable company analysis method was employed. The major assumption is EV/EBITDA multiple of companies similar in nature that are comparable to the assessed company.

Since unobservable inputs are used in this fair value assessment, the fair value is classified as Level 3 in the fair value hierarchy.

(*2) Business structure reform expenses

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

(*3) Other

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

(19) Financial income and financial expenses

Main components of financial income are as follows:

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Interest income		
Financial assets measured at amortized cost	2,382	2,069
Dividend income		
FVTOCI financial assets	527	281
Other	872	530
Total	3,781	2,880

Main components of financial expenses are as follows:

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Interest expenses		
Financial liabilities measured at amortized cost	5,264	6,586
Foreign exchange loss	1,827	4,151
Other	1,000	571
Total	8,091	11,308

Notes to Consolidated Financial Statements

(20) Earnings per share (EPS) information

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

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net income attributable to owners of the parent	68,542	41,171
Adjustments for dilutive effect	–	–
Net income attributable to owners of the parent (diluted)	68,542	41,171

(Number of shares)

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

(Yen)

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

	Year ended March 31, 2019	Year ended March 31, 2020
Summary of potential shares not included in the calculation of diluted earnings per share (attributable to owners of the parent) due to no dilutive effect	–	–

Notes to Consolidated Financial Statements

(21) Cash and cash equivalents

The balance of cash and cash equivalents reported in the consolidated statements of financial position as of March 31, 2019 and 2020 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, 2019

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Lease liabilities	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 liabilities	–	–	–	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

Year ended March 31, 2020

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Lease liabilities	Total
April 1, 2019	112,957	49,946	141,905	19,282	324,090
Cumulative impact of change in accounting policy	–	–	–	41,819	41,819
Balance at beginning of period reflecting change in accounting policy	112,957	49,946	141,905	61,101	365,909
Changes involving cash flows	9,694	–	39,382	(12,770)	36,306
Changes not involving cash flows					
Newly reported lease liabilities	–	–	–	14,701	14,701
Acquisitions and divestitures	–	–	–	(46)	(46)
Currency translation effect, etc.	(9,690)	(115)	(5,136)	(2,195)	(17,136)
March 31, 2020	112,961	49,831	176,151	60,791	399,734

(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, including long-term borrowings, and makes fixed interest rate payments, thereby creating fixed interest rate long-term debt.

Interest rate sensitivity analysis

The sensitivity analysis for interest rate as of March 31, 2019 and 2020 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, 2019 and 2020, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Impact on income before income taxes	(961)	(951)

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, 2019 and 2020 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, 2019 and 2020, while all other variables are held constant.

(Millions of yen)

	Currency	As of March 31, 2019	As of March 31, 2020
Impact on income before income taxes	US Dollar	(14)	25
	Euro	5	3

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, 2019 and 2020 fell by 10%, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Impact on OCI, net of taxes	(445)	(383)

(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 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 and the year ended March 31, 2020 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

For the year ended March 31, 2019

(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 impact of change in accounting policy	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

For the year ended March 31, 2020

(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, 2019	4,942	1,256	6,198	214,757	2,609	217,366
Net change during the year	1,544	28	1,572	927	902	1,829
Credit-impairment (a)	(24)	24	–	(47)	47	–
Write-off (b)	(77)	(131)	(208)	(130)	(139)	(269)
Other (c)	(760)	(88)	(848)	(20,225)	(28)	(20,253)
March 31, 2020	5,625	1,089	6,714	195,282	3,391	198,673

For the year ended March 31, 2019

(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 impact of change in accounting policy	–	–	–	–	–	–
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

For the year ended March 31, 2020

(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, 2019	23	1,129	1,152	66,005	6,570	72,575
Net change during the year	1	287	288	1,767	9	1,776
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	(2)	(2)	–	(2)	(2)
Other (c)	–	(116)	(116)	(12,409)	(461)	(12,870)
March 31, 2020	24	1,298	1,322	55,363	6,116	61,479

For the year ended March 31, 2019

(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 impact of change in accounting policy	–	–	–	–	–	–
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

For the year ended March 31, 2020

(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, 2019	205	193	398	25,873	193	26,066
Net change during the year	–	(1)	(1)	2	(1)	1
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	(1)	(1)	–	(1)	(1)
Other (c)	(174)	(93)	(267)	(7,015)	(93)	(7,108)
March 31, 2020	31	98	129	18,860	98	18,958

(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.

