Annual Securities Report

57th term (from April 1, 2020 to March 31, 2021)

Hitachi Construction Machinery Co., Ltd.

[Cover]

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Part I Information on the Company

I. Overview of the Company

1. Transition of the Key Financial Data

(1) Five-year financial data

(Millions of yen, unless otherwise stated)

Fiscal year	53rd term	54th term	55th term	56th term	57th term
As of and years ended	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Revenue	753,947	959,153	1,033,703	931,347	813,331
Income before income taxes	23,859	95,612	102,702	67,103	25,578
Net income attributable to owners of the parent	8,022	60,004	68,542	41,171	10,340
Comprehensive income attributable to owners of the parent	7,876	58,437	57,445	9,874	47,844
Total equity attributable to owners of the parent	399,619	448,502	486,407	473,537	514,291
Total assets	1,012,208	1,089,796	1,185,256	1,167,567	1,220,571
Equity per share attributable to owners of the parent (Yen)	1,879.14	2,109.04	2,287.31	2,226.80	2,418.46
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	37.72	282.16	322.31	193.61	48.62
Net income per share (Diluted) (Yen)	37.72	282.16	322.31	193.61	48.62
Equity attributable to owners of the parent ratio (%)	39.5	41.2	41.0	40.6	42.1
Profit on equity attributable to owners of the parent (%)	2.0	14.1	14.7	8.6	2.1
Price earnings ratio (Times)	73.57	14.55	9.11	11.31	72.91
Net cash provided by (used in) operating activities	87,961	84,528	(25,693)	22,682	91,339
Net cash provided by (used in) investing activities	(74,610)	(37,562)	(30,339)	(34,749)	(32,281)
Net cash provided by (used in) financing activities	(25,817)	(30,483)	43,928	10,993	(46,011)
Cash and cash equivalents at end of period	65,455	81,929	67,347	62,165	80,330
Employees (Number) [The average number of temporary employees for the year]	23,858 [2,384]	23,925 [2,167]	24,591 [2,527]	25,248 [2,322]	24,873 [1,963]

(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		53rd term	54th term	55th term	56th term	57th term
As of and years ended		March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Net sales		357,072	477,221	545,949	482,571	392,842
Ordinary income		13,883	51,569	57,703	34,434	8,951
Net income		17,209	46,287	50,503	33,832	12,142
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		216,277	252,936	281,616	295,232	300,991
Total assets		492,421	556,493	634,437	608,967	609,918
Net assets per share	(Yen)	1,014.66	1,189.41	1,324.29	1,388.33	1,415.42
Dividends per share [Of the above, interim dividends per share]	(Yen)	12.00 [4.00]	85.00 [36.00]	100.00 [43.00]	60.00 [36.00]	20.00 [10.00]
Net income per share	(Yen)	80.92	217.66	237.49	159.10	57.10
Net income per share after adjustment for dilution	(Yen)	80.92	217.66	237.49	159.10	57.10
Equity ratio	(%)	43.8	45.5	44.4	48.5	49.3
Return on equity	(%)	8.2	19.8	18.9	11.7	4.1
Price earnings ratio	(Times)	34.29	18.86	12.37	13.76	62.08
Dividend payout ratio	(%)	14.83	39.05	42.11	37.71	35.03
Employees	(Number)	3,985	4,072	4,341	5,527	5,455
[The average number of temporary employees for the year]		[381]	[384]	[461]	[561]	[477]
Total shareholder return	(%)	155.9	235.0	175.3	136.8	213.8
[Comparative indicator: TOPIX (Dividend-included)]	(%)	[114.7]	[132.9]	[126.2]	[114.2]	[162.3]
Highest share price	(Yen)	2,934	4,935	4,410	3,390	3,835
Lowest share price	(Yen)	1,377	2,528	2,379	1,840	2,040

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

2. Highest and lowest share prices are quoted market prices on the First Section of the Tokyo Stock Exchange.

3. 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.

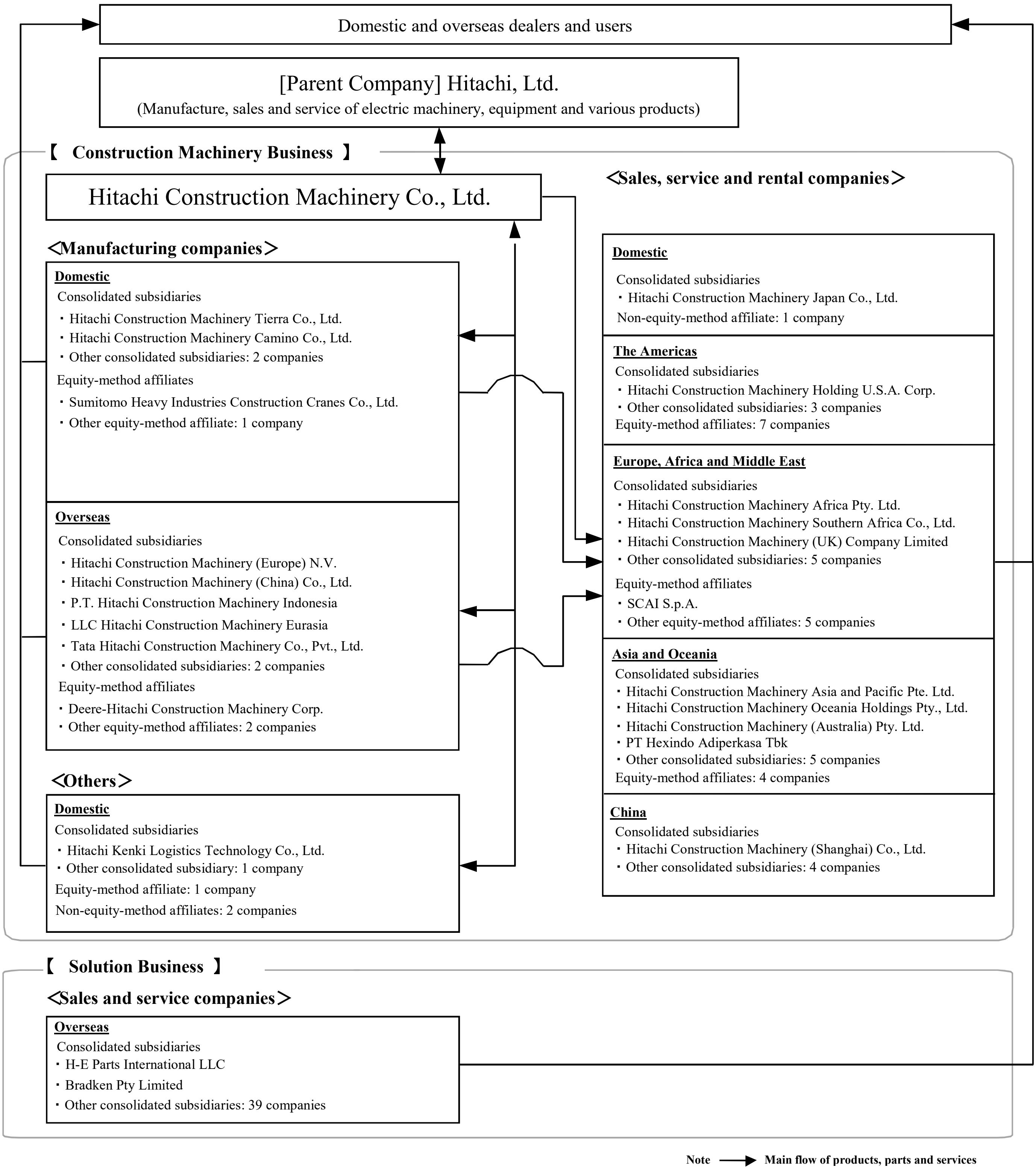
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions 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 affiliate)
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 affiliate)
December 2007	Established Hitachi Construction Machinery Financial Leasing (China) Co., Ltd. (Former Hitachi Construction Machinery Leasing (China) Co., Ltd.) in China. (Currently a consolidated subsidiary)
April 2008	Established Hitachi Construction Machinery Japan Co., Ltd. (Currently a consolidated subsidiary)
September 2008	Established P.T. HEXA FINANCE INDONESIA.
October 2008	Merged Hitachi Kenki FineTech Co., Ltd. into the Company.
July 2009	Acquired management rights of Shintohoku Metal Co., Ltd. (Currently a consolidated subsidiary)
July 2009	Acquired management rights of Wenco International Mining Systems Ltd. in Canada. (Currently a consolidated subsidiary)
March 2010	Acquired management rights of Tata Hitachi Construction Machinery Co., Pvt., Ltd. in India. (Currently a consolidated subsidiary)
October 2010	Established Hitachi Construction Machinery Africa Pty. Ltd. in South Africa. (Currently a consolidated subsidiary)
March 2011	Established Hitachi Construction Machinery Middle East Corp. FZE in UAE. (Currently a consolidated subsidiary)
April 2011	Established LLC Hitachi Construction Machinery Eurasia in Russia. (Currently a consolidated subsidiary)
December 2011	Hitachi Construction Machinery Tierra Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)

April 2012	Merged Hitachi Kenki Business Frontier Co., Ltd. into the Company.
April 2012	Spun off and transferred the Company's sales/service business in Japan to Hitachi Construction Machinery Japan Co., Ltd.
October 2012	Merged Tsukuba Tech Co., Ltd. into the Company.
April 2013	Hitachi Kenki Logistics Technology Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)
March 2014	Shintohoku Metal Co., Ltd. became a wholly owned subsidiary. (Currently a consolidated subsidiary)
March 2015	Transferred 70% of shares of P.T. HEXA FINANCE INDONESIA owned by the Company. (Currently an equity-method affiliate)
October 2015	KCM Corporation became a wholly owned subsidiary.
January 2016	Niigata Material Co., Ltd. became a wholly owned subsidiary through an exchange of shares.
April 2016	Spun off and transferred the Company's wheel loader development/manufacturing business to KCM Corporation.
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 affiliate)
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 affiliate)

3. Description of Business

The consolidated group (hereinafter referred to as the "Group") consists of the Company, its 81 consolidated subsidiaries and 26 affiliates. There are two reportable segments. The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large-sized hydraulic excavators, and wheel loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide development, production, distribution of parts and service solutions as part of the after-sales services for mining facilities and equipment that are not included in the Construction Machinery Business Segment.

The structure of the Group business is as follows:



4. Information on Subsidiaries and Affiliates

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	460,790	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.
LLC Hitachi Construction Machinery Eurasia	Tver, Russia	(Millions of Russian Ruble) 1,740	Construction Machinery Business	100.0	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in Russia-CIS region, and the Company sells products to the entity. 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. 2 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. 2 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 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.
65 other consolidated subsidiaries	–	–	–	–	–
[Equity-method affiliates] 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.
21 other affiliates	–	–	–	–	–

(*) 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	190,773
2) Income before income taxes	8,327
3) Net income	6,439
4) Total equity	34,917
5) Total assets	172,645

Hitachi Construction Machinery (Australia) Pty. Ltd.	(Millions of yen)
1) Revenue	92,719
2) Income before income taxes	11,237
3) Net income	6,673
4) Total equity	49,071
5) Total assets	81,450

5. Employees

(1) Consolidated basis

(As of March 31, 2021)

Name of segment	Number of employees	
Construction Machinery Business	21,522	(1,577)
Solution Business	3,351	(386)
Total	24,873	(1,963)

(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.

3. The decrease in the number of temporary employees by 359 from March 31, 2020 (or the previous fiscal year-end) is due to personnel adjustment made mainly to manufacturing personnel at overseas production bases in line with decreases in demand and production volume.

(2) The Company

(As of March 31, 2021)

Number of employees	Average age	Average length of service	Average annual salary
5,455 (477)	39.9	15.5 years	¥7,028,000

Name of segment	Number of employees	
Construction Machinery Business	5,455	(477)
Total	5,455	(477)

(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. The decrease in the number of temporary employees by 84 from March 31, 2020 (or the previous fiscal year-end) is due to personnel adjustment made mainly to manufacturing personnel whose employment contract expired, in line with decreases in demand and production volume.

(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, 2021.

(1) Management policy

Based on the corporate vision "To pass on a productive environment and prosperous cities to future generations. HCM Group helps to create comfortable living spaces," 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.

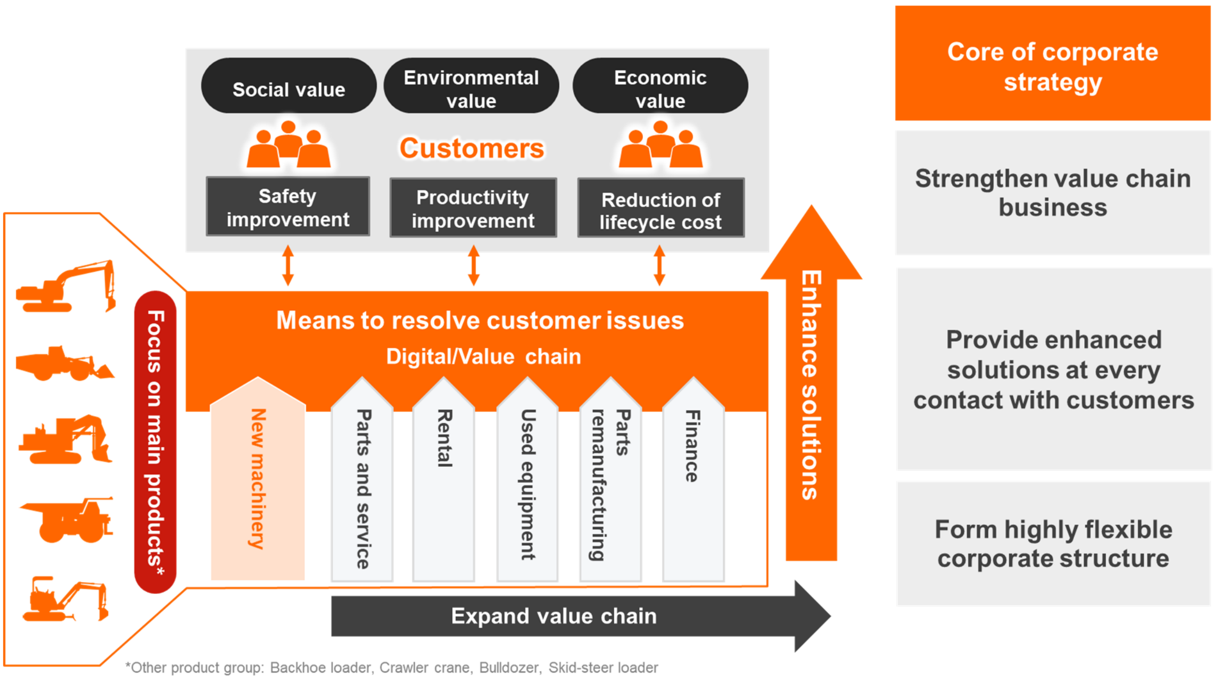
To ensure our ability to achieve these objectives, all our employees around the world share the Kenkijin Spirit as a group-wide value standard and code of conduct. We contribute to the sustainable development of our customers and each region by becoming the "Close and Reliable Partner" through continuously providing "Reliable solutions." In addition, recognizing SDGs and ESG among others as business challenges, we put together the entire Group to promote sustainability management. With the three Cs of the Kenkijin Spirit "Challenge (pioneering spirit)," "Customer (being individual customer oriented)," and "Communication (openness)," we will achieve the building of a sustainable society and business growth by contributing to resolution of social challenges through our businesses.