Notes to Consolidated Financial Statements

(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, 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 lease liabilities)	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 lease liabilities is provided in (7) Leases.

(Note 2) The weighted average interest rate for short-term borrowings for the previous fiscal year 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.

(Millions of yen)

	As of March 31, 2020				
	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	179,837	179,837	173,872	5,965	–
Lease liabilities	60,791	73,445	13,929	32,145	27,371
Short-term borrowings	112,961	113,749	113,749	–	–
Bonds	49,831	50,760	143	20,372	30,245
Long-term borrowings	176,151	179,008	48,804	100,020	30,184
Derivative liabilities					
Forward exchange contracts	361	361	361	–	–
Interest rate swaps	72	72	72	–	–
Currency swaps	619	619	2	617	–

(Note 1) The weighted average interest rate for short-term borrowings for the fiscal year under review is 0.70%, and the weighted average interest rate for long-term borrowings is 1.62%.

(Note 2) 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, 2019	(Millions of yen) March 31, 2020	Security	Interest rates (%)	Maturity date
The Company	Unsecured debenture #16	2014	9,986	9,992	Unsecured	0.487	June 16, 2021
The Company	Unsecured debenture #17	2017	9,964	9,974	Unsecured	0.16	December 13, 2022
The Company	Unsecured debenture #18	2020	–	19,914	Unsecured	0.25	March 12, 2027
The Company	Unsecured debenture #19	2020	–	9,951	Unsecured	0.29	March 12, 2030

(iv) Capital management

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

Net interest-bearing liabilities as of March 31, 2019 and 2020 amounted to ¥237,461 million and ¥276,778 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 is 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. The fair value of liabilities for written put options over non-controlling interests is calculated by the method where future cash flows are discounted.

Bonds and borrowings

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, 2019		As of March 31, 2020	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Assets				
Trade receivables (*1)	280,521	281,951	247,415	248,775
Liabilities				
Trade and other payables (*2)	(267,270)	(267,628)	(179,837)	(180,015)
Bonds and borrowings (*3)	(304,808)	(305,814)	(338,943)	(339,872)

(*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, 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)
Other:				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	–	–
Total financial liabilities	–	(937)	–	(937)

Notes to Consolidated Financial Statements

(Millions of yen)

As of March 31, 2020	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	5,524	–	8,185	13,709
FVTPL financial assets:				
Other financial assets				
Derivative assets	–	3,380	–	3,380
Other financial assets	–	–	619	619
Total financial assets	5,524	3,380	8,804	17,708
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	–	(1,052)	–	(1,052)
Other:				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	(1,340)	(1,340)
Total financial liabilities		(1,052)	(1,340)	(2,392)

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, 2019	Year ended March 31, 2020
Balance at beginning of the year	8,673	9,139
Total gain/(loss)	566	(310)
Other comprehensive income	566	(310)
Purchased	1	112
Sold	(92)	(95)
Change brought about by acquisitions and divestitures	(5)	–
Other	(4)	(42)
Balance at end of the year	9,139	8,804

Gain and loss recognized in OCI are attributable to FVTOCI financial assets and included in net gains and losses from financial assets measured at fair value through OCI in the consolidated statements of comprehensive income.

The remaining balance of liabilities for written put options over non-controlling interests classified as Level 3 at the beginning and end of the year ended March 31, 2020 is ¥1,454 million and ¥1,340 million, respectively. Changes in the year ended March 31, 2020 are principally changes in fair value and exchange rates, and others.

Of the financial instruments measured at fair value, securities held with the objective of maintaining and strengthening business relations with the issuers are classified as FVTOCI financial assets. The following is a list of principal securities designated as FVTOCI and their fair values.