(2) Operating environment and issues to be addressed

The HCM Group has set the corporate vision "To pass on a productive environment and prosperous cities to future generations. HCM Group helps to create comfortable living spaces," and will play a maximum role in creating "a productive environment" and "prosperous cities," which are a symbol of comfortable living spaces, to contribute to society.

In our three-year medium-term management plan "Realizing Tomorrow's Opportunities 2022," which ends in the fiscal year ending March 31, 2023, we make efforts for sustainable growth and improvement of corporate value with 1) Strengthen value chain business, 2) Provide enhanced solutions at every contact with customers, and 3) Form highly flexible corporate structure set as the core of three corporate strategies.

In the current market environment, the outlook is unclear mainly due to the prolonged U.S.-China trade conflict and concerns over rebound of the new coronavirus infection (COVID-19). Under such a situation, based on the core of three management strategies, we strive to continuously earn unwavering trust from customers and build a solid position in the global market with the slogan of "providing Reliable solutions."



Core of three corporate strategies

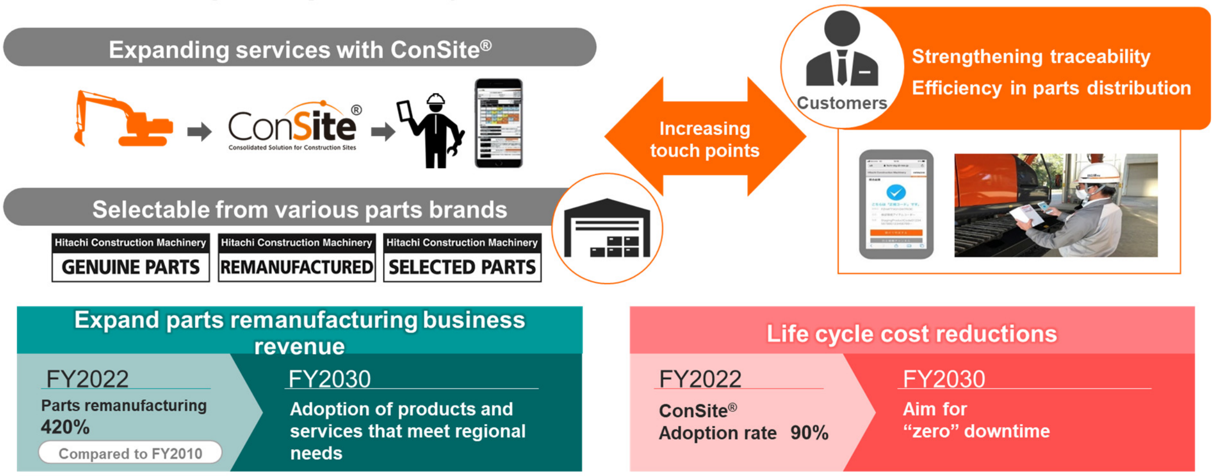
1) Strengthen value chain business

While social challenges and customers' business and needs are changing, the HCM Group offers the best solutions to customers through the whole machinery lifecycle. The Group positions the following (a) Parts and service, (b) Rental and used equipment and (c) Solution Business, etc., other than new machinery sales, as value chain business and makes efforts to strengthen the businesses as important activities in the corporate strategies.

(a) Parts and service

- Optimal proposals are made to customers at the best timing based on failure prognostic detection using machinery and operation information to contribute to resolution of challenges faced by customers.
- The Group evolves parts remanufacturing business and promotes further reduction of environmental burdens and enhancement of profitability as well as globalization.

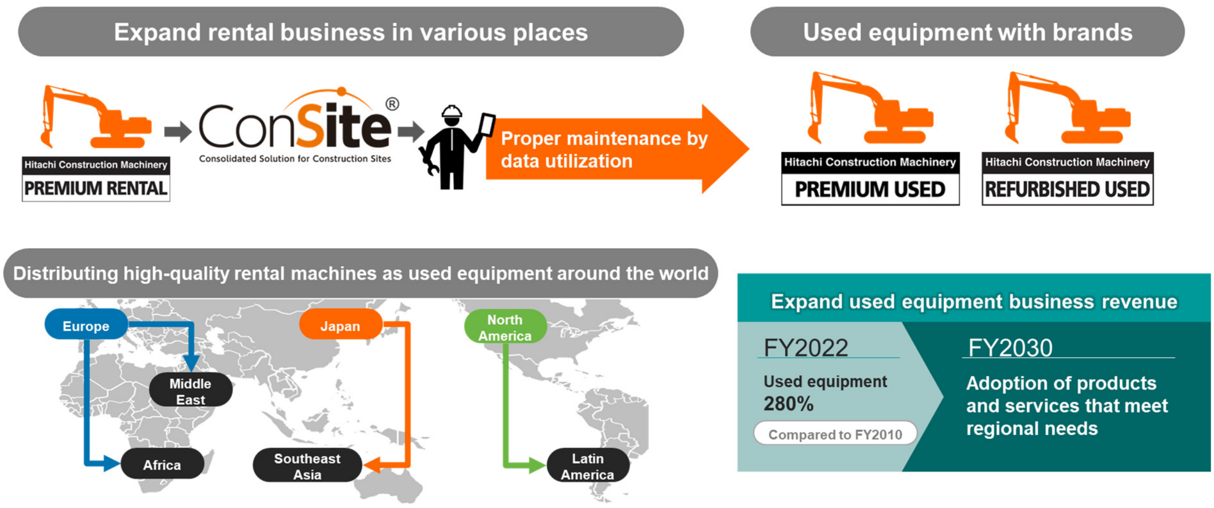
- **Expanding services with ConSite® menu, increasing touch points with customers**
- **Increasing the choices of service parts with various parts brands**
- **Strengthening traceability and make parts distribution more efficient**



(b) Rental and used equipment

- In response to changes in customer needs from possession to use, the Group develops and expands the rental and used equipment business globally.

- **Differentiation by high-quality rental machines and provide business globally**
- **Expansion as guaranteed and refurbished used equipment**



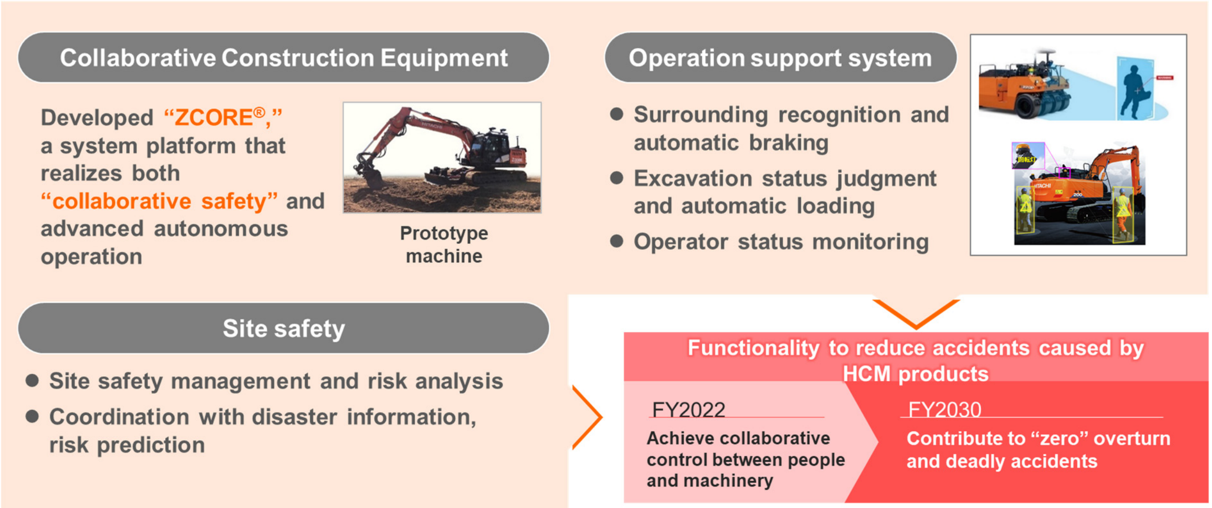
(c) Solution Business

- The Group further advances its collaboration with Bradken Pty Limited, which provides components services for after-sales of mining equipment and machinery, and H-E Parts International LLC, which provides service solutions, promotes streamlining through effective utilization of each site on a global basis, and resolves customers' challenges by strengthening the lineup to expand the business.

2) Provide enhanced solutions at every contact with customers

The Company offers various solutions to resolve customers' challenges of "safety improvement," "productivity improvement," and "reduction in lifecycle costs" together with customers. In 2020, the Company developed "ZCORE," a system platform that makes it easy to develop autonomous construction equipment and enhance its functionality, in order to share information on "man, equipment and surrounding environment" and realize "collaborative safety," which helps improve safety and productivity, in construction sites. Going forward, we will continue to provide solutions surpassing other companies, using a wide range of the Hitachi Group's advanced technologies and open innovation technologies that merge expert technologies developed with business partners, with a sense of speed.

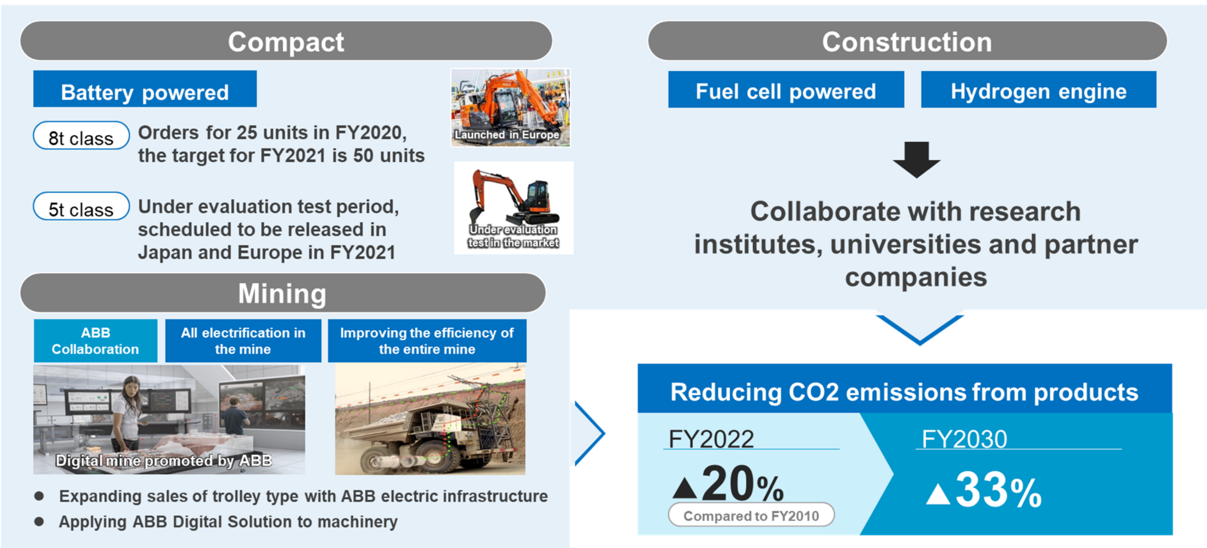
Aiming to realize "the optimal relationship between people and machinery" by enhancing site safety as a whole through Collaborative Construction Equipment, operation support systems, and various solutions



3) Form highly flexible corporate structure

The society is in the midst of the transformation, as seen in zero emissions commitment centered around Europe, rapid progress of digital technologies, people's behavior changes stemming from the spread of COVID-19, and others. Considering these changes as chances, we form highly flexible corporate structure by promoting the globally integrated cooperative structure for marketing, technologies, information and digital, and aim to become a close and reliable partner who can flexibly address diverse challenges faced by customers, such as demand for electrification and multi-functionalization in developed countries and dedicated machine, etc. which has limited functions and is modestly priced in emerging countries.

Long-term initiatives for reducing CO2 emissions



Resolution of challenges, value creation and SDGs (Sustainable Development Goals) in the entire value chain

Based on the corporate vision "To pass on a productive environment and prosperous cities to future generations. HCM Group helps to create comfortable living spaces," the HCM Group has worked to resolve social issues through its business activities and increase its corporate value. We will make efforts toward achievement of SDGs with our customers and other stakeholders around the world by creating new value throughout the entire value chain.

10 SDGs focused upon by the HCM Group

We have organized the business activities of Hitachi Construction Machinery based on the relationship with the 17 SDGs, and set 10 priority goals to particularly focus upon.