(Millions of yen)

Principal FVTOCI financial assets	As of March 31, 2019	As of March 31, 2020
ELLE Construction Machinery (China) Co., LTD.	3,142	2,277
KYB Corporation	2,424	1,846
Wakita & Co., LTD.	1,426	1,186
Kanamoto Co., Ltd.	944	725
KOKEN BORING MACHINE CO., LTD.	–	576

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 ¥133 million and ¥1 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, 2019	Year ended March 31, 2020
Fair value at the time of derecognition	338	17
Accumulated gains at the time of derecognition	103	2

(c) Derivatives and hedging activities

(i) Fair value hedge

Changes in the fair value of recognized assets and liabilities, and of derivatives designated as a fair value hedge of these assets and liabilities are recognized in profit or loss for the period in which the changes occur. Gains and losses recognized on hedged items and hedging instruments are nearly the same. Derivatives designated as a fair value hedge include forward exchange contracts associated with operating transactions, and interest rate swaps and currency swaps associated with financing transactions.

(ii) Cash flow hedge

Foreign currency risk

Changes in the fair value of forward exchange contracts designated as an effective cash flow hedge of forecasted foreign currency transactions are reported as changes in OCI. AOCI is subsequently reclassified into profit or loss when foreign exchange gains and losses are recognized on hedged assets and liabilities.

Interest rate risk

Changes in the fair value of interest rate swaps designated as a hedge of the variability of cash flows associated with long-term debts are reported as changes in OCI. AOCI is subsequently accounted for as financial expenses over the period in which the interest on the debt affects profit or loss.

When applying hedge accounting, the Group assesses hedge effectiveness through a qualitative assessment of whether the critical terms of the hedged item and the hedging instrument match or are closely aligned and whether changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item in order to confirm that an economic relationship exists between the hedged item and the hedging instrument. The Group also sets appropriate hedge ratios based on the economic relationship between the hedging instrument and the hedged item and the Group's risk management policies. For the year ended March 31, 2020, hedge ineffectiveness recognized in profit or loss was not material.

As of March 31, 2020, 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 2020 to September 2024.

The notional amount and carrying amount of hedging instruments are as follows. The carrying amount of hedging instruments is included in “Other financial assets” and “Other financial liabilities” in the consolidated statements of financial position.

For the year ended March 31, 2019

(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.

For the year ended March 31, 2020

(Millions of yen)

	Notional amount		Carrying amount	
		More than 1 year	Assets	Liabilities
Fair value hedge				
Currency exchange risk	27,452	–	1,346	(113)
Cash flow hedge				
Currency exchange risk	9,098	–	666	(250)
Interest rate risk	(4,638)	–	–	(72)

The fair values of derivative assets and liabilities for which hedge accounting was not applied were ¥1,368 million for derivative assets, and ¥(617) million for derivative liabilities, respectively.

The carrying amount of hedged items for which fair value hedges are applied is as follows:

For the year ended March 31, 2019

(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, 2020

(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	54,243	(26,791)

For the year ended March 31, 2020, changes in the fair value of hedging instruments and hedged items for which fair value hedges are applied and the accumulated amount of fair value hedge adjustments on hedged items included in the carrying amount of the hedged items were not material.

Changes in the fair value of hedging instruments recorded in AOCI for which cash flow hedges are applied are as follows:

For the year ended March 31, 2019

(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)

For the year ended March 31, 2020

(Millions of yen)

	April 1, 2019	Changes in fair value of hedging instruments recognized in OCI	Amount reclassified to profit or loss	March 31, 2020
Currency exchange risk	323	1,570	(1,492)	401
Interest rate risk	(20)	(80)	23	(77)

In the consolidated statements of income, the amount reclassified to profit or loss is included mainly in “Financial expenses” for hedges of currency exchange risk and interest rate risk.

(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, 2019	As of March 31, 2020
Accounts and notes receivable	2,828	6,494
Inventories	13,739	13,438
Other property, plant and equipment	43,464	49,789
Total	60,031	69,721

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, 2019	As of March 31, 2020
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
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 Financial 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 Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	–	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, 2019	Year ended March 31, 2020
Monthly salary, year-end allowance and performance-linked compensation	878	884

(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, 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	–

For the year ended March 31, 2020

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayment of funds	19,051	18,457
		Interest on borrowings	74	–

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

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	–

For the year ended March 31, 2020

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Providing collateral	25,975	–

(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, 2019	As of March 31, 2020
Guarantee obligations	44,658	53,671
Guarantee commitment	193	132
Total	44,851	53,803

(27) Subsequent events

Not applicable.

Notes to Consolidated Financial Statements

(28) Approval of consolidated financial statements

The consolidated financial statements were approved on July 21, 2020 by Kotaro Hirano, President and Executive Officer 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, 2019	Six months ended September 30, 2019	Nine months ended December 31, 2019	Year ended March 31, 2020
Revenue	234,696	480,559	687,188	931,347
Income before income taxes	21,626	41,130	55,837	67,103
Net income attributable to owners of the parent	13,646	25,196	35,112	41,171
Net income attributable to owners of the parent per share (basic) (Yen)	64.17	118.48	165.11	193.61

	First quarter (April 1 to June 30, 2019)	Second quarter (July 1 to September 30, 2019)	Third quarter (October 1 to December 31, 2019)	Fourth quarter (January 1 to March 31, 2020)
Net income attributable to owners of the parent per share (basic) (Yen)	64.17	54.31	46.63	28.5

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	7,824	22,094
Notes receivable - trade	2	6
Electronically recorded monetary claims - operating (*1)	1,388	212
Accounts receivable - trade (*1)	158,554	123,524
Merchandise and finished goods	51,555	57,741
Work in process	16,506	21,330
Raw materials and supplies	1,295	1,825
Prepaid expenses	1,994	1,970
Short-term loans receivable (*1)	55,472	42,924
Accounts receivable - other (*1)	41,051	30,656
Others	1,448	1,447
Allowance for doubtful accounts	(809)	(887)
Total current assets	336,280	302,842
Non-current assets		
Property, plant and equipment		
Buildings	29,780	29,869
Structures	3,031	3,493
Machinery and equipment	16,716	20,343
Vehicles	210	124
Tools, furniture and fixtures	2,462	3,625
Land	36,711	39,603
Construction in progress	3,163	5,329
Total property, plant and equipment	92,073	102,386
Intangible assets		
Software	9,276	11,479
Others	125	404
Total intangible assets	9,401	11,883
Investments and other assets		
Investment securities	6,644	5,754
Shares of subsidiaries and associates	151,144	146,287
Investments in capital of subsidiaries and associates	18,942	18,942
Long-term loans receivable from subsidiaries and associates	7,363	6,779
Long-term prepaid expenses	1,024	988
Prepaid pension cost	7,527	8,312
Deferred tax assets	2,756	3,129
Others	1,372	1,757
Allowance for doubtful accounts	(90)	(92)
Total investments and other assets	196,683	191,856
Total non-current assets	298,157	306,125
Total assets	634,437	608,967

See accompanying notes to financial statements.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Electronically recorded obligations - operating (*1)	12,961	22,546
Accounts payable - trade (*1)	131,066	47,489
Short-term borrowings from subsidiaries and associates	47,561	36,829
Current portion of long-term borrowings	0	7,509
Current portion of bonds	30,000	0
Lease obligations	95	111
Accounts payable - other (*1)	13,736	12,207
Accrued expenses	12,886	10,240
Income taxes payable	5,119	545
Deposits received (*1)	4,401	21,609
Unearned revenue	1,436	1,407
Others	701	322
Total current liabilities	259,963	160,814
Non-current liabilities		
Bonds payable	20,000	50,000
Long-term borrowings	61,307	83,325
Lease obligations	2,765	2,726
Provision for retirement benefits	5,687	7,946
Asset retirement obligations	194	209
Others	2,904	8,714
Total non-current liabilities	92,858	152,920
Total liabilities	352,821	313,735
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	12	3
Reserve for reduction entry	1,171	1,108
General reserve	12,952	12,952
Retained earnings brought forward	99,655	113,781
Total retained earnings	115,959	130,014
Treasury stock, at cost	(3,077)	(3,082)
Total shareholders' equity	279,417	293,468
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,082	1,532
Deferred gains or losses on hedges	117	232
Total valuation and translation adjustments	2,199	1,764
Total net assets	281,616	295,232
Total liabilities and net assets	634,437	608,967

See accompanying notes to financial statements.