SDGs	Initiatives	SDGs	Initiatives
4 QUALITY EDUCATION	Activities for education • Support for acquisition of qualification at training schools • Overseas intern program/self-reliance support	5 GENDER EQUALITY	Empower women in the workplace • Developing female instructors at training centers
6 CLEAN WATER AND SANITATION	Reduce emissions and prevent pollution • Identify areas with high water stress level • Reduce water usage in business activities • Management of chemical substances (Reduce water risk)	7 AFFORDABLE AND CLEAN ENERGY	Reduce environmental impact for manufacturing processes • Introduction of “Emilia” electric power monitoring system Utilize renewable energy • Install solar panels
8 DECENT WORK AND ECONOMIC GROWTH	Expand new businesses globally • Parts remanufacturing business Work Style Reform • Promote diversity Promote safe and secure work environment • Corporate governance/compliance • Human rights initiatives	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Develop products and solutions using ICT and IoT • Expand Solution Linkage • Develop labor-saving machinery that is unmanned/uses robotics Enhance services globally • Establish regional sales companies Risk management • Formulate Business Continuity Plan (BCP) • Enhance the Business Continuity Management (BCM) structure
11 SUSTAINABLE CITIES AND COMMUNITIES	Supply and support construction machinery • Develop infrastructure in each country • Supply rental equipment to local governments	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Enhance value chain business • Expand rental business globally Reuse and recycling of products • Initiatives of the parts remanufacturing business Provide accurate information on products and services • Prompt disclosure of recall information • Prevent risk in the supply chain Improve the quality of our products • Realize the vision of “Made by Hitachi” uniform worldwide quality • Increase used equipment distribution • Developing technologies for competitive differentiation
13 CLIMATE ACTION	Development of clean technologies and environmentally conscious technologies • Hybridization of construction machinery • Electrification of construction machinery Address risks of climate change • Introduce solar power generation • Introduce internal carbon pricing	17 PARTNERSHIPS FOR THE GOALS	Development support in local communities through cooperation with outside organizations • Desert afforestation activities in the Horqin Desert in China • Manufacturing Technology Transfer Promotion Program in India Promote CSR throughout the entire value chain • Promote fair procurement among suppliers • Pass down and transfer technologies globally

In order to remain a company needed by society, we will work to achieve targets for 2030.

Note: We have chosen to align our activities with 10 of the 17 SDG's.

Efforts for environment (respond to zero emissions commitment, actively expanding battery-powered mini excavators in Europe)

In recent years, environmental regulations have been strengthened in countries and regions around the world for countermeasures against global warming and realization of a low-carbon society. In the construction machinery industry, as with the automobile industry, expectations for electric construction machinery that does not emit exhaust gas such as carbon dioxide while operating are growing. In particular, for mini excavators, which are used for construction works in dense urban areas mainly in the European market, battery-powered electric construction machinery is attracting attention. In response to this situation, the Company and KTEG Kiesel Technologie Entwicklung GmbH (a group company of Kiesel GmbH, a distributor of the Company in Europe) established European Application Center GmbH (hereinafter "EAC"), a joint venture engaged in the development of electric construction machinery and special application products, in 2018. Moreover, in 2019, EAC and Hitachi Construction Machinery Tierra Co., Ltd. (a wholly owned subsidiary engaged in development, manufacturing and sale of mini excavators and mini wheel loaders) collaborated to develop a prototype of battery-powered mini excavator (5t class). Going forward, the HCM Group will continue to share the latest information on the European market, which has some of the strictest regulations in the world, and group companies in Japan and Europe will cooperate to develop electric construction machinery meeting market needs.

Enhancement of development of global human resources

The HCM Group's mission is to "create new value through human resources and the organization and contribute to business creation and transformation." We are advancing improvement of the development system to strengthen global management capabilities and managerial skills, and working to enhance development of human resources toward enhancement of global power and technological competence.

In line with the globalization of the sales and support systems for the HCM Group's products, we are promoting totally optimized alignment of the organization based on strategies and personnel allocation to achieve the right person in the right position. At major companies in each region, local employees conduct management, and localization of business management has been promoted. Furthermore, we are working on global personnel support corresponding to growth strategy and structural reforms, establishment of organizational culture in which diverse human resources can work effectively and show results, building of network in the human resources department on a global scale, and strengthening of global governance.

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 risks that are anticipated to be incurred to the extent foreseeable as of March 31, 2021 are as follows.

	Item	Risks	Countermeasures
1	Market conditions	Under the Group's business activities, demand is heavily affected by public investment such as infrastructure development and private investment including the development of natural resources, real estate, etc. There is a risk that demand may decline significantly due to rapid economic fluctuations in each region, and there is a risk that profits may deteriorate due to factors such as a decline in factory utilization, an excess or shortage of inventory levels, and a decline in selling prices caused by intensified competition.	To mitigate impact of demand trends and changing market conditions in each region (COVID-19, disasters, laws and regulations, and others), future outlook is obtained from each site every month, and arrangement of production is made in cooperation with production plants based on the latest plan. In stock control, the monthly number of basic stocks is set for each company, and production and supply control looking toward the future is conducted for adequate inventory volume to avoid opportunity loss and excess inventory. If any unexpected, abrupt change occurs, a special sales and production meeting is held, and a measure to promptly facilitate production arrangement is taken with approval of Executive Officer in charge of each operation.
2	Foreign currency exchange rate fluctuations	Foreign currency exchange rate fluctuations affect sales in foreign currencies and procurement cost for raw materials. In addition, such fluctuations also affect the yen equivalent amounts in financial statements of overseas consolidated subsidiaries for consolidated accounts. Generally, if the yen gets stronger against foreign currencies, financial position and operating results are affected negatively.	To mitigate these foreign currency exchange risks, the Group conducts local production and enters into forward exchange contracts. Despite these activities, however, exchange rate fluctuations may adversely affect financial position and operating results.
3	Fluctuation in financial markets	The Group has interest-bearing debt, and an increase in market interest rates has the risk of increasing interest expense and reducing profits. As for pension assets, fluctuations in the fair value of marketable securities and interest rates could have an adverse impact on financial position and operating results.	To respond to these financial market fluctuations, the Group uses fixed-rate funding to mitigate the impact of interest rate fluctuation risk. In addition, for pension assets, the Group always monitors investment performance, aiming for safe and stable asset management.
4	Production and procurement	Parts and materials account for a large proportion of the Group's product costs, and procurement is affected by fluctuations in the materials market. Higher prices for steel and other raw materials will lead to higher manufacturing costs. Shortages of parts and materials may also make it difficult to procure and produce parts and materials in a timely manner, resulting in lower production efficiency.	We respond to rising material costs by reducing costs through VEC activities, and are also striving to reduce costs in production by enhancing productivity through automation and utilization of digital technologies. In addition to this, we will respond to rising material costs by striving to ensure appropriate sales prices in line with the increase in manufacturing costs. Moreover, at the time of shortages of parts and materials, we will avoid impact on production by switching to substituting goods.
5	Credit management	Construction machinery, which is the main product of the Group, is engaged in sales finance, such as installment sales and finance leases. There is a risk that the deterioration of the customer's financial position may cause a loan loss, which may affect earnings.	We manage receivables by establishing a specialized department and thoroughly ensure credit management and management of receivables in arrears to avoid extreme concentration of receivables.

6	Public laws and tax practices	The Group's business activities are affected by policy trends, a number of public regulations, tax laws, and other factors. Specifically, in the countries in which we operate, laws and regulations relating to intellectual property rights, consumers, the environment and recycling, labor conditions, taxes, etc. as well as business and investment licenses, import and export restrictions and regulations are applied. Strengthening or changing these regulations may have an impact on earnings due to increased costs and taxes paid.	The legal department researches each country's laws and regulations and effects on the Group's business and products in cooperation with each department for intellectual property, environment, etc. and each group company's legal department. The Group has in place the system where if any effect is detected, the information is provided to necessary departments to take measures.
7	Environmental regulations and climate changes	Construction machinery handled by the Group is subject to environmental regulations as it is required to deal with such social issues as climate change (reducing CO2, etc.) and environmental impact (emissions, noise, etc.). In order to meet these requirements, it is necessary to invest in the development, and the construction of systems for service, sales, production and procurement. There is a risk that this will have a financial impact on management.	Recognizing that environmentally friendly business management is a challenge to be addressed by the Group proactively, the Group strives to equalize financial impact by formulating a medium- to long-term plan for securing up-front research and resources (securing human resources, introducing facilities, etc.) to develop more advanced environmental technologies as well as introducing TCFD risk assessment and management process.
8	Product liability	In the unlikely event of an unexpected defect in a product, the Group may face product liability or other obligations, and there is a risk of reducing profits.	The Group strives to maintain and improve quality and reliability in its businesses and products based on strict internal standards. In case of an accident, sufficient insurance has been taken to mitigate financial impact caused by expenses incurred and exposure to liability.
9	Alliances and collaborative relationships	In order to strengthen its international competitiveness, the Group works with distributors, suppliers, companies in same business area, and other companies to develop, produce, and sell and service products. If the expected effects of these alliances and cooperation cannot be obtained, or if the alliances and cooperation are terminated as a result of conflict, dispute, etc., there is a risk of impacting the Group's business results.	The Group has in place the system and standards to make decisions thoroughly after prior research and detailed checking of contract conditions, etc. in building a partnership or cooperative relationship. The Group has in place the system where if a problem or the need for dissolution, etc. arises in a partnership or cooperative relationship, the legal department and relevant departments cooperate to take measures to diminish effects on operating results as much as possible.
10	Information security	The Group is exposed to customer information and personal information in its business activities, and possesses confidential business and technical information. In the unlikely event of an accident, such as a leak of information, there is a risk that it will adversely affect reputation and credibility.	We have established a management system and rules for handling and confidentiality of such information, and have taken appropriate safety measures such as implementing reasonable technical measures to protect such information from unauthorized access, tampering, destruction, leakage, and loss.
11	Intellectual property	If a product or service offered by the Group violates a third party's intellectual property right (such as patent), there is a risk of the third party instituting legal action against the Group. In addition, if a third party's technical information is obtained or used illegally, there is a risk of the third party instituting legal action against the Group.	Under the policy of respecting intellectual property rights of third parties, the Group has set up a department specialized in intellectual property, monitors third parties' intellectual property rights, and take measures not to infringe intellectual property rights of third parties. Furthermore, the Group has in place the system where in obtaining and using technical information of third parties, prior examination and appropriate management after the acquisition are carried out thoroughly.

12	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. As the new coronavirus infection (COVID-19) has been spreading worldwide now, there is a risk that the Company's business activities could be seriously impacted.	The Group has in place the system where if any possibility that procurement of materials and parts, production activities, and sales and service activities may be affected by a disaster, etc. is detected in advance, delay and interruption are minimized in cooperation with each group company and business partners. As for COVID-19, the Group keeps up with the latest insight and takes actions to smoothly continue the businesses after taking measures to prevent the spread of the infections.

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

1. Summary of Results of Operations

(1) Business results

1) Revenue

Revenue for the fiscal year under review amounted to ¥813,331 million, a 12.7% 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 ¥619,988 million, an 8.9% decrease from the previous fiscal year. The ratio of cost of sales to revenue increased by 3.2 percentage points to 76.2%.

Selling, general and administrative expenses were ¥160,633 million, a 7.8% decrease from the previous fiscal year.

3) Operating income

Operating income decreased by 61.2% from the previous fiscal year to ¥28,235 million. The ratio of operating income to revenue decreased by 4.4 percentage points to 3.5%.

4) Financial income and expenses

Financial income and expenses were a net loss of ¥4,085 million for the fiscal year under review, a decrease in loss of ¥4,343 million from the net loss of ¥8,428 million recorded in the previous fiscal year, primarily due to foreign exchange losses decreasing by ¥3,005 million to ¥1,146 million for the fiscal year under review from ¥4,151 million for the previous fiscal year.

5) Income before income taxes

Income before income taxes was ¥25,578 million, a 61.9% decrease from the previous fiscal year.

6) Income tax expense

Income tax expense for the current year amounted to ¥10,951 million, a 51.0% decrease from the previous fiscal year.

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥80,330 million, an increase of ¥18,165 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

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

Net cash provided by operating activities for the fiscal year under review based on ¥14,627 million in net income and ¥44,412 million in depreciation, and included a ¥21,164 million decrease in trade receivables and contract assets, a ¥25,501 million decrease in inventories, a ¥19,237 million decrease in trade payables, and a ¥10,161 million income tax paid as cash outflow.

As a result, net cash provided by operating activities for the fiscal year under review totaled ¥91,339 million.

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

Net cash used in investing activities for the fiscal year under review amounted to ¥32,281 million. This was mainly due to an outlay of ¥28,311 million for capital expenditures and outlay of ¥4,893 million for acquisition of intangible assets.

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

Net cash used in financing activities for the fiscal year under review amounted to ¥46,011 million. This was due mainly to a ¥42,150 million in repayment from short-term borrowings and a ¥11,528 million dividends paid (including dividends paid to non-controlling interests) as cash outflow.

(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	715,347	86
Solution Business	–	–
Total	715,347	86

(Notes) 1. Amounts above are based on selling prices.
2. Amounts above are presented exclusive of consumption taxes.

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

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	734,191	87
Solution Business	79,140	87
Total	813,331	87

(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, 2021.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2021. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

1) Inventories

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

2) Property, plant and equipment and intangible assets

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

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

3) Trade receivables and other financial assets

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

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

4) Deferred tax assets

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

5) Retirement and severance 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.

The viewpoint for the impact of the new coronavirus infection (COVID-19) in making accounting estimates is as follows:

Significant accounting estimates based on future earnings forecasts in the year ended March 31, 2021 are based on the assumption that impacts of stagnant economic activities due to the spread of COVID-19 will basically remain in the first half of FY2021 and conditions will start to normalize in the second half, although the Group conducts its business activities globally and circumstances are different depending on segments and regions. As for mining business, in FY2020, mining operations were shut down in some areas due to COVID-19. As a result, the Group's parts and service business and solutions business were trending downward, but we expect that capital investment of mining companies will improve gradually as the global economy recovers in FY2021.

The above assumption has been judged to be the Management's best estimates as of March 31, 2021. However, if the actual progress of economic activities differs from the assumption, this may affect judgment of significant accounting estimates for recoverability of deferred tax assets, consideration of impairment of goodwill, etc. and the financial position and profit or loss in and after the next fiscal year may be affected.

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

Any forward-looking statements in this report are based on the judgment as of March 31, 2021.

As the Group's medium-term management plan starting in the fiscal year under review, "Realizing Tomorrow's Opportunities 2022," in order to further strengthen the value chain business, on which the Group continues to focus, the Group is using state-of-the-art digital technology to provide deeper solutions at every point of contact with customers, and is working to make its corporate structure resilient to change.

During the fiscal year under review (April 1, 2020 to March 31, 2021), revenue totaled ¥813,331 million, which represents 87% of the amount reported for the previous fiscal year, mainly due to the impact of the yen's appreciation, despite an increase in sales of rental and used equipment in the value chain business, on which we are focusing. This was due to a decrease in new machinery sales and parts and service caused by the deteriorating market conditions due to COVID-19 and a decrease in new mining machinery sales and parts and service due to customers restraining capital expenditure.

As for consolidated income items, operating income was ¥28,235 million, which represents 39% of the amount reported for the previous fiscal year, mainly due to a decrease in revenue, an increase in the cost of sales ratio, and the impact of yen appreciation. Profit attributable to owners of the parent company was ¥10,340 million, which represents 25% of the amount reported for the previous fiscal year, mainly due to a decrease in operating income, a decrease in equity in earnings of unconsolidated subsidiaries and affiliates, and an increase in the contribution of non-controlling interests.

1) Construction Machinery Business

Demand for hydraulic excavators in the fiscal year under review was lower than that in the same period of the previous fiscal year in major regions such as Europe and North America, while worldwide demand increased from the previous fiscal year mainly due to a significant recovery in China. Mining companies continue to restrain their capital investment, and the demand from small and medium-sized mining companies decreased in particular.

As a result, revenue for the fiscal year under review amounted to ¥734,207 million, which represents 87% of the amount reported for the previous fiscal year, reflecting the impact of lockdowns in various countries, a decrease in new machinery sales and parts and service, and the impact of yen appreciation, despite an increase in rental and used equipment.

2) Solution Business

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

Revenue for the fiscal year under review was ¥82,437 million, which represents 90% of the amount reported for the previous fiscal year, due to a decline in demand.

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

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

Indicators	Targets for the year ending March 31, 2023	Results for the year ended March 31, 2021	Year-on-year change
Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 10%	4.0%	Down 4.2% pts
Efficiency	Aim to achieve ROE of over 10%	2.1%	Down 6.5% pts
Net D/E ratio	Aim to achieve 0.5 or less	0.48	Down 0.1
Shareholder return	Aim to achieve consolidated dividend payout ratio of 30% or more	41.1%	Up 10.1% pts

(Note) The assumed foreign exchange rates for the targets of the year ending March 31, 2023 are ¥105 for one US dollar, ¥125 for one euro, ¥15.5 for one Chinese yuan, and ¥73 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 medium-term management plan.

(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 ¥617,193 million, an increase of 0.7%, or ¥4,414 million, from the previous fiscal year-end. This was mainly due to an increase of ¥18,165 million in cash and cash equivalents although there was a decrease of ¥1,472 million in trade receivables and ¥3,456 million in inventories.

Non-current assets amounted to ¥603,378 million, an increase of 8.8%, or ¥48,590 million, from the previous fiscal year-end. This was due mainly to an increase of ¥30,382 million in property, plant and equipment.

As a result, total assets increased by 4.5%, or ¥53,004 million, from the previous fiscal year-end to ¥1,220,571 million.

[Liabilities]

Current liabilities amounted to ¥372,454 million, an increase of 0.3%, or ¥1,088 million, from the previous fiscal year-end. This was mainly due to increases of ¥6,801 million in trade and other payables and ¥2,227 million in contract liabilities although there was a decrease of ¥10,185 million in bonds and borrowings.

Non-current liabilities amounted to ¥278,872 million, an increase of 2.9%, or ¥7,782 million, from the previous fiscal year-end. This was mainly due to an increase of ¥1,732 million in trade and other payables.

As a result, total liabilities increased by ¥8,870 million, from the previous fiscal year-end to ¥651,326 million.

[Equity]

Total equity increased by 8.4%, or ¥44,134 million, from the previous fiscal year-end to ¥569,245 million.

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

1) Cash flows

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

2) Capital resources and liquidity

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

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

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 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 Group, the Research & Development, Production & Procurement and Corporate Quality Assurance Groups, and research and development staff of group companies pursue research and development activities in close cooperation. In addition, consignment research and collaborative research with Hitachi, Ltd. and universities in Japan and abroad are conducted to acquire a broad range of advanced technologies, and at the same time, the Group promotes development of human resources with expertise in advanced technologies through these research activities.

Research and development expenditures for the fiscal year under review totaled ¥24,764 million.

Research and development activities by segment are as follows:

(1) Construction Machinery Business

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

In August 2020, “ZCORE,” a system platform that makes it easy to develop autonomous construction equipment and enhance its functionality, was developed. The Company aims for the realization of “Cooperative Safety” at construction sites where safety and productivity are enhanced through information exchanges between man and equipment, equipment and equipment, and equipment and the surrounding environment. ZCORE is a system platform with high function extensibility, which consists of “information processing platform” that collects and judges information from sensors attached to construction machinery and the communication network, and “machine control platform” that works hydraulic equipment, etc. in accordance with the judgment. This helps achieve balancing of cooperative safety and advanced autonomous operation.

In October 2020, a mini excavator for civil construction use ZX60C-5A was launched for the Chinese market. While mini excavators are versatile, ZX60C-5A has specifications and structure best for road building, agricultural and forestry land maintenance as an excavator for civil construction use. ZX60C-5A has operability equivalent to that of ZX60-5A, which is a 6-ton class mini excavator highly reputed in China. Also, it has a more efficient hydraulic system and good fuel efficiency due to an optimized size engine. Some instruments inside the cab which do not directly affect operability of the excavator and some parts of drive components are locally procured in China. They were confirmed to conform to Hitachi’s quality standards. Thus, the price of the excavator was restrained as much as possible.

In December 2020, we launched excavators for civil construction use, ZX120-5A in the 12t class, and ZX195-5A in the 20t class, for the Chinese market. ZX120-5A is a small-size hydraulic excavator mainly for urban development, agricultural land improvement, works at ports and harbors and other light-duty civil construction works. ZX195-5A is a medium-size hydraulic excavator designed for social infrastructure building works such as loading of materials at construction sites, general road construction and laying of water and sewage pipes as well as the types of works afore-mentioned for ZX120-5A.

The ZX120-5A and ZX195-5A are equipped with “ConSite®,” the system for monitoring customers’ machines by utilizing ICT, which contributes to stable operation of the machines at work sites and reduction of their total life cycle costs.

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 ¥23,458 million.

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

Mini excavator for civil construction use in the Chinese market	ZX60C-5A
Excavator for civil construction use in the Chinese market	ZX120-5A, ZX195-5A

(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 ¥1,306 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 ¥73,371 million.

2. Major Property, Plant and Equipment

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

The figures below do not include construction in progress.

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

(1) Construction Machinery Business

1) The Company

(As of March 31, 2021)

Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
Tsuchiura Works/ Kasumigaura Works (Tsuchiura-city, Ibaraki and other) Note 1	Construction machinery manufacturing facility, etc. of hydraulic excavators, etc.	8,175	8,807	5,902 (4,973)	6,050	1,822	30,756	3,274
Hitachinaka Works (Hitachinaka-city, Ibaraki)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	5,633	6,477	2,021 (66)	3	488	14,621	333
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	12,766	4,636	12,334 (495)	0	259	29,995	484
Ryugasaki Works (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loaders, etc.	1,564	1,031	2,212 (238)	0	137	4,944	397
Banshu Works (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loaders, etc.	965	1,402	699 (141)	0	267	3,334	403
Headquarter (Taito-ku, Tokyo and other) Note 1	Facilities, etc. in the registered office of the Company	1,255	204	17,066 (617)	2,038	290	20,853	556

2) Domestic subsidiaries

(As of March 31, 2021)

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 asset	Other	Total	
Tada Kiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,632	934	2,292 (45)	–	37	4,895	225
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini excavator	4,109	4,059	314 (153)	117	255	8,854	720

3) Overseas subsidiaries

(As of March 31, 2021)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
P.T. Hitachi Construction Machinery Indonesia	Factory (Cibitung, Indonesia)	Assembly plant of construction machinery	2,408	513	0 (0)	417	165	3,503	879
Hitachi Construction Machinery (China) Co., Ltd.	Headquarter/ Factory (Hefei, Anhui, China)	Assembly plant of construction machinery	2,388	2,039	0 (0)	539	18	4,984	2,126
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Factory (Kharagpur, India)	Assembly plant of construction machinery	5,011	5,525	0 (0)	820	50	11,406	891
LLC Hitachi Construction Machinery Eurasia	Factory (Tver, Russia)	Assembly plant of construction machinery	1,998	832	3 (400)	58	40	2,931	356

(Note) 1. Land of Tsuchiura Works is presented including the land of the product durability testing facilities of 4,277 thousand m^2 costing ¥522 million located in 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) 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, 2021 (Shares)	Number of shares issued as of June 29, 2021 (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 March 31, 2021)

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	–	49	41	339	523	11	19,101	20,064	–
Share ownership (units)	–	505,436	50,832	1,121,596	334,277	92	137,712	2,149,945	120,538
Ownership percentage of shares (%)	–	23.5	2.4	52.2	15.5	0.0	6.4	100.0	–

(Notes) 1. Of treasury stock of 2,463,047 shares, 24,630 units are included in the total units held by "Individual and others" and 47 shares are included in the "Number of shares less than one unit."

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

(6) Major shareholders

(As of March 31, 2021)

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	109,352	51.42
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	26,388	12.41
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	10,588	4.98
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	2,487	1.17
Custody Bank of Japan, Ltd. (Trust Account 7)	1-8-12 Harumi, Chuo-ku, Tokyo	1,993	0.94
The Bank of New York Mellon (International) Limited 131800 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	2-4, RUE EUGENE RUPPERT, L-2453 LUXEMBOURG, GRAND DUCHY OF LUXEMBOURG (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,860	0.87
Custody Bank of Japan, Ltd. (Trust Account 9)	1-8-12 Harumi, Chuo-ku, Tokyo	1,629	0.77
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,558	0.73
Custody Bank of Japan, Ltd. (Trust Account 5)	1-8-12 Harumi, Chuo-ku, Tokyo	1,434	0.67
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)	1,330	0.63
Total	–	158,619	74.59

(Notes)

1. The 2,463 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)	26,388 thousand shares
Custody Bank of Japan, Ltd. (Trust Account)	10,588 thousand shares
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	2,487 thousand shares
Custody Bank of Japan, Ltd. (Trust Account 7)	1,993 thousand shares
Custody Bank of Japan, Ltd. (Trust Account 9)	1,629 thousand shares
Custody Bank of Japan, Ltd. (Trust Account 5)	1,434 thousand shares

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

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

(7) Information on voting rights

1) Issued shares

(As of March 31, 2021)

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 2,463,000	–	–
Shares with full voting rights (others)	Common stock 212,531,500	2,125,315	–
Shares less than one unit	Common stock 120,538	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,315	–

(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 47 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of March 31, 2021)

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	2,463,000	–	2,463,000	1.14
Total	–	2,463,000	–	2,463,000	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, 2021	1,210	3,836,025
Treasury stock acquired during the period after the reporting period to the filing date of this annual securities report (Note)	213	749,175

(Note) The number of shares of treasury stock acquired during the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased during the period from June 1, 2021 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, 2021		Period after the reporting period to the filing date of this annual securities report	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Acquired treasury stock which was offered to subscribers	–	–	–	–
Acquired treasury stock which was cancelled	–	–	–	–
Acquired treasury stock which was transferred due to merger, share exchange, share issuance and company split	–	–	–	–
Others (Note)	30	76,380	–	–
Total number of shares of treasury stock held	2,463,047	–	2,463,260	–

(Note) The "Total number of shares of treasury stock held" for the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased or sold during the period from June 1, 2021 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 27, 2020	2,127	10
Resolution at the Board of Directors meeting held on May 24, 2021	2,127	10

4. Corporate Governance, etc.

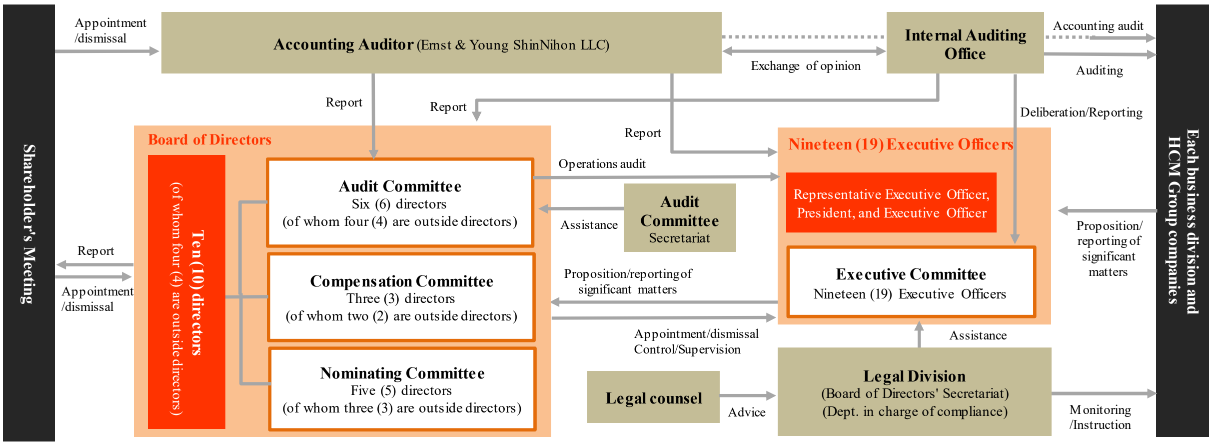
(1) Corporate governance

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 spread of infections of COVID-19, 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 (15 meetings were held in the year ended March 31, 2021)

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 Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi and Haruyuki Toyama, 3 Directors concurrently serving as Executive Officers made up of Keiichiro Shiojima, Michifumi Tabuchi and Kotaro Hirano, and 2 Directors made up of Tetsuo Katsurayama and Yoshinori Hosoya.