2) Non-consolidated statements of income

Years ended March 31, 2019 and 2020 (Millions of yen)

	2019	2020
Net sales (*1)	545,949	482,571
Cost of sales (*1)	454,759	420,455
Gross profit	91,190	62,116
Selling, general and administrative expenses (*2)	68,126	66,781
Operating income (loss)	23,064	(4,665)
Non-operating income		
Interest income (*1)	753	578
Dividend income (*1)	34,825	42,005
Miscellaneous income (*1)	6,460	1,695
Total non-operating income	42,038	44,279
Non-operating expenses		
Interest expenses (*1)	649	925
Foreign exchange losses	1,776	1,819
Miscellaneous loss (*1)	4,973	2,435
Total non-operating expenses	7,399	5,180
Ordinary income	57,703	34,434
Extraordinary income		
Gain on extinguishment of tie-in shares	–	658
Gain on sales of shares of subsidiaries and associates	–	2,066
Gain on sales of investment securities	16	181
Total extraordinary income	16	2,905
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	242	45
Loss on sales of shares of subsidiaries and associates	773	–
Loss on valuation of investment securities	–	435
Impairment loss	65	–
Total extraordinary losses	1,080	480
Income before income taxes	56,639	36,859
Income taxes - current	6,546	3,181
Income taxes - deferred	(411)	(154)
Net income	50,503	33,832

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

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 period	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				–						–
Increase by merger				–						–
Reversal of reserve for special depreciation				–		(25)			25	–
Provision of reserve for reduction entry				–			382		(382)	–
Reversal of reserve for reduction entry				–			(19)		19	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	–	–	–	(25)	363	–	30,601	30,939
Balance at end of period	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			Total net assets
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(3,069)	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)
Increase by merger		–				–
Reversal of reserve for special depreciation		–				–
Provision of reserve for reduction entry		–				–
Reversal of reserve for reduction entry		–				–
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 period	(3,077)	279,417	2,082	117	2,199	281,616

Year ended March 31, 2020

(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 period	81,577	81,084	3,875	84,959	2,169	12	1,171	12,952	99,655	115,959
Changes of items during period										
Dividends of surplus				–					(19,777)	(19,777)
Net income				–					33,832	33,832
Acquisition of treasury stock				–						–
Increase by merger				–		0			(0)	–
Reversal of reserve for special depreciation				–		(9)			9	–
Provision of reserve for reduction entry				–						–
Reversal of reserve for reduction entry				–			(63)		63	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	–	–	–	(8)	(63)	–	14,127	14,055
Balance at end of period	81,577	81,084	3,875	84,959	2,169	3	1,108	12,952	113,781	130,014

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			
	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	Total net assets
Balance at beginning of period	(3,077)	279,417	2,082	117	2,199	281,616
Changes of items during period						
Dividends of surplus		(19,777)			–	(19,777)
Net income		33,832			–	33,832
Acquisition of treasury stock	(5)	(5)			–	(5)
Increase by merger		–			–	–
Reversal of reserve for special depreciation		–			–	–
Provision of reserve for reduction entry		–			–	–
Reversal of reserve for reduction entry		–			–	–
Net changes of items other than shareholders' equity		–	(550)	115	(435)	(435)
Total changes of items during period	(5)	14,051	(550)	115	(435)	13,616
Balance at end of period	(3,082)	293,468	1,532	232	1,764	295,232

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) Available-for-sale 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 borrowing to fix the risk of cash flow fluctuation from long-term borrowings.
   (3) Hedging policy
       As currency related derivative transactions are mainly used to hedge the foreign exchange risk associated with sales contracts denominated in U.S. dollars, the use of derivatives is limited to the amount of accounts receivable - trade and sales contracts denominated in foreign currencies.
       Through interest related derivative transactions, the Company aims to fix interest rate for each long-term borrowing at the prevailing market rate as of each fund procurement since the Company emphasizes obtaining long-term borrowings at stable interest rates.
   (4) Method of assessing hedge effectiveness
       Effectiveness of hedging activities is assessed by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges up to the time of assessment.

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.

11. Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
    As for items regarding the transition to the group tax sharing system introduced in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and items revised on non-consolidated taxation system in connection with the transition to the group tax sharing system, the Company has not applied the provisions of paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph 3 of the "Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

Additional information

Viewpoint for the impact of the new coronavirus infection in making accounting estimates

Significant accounting estimates based on future earnings forecasts including assessment of the recoverability of deferred tax assets and impairment assessment of shares of subsidiaries and associates in the year ended March 31, 2020 are based on the assumption that impacts of stagnant economic activities due to the spread of the new coronavirus infection (COVID-19) will basically arise in the first half of FY2020 and partly reach the second half, although the Company conducts its business activities globally and circumstances are different depending on regions.

On this assumption, there is no material impact on the financial statements for the year ended March 31, 2020. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates may be affected.

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated balance sheet

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

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Short-term monetary claims	203,447	157,058
Short-term monetary debts	76,256	40,804

*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, 2019		As of March 31, 2020	
ACME Business Hold co, LLC	24,555	ACME Business Hold co, LLC	37,463
Eurasian Machinery LLP	4,995	Eurasian Machinery LLP	5,006
Marubeni Equipment Finance (Oceania) Pty. Ltd	4,049	Marubeni Equipment Finance (Oceania) Pty. Ltd	4,022
PT Hexindo Adiperkasa Tbk	2,734	SCAI S.p.A.	2,391
SCAI S.p.A.	2,491	Other	660
Other	2,205		
Total	41,029	Total	49,542

(2) Guarantee commitment

(Millions of yen)

As of March 31, 2019		As of March 31, 2020	
OKUBO GEAR Co., LTD	193	OKUBO GEAR Co., LTD	132
Total	193	Total	132

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and associates

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Operating transaction		
Sales	394,682	371,758
Purchase	242,691	159,268
Non-operating transaction	42,662	46,405

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, 2019	Year ended March 31, 2020
Packing and shipping expenses	14,068	12,415
Employees' salaries and allowances	8,283	10,128
Retirement benefit expenses	967	672
Subcontract expenses	9,850	7,019
Depreciation	1,661	1,904
R&D expenses	16,778	17,136
Approximate ratio (%)		
Selling expenses	33	32
General and administrative expenses	67	68

Notes on securities

Shares of subsidiaries and associates

As of March 31, 2019

(Millions of yen)

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

As of March 31, 2020

(Millions of yen)

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Shares of subsidiaries	624	6,181	5,557
Total	624	6,181	5,557

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

(Millions of yen)

Type of securities	As of March 31, 2019	As of March 31, 2020
Shares of subsidiaries	140,186	135,864
Shares of associates	9,835	9,799

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

Major shares included in shares of subsidiaries and amounts recorded in the balance sheet are as follows:

Bradken Pty Limited Previous fiscal year: ¥58,766 million, Current fiscal year: ¥58,766 million

H-E Parts International LLC Previous fiscal year: ¥20,713 million, Current fiscal year: ¥20,713 million

Notes to Non-Consolidated Financial Statements

Notes on tax effect accounting

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

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets		
Net operating loss carryforwards	1,938	1,881
Accrued business tax	322	158
Provision for bonuses	1,620	1,765
Accrued expenses	2,293	3,653
Allowance for doubtful accounts	248	272
Write down of inventories	992	1,302
Loss on valuation of shares of subsidiaries and associates	15,002	14,708
Loss on valuation of investment securities	69	202
Provision for retirement benefits	1,741	2,433
Impairment loss	12	222
Excess over depreciation limit	1,143	1,664
Others	296	718
Subtotal of deferred tax assets	25,676	28,978
Valuation allowance on tax loss carryforwards	(1,594)	(1,671)
Valuation allowance on total deductible temporary differences	(16,346)	(18,983)
Subtotal of valuation allowance	(17,940)	(20,654)
Total	7,736	8,324
Deferred tax liabilities		
Insurance receivables	1,154	641
Prepaid pension costs	2,305	2,545
Reserve for reduction entry	517	489
Reserve for special depreciation	5	1
Valuation difference on available-for-sale securities	919	676
Valuation difference on fair value of land	–	652
Others	80	191
Total	4,980	5,195
Net deferred tax assets	2,756	3,129

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, 2019	As of March 31, 2020
Effective statutory tax rates (%)	30.6	30.6
(Adjustments)		
Income not taxable for tax purpose, such as dividend income	(17.9)	(33.6)
Withholding tax on dividends received by foreign subsidiaries	0.4	1.1
Change in valuation allowance	(1.8)	4.5
Foreign tax credit	(0.2)	0.5
Other	(0.3)	5.1
Effective income tax rates after tax effect accounting	10.8	8.2

Business combinations, etc.