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, 2021)

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, Maoko Kikuchi and Haruyuki Toyama, and President and Executive Officer Kotaro Hirano.

(ii) Audit Committee (28 meetings were held in the year ended March 31, 2021)

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 Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi and Haruyuki Toyama, and Director Yoshinori Hosoya.

(iii) Compensation Committee (3 meetings were held in the year ended March 31, 2021)

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 Kazushige Okuhara.

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 19 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 Yusuke Kajita, Masafumi Senzaki, Seishi Toyoshima and Hideshi Fukumoto, and Executive Officers Moriaki Kadoya, Keiichiro Shiojima, Seimei Toonishi, Kazunori Nakamura, Masaaki Hirose, Eiji Fukunishi, 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 and one of the personnel who also serves for the Internal Auditing Office have been assigned from the perspective of BCP. 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, 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) Directors and officers liability insurance policy

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

6) Number of Directors

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

7) Resolution requirements for appointment of Directors

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

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

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

a. Exemption from liability of Directors and Executive Officers

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

b. Decision for dividends of surplus

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

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

With the objective of facilitating the smooth conduct of a general shareholder’s meeting by easing the quorum 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.”

10) 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 24 males and 2 females. (The ratio of female Directors and Executive Officers is 7.7% of the total.)

a. Directors

Position and responsibility	Name	Date of birth	Career summary		Term of office	Share ownership (Thousands of shares)
Outside Director Audit Committee Member	Toshiko Oka	March 7, 1964	4/1986	Joined Tohmatsu Touche Ross Consulting Limited	(Note 1)	–
			7/2000	Joined Asahi Arthur Anderson Limited		
			4/2005	President and Representative Director, ABeam M&A Consulting Ltd.		
			4/2016	Partner, PwC Advisory LLC		
			6/2016	Outside Director, Hitachi Metals, Ltd.		
			6/2018	Outside Director, Sony Group Corporation (to present)		
			6/2019	Outside Director, Happinet CORPORATION (to present)		
			6/2020	Outside Director, ENEOS Holdings, Inc. (to present)		
			4/2021	Professor, Graduate School of Global Business, Meiji University (to present)		
			6/2021	Outside Director, the Company (to present)		
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Kazushige Okuhara	January 27, 1948	4/1970	Joined Fuji Heavy Industries Ltd.	(Note 1)	6
			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.		
			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 Nominating Committee Member 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	Joined Nagashima Ohno & Tsunematsu		
			4/2004	Joined the General Secretariat of the Japan Fair Trade Commission		
			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)	4
			1/2000	Alternate Executive Director for Japan, International Monetary Fund		
			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)		
			3/2021	Outside Director, HORIBA, Ltd. (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)		

Position and responsibility	Name	Date of birth	Career summary	Term of office	Share ownership (Thousands of shares)
Director	Keiichiro Shiojima	November 24, 1965	4/1988 Joined the Company 4/2011 General Manager, Credit Management Dept., Finance Div. 4/2014 Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. 4/2016 General Manager, Finance Dept., Finance Div., Corporate Management Group 4/2019 Deputy General Manager, Finance Div., Corporate Management Group 4/2020 Executive Officer, General Manager, Financial Strategy Group (to present) 6/2021 Director (to present)	(Note 1)	4
Chairman of the Board Nominating Committee (Chair)	Hideaki Takahashi	August 20, 1952	4/1978 Joined Hitachi, Ltd. 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. 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)	(Note 1)	–

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 Nominating Committee Member Compensation Committee (Chair)	Kotaro Hirano	June 4, 1958	4/1981	Joined the Company	(Note 1)	12
			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)		
Director Audit Committee Member	Yoshinori Hosoya	February 5, 1965	4/1988	Joined Hitachi, Ltd.	(Note 1)	–
			4/2013	General Manager, Public Solutions Division No. 2, Government & Public Corporation Information Systems Division, Information & Telecommunication Systems Company		
			10/2014	Supervisory Officer, Government & Public Corporation Information Systems Division, System Solutions Division, Information & Telecommunication Systems Company		
			4/2017	General Manager, Government & Public Corporation Information Systems Division, Public Corporation & Social Infrastructure Business Unit		
			4/2018	General Manager, Government & Public Corporation Information Systems Division, Social Infrastructure Systems Business Unit		
			4/2021	COO, Social Infrastructure Systems Business Unit (to present)		
			6/2021	Director, the Company (to present)		
Total						40

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder’s Meeting for the year ended March 31, 2021 to the conclusion of the Annual Shareholder’s Meeting for the year ending March 31, 2022.

2. Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi and Haruyuki Toyama 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)	12
Representative Executive Officer, Executive Vice President and Executive Officer Officer responsible for "MONOZUKURI" (manufacturing), General Manager, Production & Procurement Group, and General Manager, Corporate Export Regulation Group	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	(Note)	6
			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.		
Senior Vice President and Executive Officer President, Mining Group	Sonosuke Ishii	December 22, 1958	4/1982	Joined the Company	(Note)	1
			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)		
Senior Vice President and Executive Officer CSO	Naoyoshi Yamada	January 21, 1958	4/1982	Joined the Ministry of International Trade and Industry	(Note)	1
			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.		
			4/2020	General Manager, Operations Management Group		

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Vice President and Executive Officer General Manager, Research & Development Group	Yusuke Kajita	October 7, 1961	4/1987	Joined the Company	(Note)	7
			4/2013	General Manager, Application, New Product & Construction Equipment Div.		
			4/2016	Deputy General Manager, China Business Div.		
				President and Director, Hitachi Construction Machinery (China) Co., Ltd.		
			4/2017	Executive Officer, the Company		
			4/2018	General Manager, China Business Div.		
			4/2021	Vice President and Executive Officer (to present) General Manager, Research & Development Group (to present)		
Vice President and Executive Officer General Manager, Corporate Strategy Group, and General Manager, Operations Management Group	Masafumi Senzaki	July 16, 1965	4/1991	Joined the Company	(Note)	3
			4/2012	President and Director, Hitachi Construction Machinery Eurasia Manufacturing LLC		
			4/2017	General Manager, Russia and CIS Business Div., the Company		
				President and Director, LLC Hitachi Construction Machinery Eurasia		
			4/2018	Executive Officer, the Company General Manager, Marketing Div.		
			4/2021	Vice President and Executive Officer (to present) General Manager, Corporate Strategy Group, and General Manager, Operations Management Group (to present)		
Vice President and Executive Officer CHRO General Manager, Human Capital Group	Seishi Toyoshima	August 30, 1960	4/1984	Joined Hitachi, Ltd.	(Note)	–
			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 (to present), and in charge of Legal Division, General Manager of Compliance & Risk Management Group, the Company		
			6/2019	Director		

Position and responsibility	Name	Date of birth	Business experience	Term of office	Share ownership (Thousands of shares)
Vice President and Executive Officer CTO General Manager, Client Solutions Group	Hideshi Fukumoto	September 24, 1957	4/1982 Joined Hitachi, Ltd. 4/2005 Director, Machinery Research Institute 4/2011 Director, Technology Strategy Office, Research and Development Div. 4/2012 Joined the Company 4/2014 Executive Officer 4/2017 Vice President and Executive Officer (to present) 4/2019 Vice President, Development & Production Group 4/2020 General Manager, Research & Development Group, and General Manager, Client Solutions Group (to present)	(Note)	3
Executive Officer Deputy General Manager, Marketing Group and General Manager, America Business Div.	Moriaki Kadoya	November 8, 1958	4/1981 Joined the Company 4/2011 Deputy General Manager, Marketing Div. 4/2012 President and Director, Hitachi Construction Machinery (Europe) N.V. 4/2014 Executive Officer, the Company (to present) 4/2017 Vice President, Marketing Group 4/2020 Deputy General Manager, Marketing Group, and General Manager, America Business Div. (to present)	(Note)	16
Executive Officer CFO General Manager, Financial Strategy Group	Keiichiro Shiojima	November 24, 1965	See (1)	(Note)	4
Executive Officer CDIO General Manager, DX Promotion Group	Seimei Toonishi	February 5, 1962	3/1980 Joined the Company 4/2019 General Manager, IT Promotion Div., Corporate Management Group 4/2020 General Manager, DX Promotion Group (to present) 4/2021 Executive Officer (to present)	(Note)	–
Executive Officer	Kazunori Nakamura	February 19, 1963	4/1987 Joined the Company 4/2016 General Manager, Application, New Product & Construction Equipment Div., Development & Production Group 4/2018 President and Director, Hitachi Construction Machinery Tierra Co., Ltd. (to present) 4/2019 Executive Officer, the Company (to present)	(Note)	5
Executive Officer Associate General Manager, America Business Div.	Masaaki Hirose	July 30, 1959	10/1990 Joined the Company 4/2008 Executive Vice President and Director, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd 4/2013 CEO and Director, PT Hexindo Adiperkasa Tbk 4/2017 President and Director, Hitachi Construction Machinery Loaders America Inc. 4/2018 Executive Officer, the Company (to present) 4/2019 Chairman and Director, Hitachi Construction Machinery Loaders America Inc. (to present) 4/2020 Associate General Manager, America Business Div., the Company (to present)	(Note)	1

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, Life Cycle Support Operations Div.	Eiji Fukunishi	December 21, 1961	10/1982	Joined the Company	(Note)	–
			4/2016	General Manager, Sales Promotion Dept., Customer Support Div., Life Cycle Support Operations Div., Marketing Group		
			4/2017	Director and CEO, PT Hexindo Adiperkasa Tbk		
			4/2021	Executive Officer (to present) General Manager, Life Cycle Support Operations Div. (to present)		
Executive Officer General Manager, Marketing Div.	Hidehiko Matsui	April 19, 1961	4/1986	Joined the Company	(Note)	5
			4/2016	Deputy General Manager, Marketing Div., Marketing Group		
			4/2018	General Manager, Asia Business Div., Marketing Div., Marketing Group		
				Chairman and President and Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd.		
			4/2019	Executive Officer, the Company (to present)		
			4/2020	General Manager, Asia Business Div.		
			4/2021	General Manager, Marketing Div. (to present)		
Executive Officer 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.		
				Executive Vice President, Hitachi Construction Machinery (China) Co., Ltd.		
			1/2021	Director, Hitachi Construction Machinery (China) Co., Ltd.		
			4/2021	General Manager, China Business Div. (to present)		
				President and Director, 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		
			4/2015	General Manager, Oceania Business Div., the Company (to present)		
				Chairman & CEO, 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)		

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, India Business Div.	Sandeep Singh	January 21, 1961	1/2003	Joined J.C. Bamford Excavators Limited Executive Vice President	(Note)	–
			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, 2021 to March 31, 2022.

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 Toshiko Oka's knowledge and deep insight on M&A based on her abundant experience as a top executive of consulting firms, Kazushige Okuhara's knowledge and deep insight on personnel and labor policy based on abundant experience as the business manager of an international company, Maoko Kikuchi's extensive experience and knowledge in the field of law and her experience and deep insight as a top executive and corporate auditor of an international company, and Haruyuki Toyama's abundant experience and knowledge in the financial field 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 and internal audit

a. Audit by the Audit Committee

As an internal organization of the Board of Directors, the Audit Committee audits whether the execution of duties by Directors and Executive Officers is in compliance with laws and regulations, Articles of Incorporation, and the basic management policies, and whether it is being carried out effectively. Specifically, in addition to deliberations at committee meetings, the Audit Committee usually makes an on-site inspection of domestic and overseas sites and group companies every year, monitoring financial and accounting conditions and the status of improvement and operation of the internal control system, to audit execution of business operations and management appropriateness of subsidiaries.

As of the filing date, the Audit Committee consists of 6 Directors including 4 Independent Outside Directors appointed by a resolution of the Board of Directors. For the Audit Committee Secretariat, one of the personnel who assists exclusively with the duties of the Audit Committee and one of the personnel who also serves for the Internal Auditing Office have been assigned from the perspective of BCP. This Audit Committee Secretariat is not under supervision of any Executive Officer, and reports to the Audit Committee.

In this fiscal year, to implement in view of the impact of COVID-19, the Audit Committee conducted audits and made inquiries appropriately, etc. by proactively making use of conference call system and online tools.

In addition to making inquiries from the internal audit department and the financial and accounting department, or each department such as the department managing product quality and ESG, the committee made inquiries on the status of execution of duties from all Executive Officers including exchange of opinions with Representative Executive Officer, and discussed and examined appropriateness of the execution of business operations.

Beyond legal responsibility for consideration, the committee has closely worked with the accounting auditors on reporting of quarterly review, reporting of an annual accounting audit, and inquiries on audit findings, as well as holding of the three-way audit committee meeting, which the internal audit department also attended, and others.

In the year ended March 31, 2021, the Audit Committee held 28 meetings, which was increased by 13 meetings from the previous fiscal year. The number of meetings has been largely increased because inquiries on businesses, business operation, etc. were made as part of monitoring, utilizing online tools in place of on-site inspections of domestic and overseas sites and group companies due to the worldwide spread of COVID-19.

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 2)	8/8	100%
Director (full-time)	Tetsuo Katsurayama (Note 4)	20/20	100%
Outside Director	Kazushige Okuhara	28/28	100%
Outside Director	Maoko Kikuchi (Notes 3, 4)	20/20	100%
Outside Director	Haruyuki Toyama	28/28	100%
Outside Director	Junko Hirakawa	28/28	100%
Director	Toshitake Hasunuma (Note 2)	8/8	100%
Director	Kuniaki Minami (Notes 3, 4)	19/20	95%

(Notes) 1. These number are based on the number of meetings held during each member's term of office.
2. 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.
3. They were newly elected as Directors and assumed their positions at the 56th Annual Shareholder's Meeting held on July 20, 2020.
4. They were elected as Audit Committee Members and assumed their positions at the Board of Directors meeting held on July 20, 2020.

In the fiscal year ended March 31, 2021, the Audit Committee worked to understand the management conditions of domestic and overseas group companies by making sufficient inquiries and asking questions on to the management conditions to a total of four companies (two of which also responded to inquiries on the status of execution of duties from Executive Officers at the same time), specifically two domestic group companies and two overseas companies, and exchanged opinions with Full-time Auditors of domestic group companies using online tools in place of on-site inspections of domestic and overseas sites and group companies, which were usually made every year, and conducted appropriate monitoring where necessary.

• Major matters to be examined by the Audit Committee

These matters include audit policy, audit plan, the content of audit implementation, status of improvement and operation of the internal control system, appropriateness of execution of the duties of Executive Officers, election and dismissal of accounting auditors, legality of business reports and supplementary schedules, audit approach of accounting auditors, and reasonableness of audit results of the Company and the Group. In the fiscal year under review, risk management including responses to the impact of COVID-19, the status of implementation of measures in the new medium-term management plan, the status of improvement of internal control in line with operation of the new core system, etc. were designated as emphasized audit items.

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

Full-time Audit Committee Members attend important internal meetings as well as review approval documents, etc. on significant matters, individually make inquiries to the internal audit department, the accounting auditors, other departments in the company and the Group, and perform monitoring of establishment and operation of the internal control system where appropriate. In addition, as for matters on which they considered it desirable to share information with part-time Audit Committee Members among items that they found on their own, the members have been further increasing the effectiveness of activities of the Audit Committee by sharing the information and seeking opinions where necessary, and other means.

Mr. Tetsuo Katsurayama, who replaced Mr. Toshikazu Sakurai, Director and full-time Audit Committee Member, 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, and was elected as Audit Committee Member at the Board of Directors held on the same date, has ample experience in business operations such as accounting and financial, etc. 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 strived 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 Auditing Office under the supervision of President as a department in charge of internal audit. The Internal Auditing Office consists of a general manager, nine full-time staff, and one person who also serves for the Auditing Committee Secretariat. The Internal Auditing Office chooses subjects to be audited based on the risk-based approach, and audits whether the operation of each department and group companies is being carried out accurately, legitimately and reasonably.

In the fiscal year under review, although on-site inspection activities for overseas group companies were limited amid the COVID-19 pandemic, the Company performed audits by introducing remote audits using online tools, and commissioning audits to firms specialized in internal audits in partnership with the Company for certain overseas group companies.

c. Cooperation between Audit Committee and accounting auditors

Along with receiving the audit plan and emphasized audit items from the accounting auditor, the Audit Committee is also regularly informed of the results of the audits. It also discusses and examines the status of the internal control system that the accounting auditor has understood through audit, risk assessment, emphasized audit items, Key Audit Matters (KAM), etc.

While on-site inspections by the Audit Committee and the internal audit department were restrained as a result of worsening of the spread of infections of COVID-19, the Audit Committee strived to understand situations of overseas group companies by making discussions with the accounting auditor and other means, with regard to group audits using the accounting auditor's network as a global firm, and also closely shared information and exchanged opinions with the accounting auditor utilizing online tools.

d. Cooperation between Audit Committee and internal audit department

the Audit Committee receives the audit policy and audit plan from the internal audit department, and is 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 shares and the content of audit findings for each business division and each group company of the Company and exchanges opinions with the accounting auditors at least once a quarter, and works to understand risks in accounting treatments and business operation and make improvements.

f. Internal control department

At the Company, the Internal Auditing Office, which is responsible for internal control, compiles situations of improvement/operation and evaluation of the internal control system of the entire Group, and provides instructions on promotion of improvements.

Furthermore, the Company has established the J-SOX Committee as an organization which is responsible for internal control. The committee consists of the head of each department in charge of DX (IT system information management), legal matters, accounting and finance, and internal audit, and full-time Audit Committee Members attend the meetings of the committee as observers.

The J-SOX Committee is a deliberative body to determine implementation policy and assessment of effectiveness of internal control of the Company and group companies, and carries out operation of the internal control system, internal control testing, effectiveness evaluation, reporting, in collaboration with the Internal Control 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 improvement and operation 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

45 years

c. Certified Public Accountant who executed accounting audit

Kazuhiro Ishiguro

Takuto Miki

Kaori Onuma

d. Composition of assistants involved in the auditing work

13 Certified Public Accountants and 56 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, performs global accounting audits and has high audit quality, taking into account International Financial Reporting Standards ("IFRS") adopted by the Company and the Group's high ratio of overseas business. The Company has considered that the elected 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 internationally legitimate and proper practice of 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, 2020		Year ended March 31, 2021	
	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	109	8	123	2
Consolidated subsidiaries	36	–	39	–
Total	145	8	162	2

Description of non-audit services

In the fiscal year ended March 31, 2020 and the fiscal year ended March 31, 2021, the Company 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 Ernst & Young and its group firms which belong to the same network as the Company's Certified Public Accountants, etc. (excluding a.)

(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.

(Year ended March 31, 2021)

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 ¥505 million (of which ¥505 million was paid by consolidated subsidiaries) for audit services and ¥114 million (of which ¥28 million was paid by the Company and ¥86 million by consolidated subsidiaries) for non-audit services.

Description of non-audit services

In the fiscal year ended March 31, 2020 and the fiscal year ended March 31, 2021, non-audit services rendered for the Company and its consolidated subsidiaries were mainly tax related services.

c. Description of other fees for important audit services

Not applicable for both the fiscal year ended March 31, 2020 and the fiscal year ended March 31, 2021.

d. Policy for determining audit fees

Audit fees to be paid to accounting auditors are determined with the approval of the Audit Committee, after the Audit Committee makes sufficient inquiries on the time required for accounting auditing, the content of audits, etc. and examines them.

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 level of payment is determined in accordance with a full-time or part-time basis, basic salary, allowance for committee members for committees to which the Director belongs and his or her position.

• 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 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, 2021, the Compensation Committee held 3 meetings, and the individual attendance is as follows:

Kotaro Hirano (Number of attendance: 3/3)

Haruyuki Toyama (Number of attendance: 3/3)

Junko Hirakawa (Number of attendance: 3/3)

Financial indicators such as the adjusted operating income ratio and targets, etc. in the medium-term management plan were set as performance indicators used to calculate the performance-linked compensation, to calculate the amount of compensation based on the business plan and outcome of the business for the relevant fiscal year within a certain range stipulated in the "Basic Policy for Compensation to Directors and Executive Officers." As for the method of calculating the performance-linked compensation, the amount was determined within a certain range, depending on the degree of achievement of targets and outcome of business operations of which each person is in charge. The actual value of adjusted operating income ratio for the fiscal year under review was 4%.

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

Category	Total amount of compensation (Millions of yen)	Total amount for each type of compensation (Millions of yen)		Number of eligible Directors and Executive Officers
		Monthly salary	Year-end allowance and performance-linked compensation	
Directors (excluding Outside Directors)	66	63	4	6
Executive Officers	595	476	120	18
Outside Directors	54	49	5	4

(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 56th Annual Shareholder's Meeting held on July 20, 2020, 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 specifically examines individual issues of 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. At the Board of Directors meeting held on January 27, 2021, it was confirmed that the holding of each issue was appropriate, by checking the status of sale of issues subject to sale, and examining each of other individual issues.

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

	Number of stock names (Stock names)	Total amount recorded in the balance sheet (Millions of yen)
Unlisted stocks	12	230
Other than unlisted stocks	11	7,549

(Stocks increased in the year ended March 31, 2021)

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

(Stocks decreased in the year ended March 31, 2021)

	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, 2021 Number of shares (Shares) Balance sheet amount (Millions of yen)	Year ended March 31, 2020 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
KYB Corporation	892,000 2,694	892,000 1,846	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company's revenue.	No
Wakita & Co., LTD.	1,200,000 1,199	1,200,000 1,186	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
Kanamoto Co., Ltd.	344,581 993	344,581 725	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
KOKEN BORING MACHINE CO., LTD. (Note 2)	1,533,000 829	1,533,000 576	• Purpose of holding: Strengthening of service response capability for underground excavation equipment • Quantitative holding effect: As a result of strengthened mutual cooperation, certain effects were seen on the Company's revenue.	No
IJTT Co., Ltd. (Note 3)	1,300,000 798	1,300,000 541	• 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.	Yes
Nippon Chuzo K. K.	718,921 658	718,921 381	• 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.	Yes
NISHIO RENT ALL CO., LTD.	66,000 198	66,000 150	• 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
NANYO Corporation	72,600 123	72,600 91	• 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

<table>
<tr><td rowspan="3">Stock name</td><td>Year ended March 31, 2021</td><td>Year ended March 31, 2020</td><td rowspan="3">Purpose of holding, quantitative holding effect, and reasons for the increase in the number of shares (Note 1)</td><td rowspan="3">Shareholding of the Company</td></tr>
<tr><td>Number of shares (Shares)</td><td>Number of shares (Shares)</td></tr>
<tr><td>Balance sheet amount (Millions of yen)</td><td>Balance sheet amount (Millions of yen)</td></tr>
<tr><td rowspan="2">NIPPAN RENTAL Co., Ltd.</td><td>54,000</td><td>54,000</td><td rowspan="2">• 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.</td><td rowspan="2">No</td></tr>
<tr><td>57</td><td>28</td></tr>
</table>

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

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

3. IJTT Co., Ltd. changed its company name from IJT Technology Holdings Co., Ltd. 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, 2021 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, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and cash equivalents (note 21)	62,165	80,330
Trade receivables (notes 6, 22 and 23)	207,843	206,371
Contract assets (note 17)	4,701	4,845
Inventories (notes 8 and 23)	301,222	297,766
Income tax receivables (note 11)	3,671	4,025
Other financial assets (note 22)	20,309	16,172
Other current assets	12,868	7,083
Subtotal	612,779	616,592
Assets held for sale	–	601
Total current assets	612,779	617,193
Non-current assets		
Property, plant and equipment (notes 4, 9 and 23)	315,465	345,847
Right-of-use assets (notes 4 and 7)	57,853	59,410
Intangible assets (notes 4 and 10)	37,883	41,576
Goodwill (notes 4 and 10)	30,538	35,406
Investments accounted for using the equity method	33,177	31,034
Trade receivables (notes 6 and 22)	39,572	41,436
Deferred tax assets (note 11)	15,094	16,052
Other financial assets (note 22)	16,394	18,643
Other non-current assets	8,812	13,974
Total non-current assets	554,788	603,378
Total assets	1,167,567	1,220,571

	As of March 31, 2020	As of March 31, 2021
		(Millions of yen)
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 22)	173,872	180,673
Lease liabilities (note 7)	12,996	12,489
Contract liabilities (note 17)	6,593	8,820
Bonds and borrowings (notes 21 and 22)	160,447	150,262
Income taxes payable (note 11)	4,756	4,632
Other financial liabilities (note 22)	10,019	13,970
Other current liabilities	2,683	1,608
Total current liabilities	371,366	372,454
Non-current liabilities		
Trade and other payables (notes 12 and 22)	5,965	7,697
Lease liabilities (note 7)	47,795	46,942
Contract liabilities (note 17)	2,282	2,050
Bonds and borrowings (notes 21 and 22)	178,496	179,226
Retirement and severance benefit (note 13)	17,084	17,748
Deferred tax liabilities (note 11)	6,119	6,925
Other financial liabilities (note 22)	3,255	3,569
Other non-current liabilities	10,094	14,715
Total non-current liabilities	271,090	278,872
Total liabilities	642,456	651,326
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	80,475	80,620
Retained earnings (note 14)	347,668	350,918
Accumulated other comprehensive income (note 15)	(33,101)	4,262
Treasury stock, at cost (note 14)	(3,082)	(3,086)
Total equity attributable to owners of the parent	473,537	514,291
Non-controlling interests	51,574	54,954
Total equity	525,111	569,245
Total liabilities and equity	1,167,567	1,220,571

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Years ended March 31, 2020 and 2021 (Millions of yen)

	2020	2021
Revenue (notes 4 and 17)	931,347	813,331
Cost of sales	(680,590)	(619,988)
Gross profit	250,757	193,343
Selling, general and administrative expenses	(174,139)	(160,633)
Other income (note 18)	8,543	5,067
Other expenses (note 18)	(12,312)	(9,542)
Operating income	72,849	28,235
Financial income (note 19)	2,880	3,658
Financial expenses (note 19)	(11,308)	(7,743)
Share of profits of investments accounted for using the equity method	2,682	1,428
Income before income taxes	67,103	25,578
Income taxes (note 11)	(22,335)	(10,951)
Net income	44,768	14,627
Net income attributable to:		
Owners of the parent	41,171	10,340
Non-controlling interests	3,597	4,287
Total net income	44,768	14,627
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 20)	193.61	48.62
Net income per share (Diluted) (yen) (note 20)	193.61	48.62

3) Consolidated statements of comprehensive income

Years ended March 31, 2020 and 2021 (Millions of yen)

	2020	2021
Net income	44,768	14,627
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)	(1,422)	1,952
Remeasurements of defined benefit obligations (notes 13 and 15)	(105)	3,576
Other comprehensive income of equity-method affiliates (note 15)	8	(1)
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	(33,521)	38,611
Cash flow hedges (notes 15 and 22)	15	(583)
Other comprehensive income of equity-method affiliates (note 15)	(658)	(722)
Other comprehensive income, net of taxes	(35,683)	42,833
Comprehensive income	9,085	57,460
Comprehensive income attributable to: Owners of the parent	9,874	47,844
Non-controlling interests	(789)	9,616

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity

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	Cash flow hedges
Balance at beginning of period	81,577	81,991	328,344	(2,330)	7,118	213
Cumulative impact of change in accounting policy			(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				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	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		–		(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.