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 examinations of fundamentally 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 applied

   The absorption-type merger is 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 merger, 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

Subsequent events
Not applicable.

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, 2019	Increase during reporting period	Decrease during reporting period	Depreciation and amortization during reporting period	Balance as of March 31, 2020	Accumulated depreciation and amortization
Property, plant and equipment						
Buildings	31,259	891	63	2,218	29,869	39,933
Structures	3,620	296	3	419	3,493	11,252
Machinery and equipment	18,676	5,915	84	4,165	20,343	90,034
Vehicles	215	47	0	139	124	1,624
Tools, furniture and fixtures	2,990	2,569	6	1,927	3,625	31,923
Land	39,603	–	–	–	39,603	–
Construction in progress	3,331	11,126	9,127	–	5,329	–
Total property, plant and equipment	99,693	20,843	9,282	8,868	102,386	174,767
Intangible assets						
Software	9,804	8,753	4,808	2,271	11,479	32,778
Others	137	402	–	134	404	2,788
Total intangible assets	9,941	9,155	4,808	2,405	11,883	35,566

[Supplementary schedule of provisions]

(Millions of yen)

Account	Balance as of April 1, 2019	Increase during reporting period	Decrease during reporting period	Balance as of March 31, 2020
Allowance for doubtful accounts	899	979	899	979

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

(2) Major assets and liabilities

This information has been omitted as the consolidated financial statements have been prepared.

(3) Others

There were no specific items to be disclosed.

VI. Overview of Operational Procedures for Shares of the Company

Fiscal year	From April 1 to March 31
Annual Shareholder's Meeting	Within three months after the day following each fiscal year-end date
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Additional purchase and sales of shares less than one unit	
Office for handling business	(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 sales 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 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.

(Notes) A shareholder of the Company may not exercise any rights relating to shares less than one unit held by the shareholder other than the following rights:

1. Right set forth in each item of Article 189, paragraph (2) of the Companies Act
2. Right to receive an allotment of shares for subscription or an allotment of share options for subscription in accordance with the number of shares held by the shareholder
3. Right to request that the Company sell to the shareholder such number of shares that, together with the number of shares less than one unit held by the shareholder, will constitute one share unit
4. As announced on May 13, 2020, due to the impact of the new coronavirus infection, the record date for exercise of voting rights for the annual shareholder's meeting was fixed on Friday, May 29, 2020. Also, it was decided that those shareholders whose names are listed or recorded in the last shareholder register as of May 29, 2020, shall be able to exercise their voting rights at the 56th Annual Shareholder's Meeting to be held within three months from the record date.

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

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

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

(2) Amended Annual Securities Report

Amendment Registration Statement of the Annual Securities Report that was filed on June 25, 2019, as stated (1) above.

Filed to Director-General of Kanto Local Finance Bureau on July 18, 2019

(3) Internal Control Report and Appendices

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

(4) Quarterly Securities Reports and Written Confirmations

First quarter of the 56th term (from April 1, 2019 to June 30, 2019)

Filed to Director-General of Kanto Local Finance Bureau on August 8, 2019

Second quarter of the 56th term (from July 1, 2019 to September 30, 2019)

Filed to Director-General of Kanto Local Finance Bureau on November 12, 2019

Third quarter of the 56th term (from October 1, 2019 to December 31, 2019)

Filed to Director-General of Kanto Local Finance Bureau on February 12, 2020

(5) Extraordinary Securities Report

Extraordinary Securities Report (change in the representative executive officer) based on Article 19, paragraph (2), item (ix) of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on February 26, 2020

(6) Shelf Registration Statement (Bonds) and Appendices

Filed to Director-General of Kanto Local Finance Bureau on February 25, 2020

(7) Amended Shelf Registration Statement

Filed to Director-General of Kanto Local Finance Bureau on February 26, 2020

(8) Shelf Registration Supplement and Appendices

Filed to Director-General of Kanto Local Finance Bureau on March 6, 2020

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

Not applicable.