Year ended March 31, 2021

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	80,475	347,668	(1,933)	5,700	228
Net income			10,340			
Other comprehensive income (note 15)				3,602	1,951	(583)
Comprehensive income	–	–	10,340	3,602	1,951	(583)
Acquisition of treasury stock (note 14)						
Dividends to shareholders of the Company (note 16)			(7,231)			
Changes in the scope of consolidation						
Transfer to retained earnings			141		(141)	
Change in liabilities for written put options over non-controlling interests (note 14)		145				
Transaction with owners	–	145	(7,090)	–	(141)	–
Balance at end of period	81,577	80,620	350,918	1,669	7,510	(355)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	(37,096)	(33,101)	(3,082)	473,537	51,574	525,111
Net income		–		10,340	4,287	14,627
Other comprehensive income (note 15)	32,534	37,504		37,504	5,329	42,833
Comprehensive income	32,534	37,504	–	47,844	9,616	57,460
Acquisition of treasury stock (note 14)		–	(4)	(4)		(4)
Dividends to shareholders of the Company (note 16)		–		(7,231)	(6,219)	(13,450)
Changes in the scope of consolidation		–		–		–
Transfer to retained earnings		(141)		–		–
Change in liabilities for written put options over non-controlling interests (note 14)		–		145	(17)	128
Transaction with owners	–	(141)	(4)	(7,090)	(6,236)	(13,326)
Balance at end of period	(4,562)	4,262	(3,086)	514,291	54,954	569,245

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Years ended March 31, 2020 and 2021 (Millions of yen)

	2020	2021
Net income	44,768	14,627
Depreciation	41,443	44,412
Amortization of intangible asset	4,704	5,765
Impairment losses	6,002	1,391
Income tax expense	22,335	10,951
Gains or loss on business restructuring	(3,105)	425
Share of profits of investments accounted for using the equity method	(2,682)	(1,428)
(Gain) loss on sales of property, plant and equipment	(424)	43
Financial income	(2,880)	(3,658)
Financial expense	11,308	7,743
(Increase) decrease in trade receivables and contract assets	646	21,164
(Increase) decrease in lease receivables	9,213	2,137
(Increase) decrease in inventories	107	25,501
Increase (decrease) in trade payables	(32,769)	(19,237)
Increase (decrease) in retirement and severance benefit	133	163
Other	(43,258)	(8,568)
Subtotal	55,541	101,431
Interest received	2,086	2,058
Dividends received	3,382	3,300
Interest paid	(6,923)	(5,289)
Income tax paid	(31,404)	(10,161)
Net cash provided by (used in) operating activities	22,682	91,339
Capital expenditures	(32,044)	(28,311)
Proceeds from sale of property, plant and equipment	2,951	389
Acquisition of intangible assets	(7,311)	(4,893)
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	–	(315)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	1,635	884
(Increase) decrease in short-term loan receivables, net	(1)	(72)
Collection of long-term loan receivables	33	40
Other	(12)	(3)
Net cash provided by (used in) investing activities	(34,749)	(32,281)
Increase (decrease) in short-term borrowings, net (note 21)	9,694	(42,150)
Proceeds from bonds and long-term borrowings (notes 21 and 22)	91,868	51,273
Payments on bonds and long-term borrowings (notes 21 and 22)	(52,486)	(32,069)
Payments on lease liabilities (note 21)	(12,770)	(11,534)
Dividends paid to owners of the parent (note 16)	(19,764)	(7,273)
Dividends paid to non-controlling interests	(5,544)	(4,255)
Other	(5)	(3)
Net cash provided by (used in) financing activities	10,993	(46,011)
Effect of exchange rate changes on cash and cash equivalents	(4,108)	5,118
Net increase (decrease) in cash and cash equivalents	(5,182)	18,165
Cash and cash equivalents at beginning of period (note 21)	67,347	62,165
Cash and cash equivalents at end of period (note 21)	62,165	80,330

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of operations

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

(2) Basis of presentation

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

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

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

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

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

- (3) *(a) Basis of consolidation*
- (3) *(d) Financial instruments* and (22) Financial instruments and related disclosures

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

- Valuation of goodwill
  The method of impairment losses on goodwill is provided in "(3) *(i) Impairment of non-financial assets*" and "(10) Goodwill and other intangible assets."
  Significant goodwill recorded in the consolidated statements of financial position as of March 31, 2021 is principally goodwill of ¥7,165 million due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in the year ended March 31, 2017, and goodwill of ¥20,066 million due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in the year ended March 31, 2017.
  The recoverable amount per cash-generating unit (CGU) is calculated at the higher of fair value less costs of disposal or value in use. Comparison with similar publicly traded companies, and a market approach where a price that can be achieved in orderly transactions between market participants, such as market capitalization of the asset, etc. is reasonably estimated and calculated, are principally used as valuation techniques used to calculate fair value less costs of disposal. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs. The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU exceeded the carrying amount as of March 31, 2021, the carrying amount may exceed the value in use in and after the next fiscal year if the discount rate increases, and this may affect operating results, etc.
- Recoverability of deferred tax assets
  The process of considering recoverability of deferred tax assets is provided in "(11) Deferred taxes and income taxes."
  Deferred tax assets recorded in the consolidated statement of financial position as of March 31, 2021 was ¥16,052

million. Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized. In assessing the 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, by examining whether or not future taxable income can be generated in specific tax jurisdictions during the periods in which these deductible differences, etc. become deductible. The Group has judged that it is more likely than not that it will realize the benefits of these deductible differences as of March 31, 2021. However, the period in which taxable income is generated and the amount are affected by future changes in uncertain economic conditions. If the period in which taxable income is actually generated and the amount differs from the estimates in and after the next fiscal year, this may affect operating results, etc.

<u>Viewpoint for the impact of the new coronavirus infection (COVID-19) in making accounting estimates</u>
Significant accounting estimates based on future earnings forecasts in the year ended March 31, 2021 are based on the assumption that impacts of stagnant economic activities due to the spread of the new coronavirus infection (COVID-19) will basically remain in the first half of the year ending March 31, 2022 and conditions will start to normalize in the second half, although the Group conducts its business activities globally and circumstances are different depending on segments and regions.
This assumption has been judged to be based on the Management's best estimates as of March 31, 2021. 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) Affiliates

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

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

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

(b) Cash equivalents

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

(c) Foreign currency translation

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

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

(d) Financial instruments

(i) Non-derivative financial assets

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

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

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

<u>**Financial assets measured at amortized cost**</u>

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.

<u>**FVTOCI financial assets**</u>

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.

<u>**FVTPL financial assets**</u>

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.

Right-of-use asset

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

Lease liability

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

(ii) Lessor

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

(i) Impairment of non-financial assets

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

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

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

(j) Retirement and severance benefits

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

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

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

(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 affiliates where that the Group is able to control the timing of reversal of the temporary difference while it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and OCI in the fiscal year that includes the enactment date of the law related to the change in tax rates. 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.

Notes to Consolidated Financial Statements

(s) Subsequent events

The Group has assessed events that occurred up to June 29, 2021, 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, 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.

Notes to Consolidated Financial Statements

For the year ended March 31, 2021

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	734,191	79,140	813,331	–	813,331
Intersegment transactions	16	3,297	3,313	(3,313)	–
Total revenues	734,207	82,437	816,644	(3,313)	813,331
Segment profit (*1)	23,638	4,597	28,235	–	28,235
Financial income	–	–	–	3,658	3,658
Financial expenses	–	–	–	(7,743)	(7,743)
Share of profits (losses) of investments accounted for using the equity method	1,428	–	1,428	–	1,428
Income before income taxes	25,066	4,597	29,663	(4,085)	25,578
Segment assets	1,104,588	116,839	1,221,427	(856)	1,220,571
Segment liabilities	583,693	68,489	652,182	(856)	651,326
Other items:					
Depreciation and amortization of intangible assets	(45,316)	(4,861)	(50,177)	–	(50,177)
Impairment losses	(168)	(1,223)	(1,391)	–	(1,391)
Business structure reform expenses	(2,288)	(1,251)	(3,539)	–	(3,539)
Investments accounted for using the equity method	31,034	–	31,034	–	31,034
Capital expenditure	75,770	2,494	78,264	–	78,264

(*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, 2020	Year ended March 31, 2021
Mining machinery	166,771	123,456
Construction machinery and others	764,576	689,875
Total	931,347	813,331

(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, 2020	Year ended March 31, 2021
Japan	205,604	203,336
The Americas	186,321	118,048
Europe	103,565	87,849
Russia-CIS, Africa, and Middle East	78,228	72,350
Asia and Oceania	282,606	242,689
China	75,023	89,059
Total	931,347	813,331

In the years ended March 31, 2020 and 2021, 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 ¥123,814 million in the year ended March 31, 2021.

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, 2020	As of March 31, 2021
Japan	265,571	281,185
The Americas	27,165	28,878
Europe	22,831	27,311
Asia	59,665	63,324
Oceania	64,580	79,804
Other Areas	1,927	1,737
Total	441,739	482,239

As of March 31, 2020 and March 31, 2021, 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 ¥60,209 million as of March 31, 2020 and ¥74,717 million as of March 31, 2021.

(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, 2020

Not applicable.

For the year ended March 31, 2021

Not applicable.

(6) Trade receivables

The components of trade receivables are as follows:

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Accounts and notes receivable and electronically recorded monetary claims - operating	193,993	191,469
Finance lease receivables	61,494	64,523
Allowance for doubtful receivables	(8,072)	(8,185)
Total	247,415	247,807

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Current assets	207,843	206,371
Non-current assets	39,572	41,436
Total	247,415	247,807

(7) Leases

(a) Lessee

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

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

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2020	11,808	30,553	15,277	215	57,853
As of March 31, 2021	13,882	31,359	13,994	175	59,410

The increase in right-of-use assets in the year ended March 31, 2021 is ¥8,138 million.

Expenses and cash outflows related to leases are as follows:

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Depreciation expense for right-of-use assets		
Land	595	650
Buildings and structures	4,764	4,924
Machinery, equipment and vehicles	3,906	4,170
Tools, furniture and fixtures	54	69
Total	9,319	9,813
Interest expenses on lease liabilities	1,351	1,349
Expenses for short-term leases	10,411	9,048
Total expenses related to leases	21,081	20,210
Total cash outflows related to leases	24,532	21,931

Maturity analysis of lease liabilities is provided in “(22) Financial instruments and related disclosures.”

(b) Lessor

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

Revenue from leases is as follows:

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Lease revenue under finance leases		
Financial income on net investment in the lease	3,180	2,656
Lease revenue under operating leases	50,130	52,144
Total revenue from leases	53,310	54,800

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Undiscounted lease payments receivable		
Within 1 year	36,763	38,473
After 1 year but not more than 2 years	14,432	15,965
After 2 years but not more than 3 years	5,414	6,576
After 3 years but not more than 4 years	4,412	5,148
After 4 years but not more than 5 years	2,418	2,020
More than 5 years	335	363
Total	63,774	68,545
Unearned financial income on lease payments receivable	(2,280)	(4,022)
Net investment in the lease	61,494	64,523

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Within 1 year	4,164	3,574
After 1 year but not more than 2 years	1,126	1,073
After 2 years but not more than 3 years	344	651
After 3 years but not more than 4 years	167	260
After 4 years but not more than 5 years	125	182
More than 5 years	68	57
Total	5,994	5,797

Notes to Consolidated Financial Statements

(8) Inventories

The components of inventories are as follows:

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Merchandise and finished goods	229,444	237,274
Work in process	38,787	35,797
Raw materials and supplies	32,991	24,695
Total	301,222	297,766

For the previous fiscal year and the fiscal year under review, the amounts of inventories expensed and included as cost of sales were ¥673,413 million and ¥612,233 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 ¥3,967 million and ¥6,012 million, respectively, and reversals of valuation losses were ¥892 million and ¥1,075 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, 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
Acquisition	151	1,164	4,069	1,393	38,624	19,844	65,245
Sales and disposals	(24)	(228)	(820)	(327)	(9,423)	(1,481)	(12,303)
Depreciation	(263)	(6,100)	(9,785)	(3,592)	(14,859)	–	(34,599)
Impairment losses	(201)	(218)	(853)	(48)	(71)	–	(1,391)
Acquisitions and divestitures							
Currency translation effect	1,997	4,803	3,509	603	2,914	940	14,766
Transfer from construction in progress	188	8,503	9,626	2,286	754	(21,357)	–
Other	(1,184)	(919)	(168)	514	129	292	(1,336)
March 31, 2021	57,180	97,617	58,066	9,697	109,892	13,395	345,847

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, 2020	56,677	197,462	222,697	60,083	161,410	15,169	713,498
March 31, 2021	57,283	212,289	234,930	62,260	181,437	13,395	761,594
Accumulated depreciation and impairment losses							
March 31, 2020	(161)	(106,850)	(170,209)	(51,215)	(69,586)	(12)	(398,033)
March 31, 2021	(103)	(114,672)	(176,864)	(52,563)	(71,545)	–	(415,747)

(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, 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
Purchases	–	4,821	72	4,893
Amortization	–	(4,885)	(880)	(5,765)
Impairment losses	–	–	–	–
Sales and disposals	–	(105)	(29)	(134)
Acquisitions and divestitures				
Currency translation effect, etc.	4,868	372	3,904	9,144
Other	–	423	–	423
March 31, 2021	35,406	21,178	20,398	76,982

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

Notes to Consolidated Financial Statements

(Millions of yen)

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2020	30,860	61,718	31,494	124,072
March 31, 2021	35,728	46,939	30,685	113,352
Accumulated amortization and impairment losses				
March 31, 2020	(322)	(41,166)	(14,163)	(55,651)
March 31, 2021	(322)	(25,761)	(10,287)	(36,370)

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 ¥23,720 million and ¥24,764 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 group.

Significant goodwill recorded in the consolidated statements of financial position is principally goodwill due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in the year ended March 31, 2017 (¥7,043 million in the year ended March 31, 2020, and ¥7,165 million in the year ended March 31, 2021), and goodwill due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in the year ended March 31, 2017 (¥15,720 million in the year ended March 31, 2020, and ¥20,066 million in the year ended March 31, 2021).

The recoverable amount per CGU group is calculated based on value in use. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate (approximately 12% for H-E Parts International LLC, and approximately 9 to 10% for Bradken Pty Limited) which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate (maximum of approximately 2.2% for H-E Parts International LLC, and maximum of approximately 2.4% for Bradken Pty Limited) not exceeding the long-term average growth rate of the market to which the CGU group 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 group exceeded the carrying amount of goodwill as of March 31, 2021, the carrying amount may exceed the value in use if the discount rate increases by approximately 1.7% for H-E Parts International LLC or approximately 1% for Bradken Pty Limited.

(11) Deferred taxes and income taxes

The components of income tax expense are as follows:

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Income tax expense		
Current tax expense	20,578	11,988
Deferred tax expense	1,757	(1,037)
Temporary differences originated and reversed	(2,572)	(5,239)
Changes in write-down of deferred tax assets	4,329	4,202
Total	22,335	10,951

(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.

(Fiscal year ended March 31, 2021)

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

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

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, 2020	As of March 31, 2021
Combined statutory income tax rate	30.6	30.6
Unitary taxation system including foreign subsidiaries	1.6	2.6
Income not taxable for tax purpose, such as dividends received	(18.4)	(44.6)
Elimination of dividends received	20.0	46.1
Difference in statutory tax rates of foreign subsidiaries	(3.3)	(6.0)
Changes in write-down of deferred tax assets	6.5	16.4
Other, net	(3.7)	(2.3)
Effective income tax rate	33.3	42.8

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

Notes to Consolidated Financial Statements

Changes in deferred tax assets and liabilities are as follows:

(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 affiliates	(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

Notes to Consolidated Financial Statements

(Millions of yen)

	April 1, 2020	Recognized in profit or loss	Recognized in OCI	Changes in the scope of consolidation	March 31, 2021
Deferred tax assets					
Allowance for doubtful receivables	770	65	–	–	835
Accrued bonuses	3,116	(194)	–	–	2,922
Accrued expenses	4,814	(330)	–	–	4,484
Retirement and severance benefits	5,150	487	63	–	5,700
Net operating loss carryforwards	3,375	2,686	–	–	6,061
Unrealized profits of inventories	1,724	(455)	–	–	1,269
Unrealized gain on fixed assets	1,479	(101)	–	–	1,378
Other	6,679	7,111	1,862	–	15,652
Total deferred tax assets	27,107	9,269	1,925	–	38,301
Offset with deferred tax liabilities	(12,013)	(10,236)	–	–	(22,249)
Reported deferred tax assets	15,094	(967)	1,925	–	16,052
Deferred tax liabilities					
Investments in subsidiaries and investments in affiliates	(7,702)	700	(653)	–	(7,655)
Assets acquired in business combinations	(6,300)	534	(705)	–	(6,471)
Investments in securities	(2,673)	–	(614)	–	(3,287)
Other	(1,457)	(9,466)	(838)	–	(11,761)
Total deferred tax liabilities	(18,132)	(8,232)	(2,810)	–	(29,174)
Offset with deferred tax assets	12,013	10,236		–	22,249
Reported deferred tax liabilities	(6,119)	2,004	(2,810)	–	(6,925)
Net deferred tax assets	8,975	1,037	(885)	–	9,127

The total temporary differences related to excess amounts over the tax basis of investments in subsidiaries and investments in affiliates for which deferred tax liabilities are not recognized are ¥20,263 million and ¥29,221 million, respectively, as of March 31, 2020 and 2021.

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, 2021.

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, 2020	As of March 31, 2021
Deductible temporary differences	16,432	28,423
Tax loss carryforwards		
Expiring within 1 year	–	–
Expiring after 1 year but not more than 5 years	6,745	51,883
Expiring after 5 years	46,386	23,553
Total tax loss carryforwards	53,131	75,436

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, 2020	As of March 31, 2021
Accounts and notes payable and electronically recorded obligations - operating	110,571	110,097
Accounts payable - other	29,342	33,514
Accrued expenses	33,987	35,699
Other	5,937	9,060
Total	179,837	188,370

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Current liabilities	173,872	180,673
Non-current liabilities	5,965	7,697
Total	179,837	188,370

(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, 2020	Year ended March 31, 2021
Present value of defined benefit obligations at beginning of year	96,378	81,914
Service cost	4,593	4,284
Interest cost	1,189	1,193
Actuarial gain or (loss)	(1,988)	1,864
Benefits paid	(3,810)	(3,828)
Increase or (decrease) due to termination of the plan	(13,162)	(122)
Other	(1,286)	1,324
Present value of defined benefit obligations at end of year	81,914	86,629

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Fair value of plan assets at beginning of year	81,935	69,312
Interest income	846	838
Employers' contributions	4,470	3,793
Employees' contributions	111	–
Benefits paid	(3,010)	(2,943)
Return on plan assets (excluding the amount recognized as interest income)	(2,023)	7,003
Increase or (decrease) due to termination of the plan	(11,839)	(122)
Other	(1,178)	1,206
Fair value of plan assets at end of year	69,312	79,087

Changes in the effect of asset ceiling are as follows:

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Balance of the effect of asset ceiling at beginning of year	170	161
Interest income	–	–
Remeasurements	3	378
Effect of limiting net plan assets to the asset ceiling	–	–
Other	(12)	42
Balance the effect of asset ceiling at end of year	161	581

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Present value of defined benefit obligations (funded)	(67,324)	(70,993)
Fair value of plan assets	69,312	79,087
Funding position	1,988	8,094
Effect of asset ceiling	(161)	(581)
Present value of defined benefit obligations (unfunded)	(14,590)	(15,636)
Net assets (liabilities) in the consolidated statements of financial position	(12,763)	(8,123)
Amount in the consolidated statements of financial position		
Liabilities	(17,084)	(17,748)
Assets (other non-current assets)	4,321	9,625

The components of actuarial gain or loss are as follows:

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Arising from changes in financial assumptions	2,199	(480)
Arising from changes in demographic assumptions	439	(719)
Other	(650)	(665)

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, 2020	As of March 31, 2021
Discount rate	1.4	1.5

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, 2020	As of March 31, 2021
Increase by 0.5%	(6,206)	(7,017)
Decrease by 0.5%	6,871	7,349

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, 2020	As of March 31, 2021
Duration	15.9	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, 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

(Millions of yen)

	As of March 31, 2021		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	–	–	–
Government bonds	1,234	1,488	2,722
Hedge funds	–	6,749	6,749
Securitization products	–	414	414
Cash and cash equivalents	1,883	–	1,883
Life insurance general accounts	–	2,310	2,310
Commingled funds	–	63,726	63,726
Other	330	953	1,283
Total	3,447	75,640	79,087

Commingled funds represent pooled institutional investments. As of March 31, 2020, commingled funds 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. As of March 31, 2021, they were approximately allocated to 26% in listed stocks, 30% in government bonds, 15% in corporate bonds and other debt securities, and 29% 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 ¥3,762 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 ¥1,971 million and ¥1,826 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 ¥147,841 million and ¥145,161 million, respectively.

(14) Equity

(a) Common stock

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

(Number of shares)

	As of March 31, 2020	As of March 31, 2021
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, 2019	215,115,038
Change during the year	–
As of March 31, 2020	215,115,038
Change during the year	–
March 31, 2021	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, 2019	2,460,265
Acquisition of treasury stock	1,602
Sales of treasury stock	–
March 31, 2020	2,461,867
Acquisition of treasury stock	1,210
Sales of treasury stock	(30)
March 31, 2021	2,463,047

(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, 2020	Year ended March 31, 2021
Foreign currency translation adjustments		
OCI arising during the year	(34,203)	38,992
Reclassification adjustment	–	–
OCI before tax effect	(34,203)	38,992
Tax effect	682	(381)
OCI, net of tax effect	(33,521)	38,611
Remeasurements of defined benefit obligations		
OCI arising during the year	(38)	4,761
Reclassification adjustment	–	–
OCI before tax effect	(38)	4,761
Tax effect	(67)	(1,185)
OCI, net of tax effect	(105)	3,576
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the year	(1,872)	2,814
Reclassification adjustment	–	–
OCI before tax effect	(1,872)	2,814
Tax effect	450	(862)
OCI, net of tax effect	(1,422)	1,952
Cash flow hedges		
OCI arising during the year	1,490	(961)
Reclassification adjustment	(1,469)	157
OCI before tax effect	21	(804)
Tax effect	(6)	221
OCI, net of tax effect	15	(583)
Other comprehensive income of equity-method affiliates		
OCI arising during the year	(650)	(719)
Reclassification adjustment	–	–
OCI before tax effect	(650)	(719)
Tax effect	–	(4)
OCI, net of tax effect	(650)	(723)
Total OCI		
OCI arising during the year	(35,273)	44,887
Reclassification adjustment	(1,469)	157
OCI before tax effect	(36,742)	45,044
Tax effect	1,059	(2,211)
OCI, net of tax effect	(35,683)	42,833

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(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, 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
The Board of Directors meeting held on June 18, 2020	Common stock	5,104	24	March 31, 2020	June 19, 2020
The Board of Directors meeting held on October 27, 2020	Common stock	2,127	10	September 30, 2020	November 30, 2020

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

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors meeting held on May 24, 2021	Common stock	2,127	10	March 31, 2021	May 31, 2021

(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, 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

Notes to Consolidated Financial Statements

For the year ended March 31, 2021

(Millions of yen)

	Construction Machinery Business	Solution Business	Total revenues
Japan	203,336	–	203,336
The Americas	84,156	33,892	118,048
Europe	87,155	694	87,849
Russia-CIS, Africa, and Middle East	64,127	8,223	72,350
Asia and Oceania	206,740	35,949	242,689
China	88,677	382	89,059
Total	734,191	79,140	813,331

(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 the Group's trade receivables, contract assets and contract liabilities from contracts with customers.

For the year ended March 31, 2020

(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

For the year ended March 31, 2021

(Millions of yen)

	April 1, 2020	March 31, 2021
Trade receivables	247,415	247,807
Contract assets	4,701	4,845
Contract liabilities	8,875	10,870

Of the revenue recognized during the previous fiscal year, 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 previous fiscal year were ¥208 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 ¥6,692 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 ¥98 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, 2020	Year ended March 31, 2021
Gain on sales of property, plant and equipment	454	187
Subsidy income	570	321
Gain on business restructuring (*1)	3,105	39
Other	4,414	4,520
Total	8,543	5,067

(*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 PEO Construction Machinery Operators Training Center Co., Ltd. (Former 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, 2020	Year ended March 31, 2021
Loss on sales of property, plant, and equipment	30	230
Loss on disposal of property, plant and equipment	779	750
Impairment losses (*1)	6,002	1,391
Business structure reform expenses (*2)	654	3,539
Other	4,847	3,632
Total	12,312	9,542

(*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, 2020 and for the year ended March 31, 2021 include a special severance payment and so forth.

(19) Financial income and financial expenses

Main components of financial income are as follows:

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Interest income		
Financial assets measured at amortized cost	2,069	2,063
Dividend income		
FVTOCI financial assets	281	230
Other	530	1,365
Total	2,880	3,658

Main components of financial expenses are as follows:

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Interest expenses		
Financial liabilities measured at amortized cost	6,586	5,232
Foreign exchange losses	4,151	1,146
Other	571	1,365
Total	11,308	7,743

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, 2020	Year ended March 31, 2021
Net income attributable to owners of the parent	41,171	10,340
Adjustments for dilutive effect	–	–
Net income attributable to owners of the parent (diluted)	41,171	10,340

(Number of shares)

	Year ended March 31, 2020	Year ended March 31, 2021
Weighted average number of common shares outstanding	212,654,154	212,652,631
Dilutive effect of stock options	–	–
Weighted average number of common shares outstanding - diluted	212,654,154	212,652,631

(Yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Net income attributable to owners of the parent per share (basic)	193.61	48.62
Net income attributable to owners of the parent per share (diluted)	193.61	48.62

	Year ended March 31, 2020	Year ended March 31, 2021
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, 2020 and 2021 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, 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

For the year ended March 31, 2021

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Lease liabilities	Total
April 1, 2020	112,961	49,831	176,151	60,791	399,734
Changes involving cash flows	(42,150)	10,000	9,204	(11,534)	(34,480)
Changes not involving cash flows					
Newly reported lease liabilities	–	–	–	6,845	6,845
Acquisitions and divestitures	–	–	–	–	–
Currency translation effect, etc.	4,899	(19)	8,611	3,329	16,820
March 31, 2021	75,710	59,812	193,966	59,431	388,919

(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, 2020 and 2021 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, 2020 and 2021, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Impact on income before income taxes	(951)	(594)

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, 2020 and 2021 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, 2020 and 2021, while all other variables are held constant.

(Millions of yen)

	Currency	As of March 31, 2020	As of March 31, 2021
Impact on income before income taxes	US Dollar	25	71
	Euro	3	1

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, 2020 and 2021 fell by 10%, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Impact on OCI, net of taxes	(383)	(524)

(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, 2020 and the year ended March 31, 2021 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, 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, 2021

(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, 2020	5,625	1,089	6,714	195,282	3,391	198,673
Net change during the year	(665)	56	(609)	(6,813)	1,088	(5,725)
Credit-impairment (a)	–	–	–	(15)	15	–
Write-off (b)	(34)	(64)	(98)	(749)	(64)	(813)
Other (c)	192	(145)	47	4,656	(474)	4,182
March 31, 2021	5,118	936	6,054	192,361	3,956	196,317

Notes to Consolidated Financial Statements

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, 2021

(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, 2020	24	1,298	1,322	55,363	6,116	61,479
Net change during the year	(2)	612	610	(284)	153	(131)
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	(1)	(1)	–	(2)	(2)
Other (c)	–	187	187	2,543	618	3,161
March 31, 2021	22	2,096	2,118	57,622	6,885	64,507

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

For the year ended March 31, 2021

(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, 2020	31	98	129	18,860	98	18,958
Net change during the year	–	(89)	(89)	(2,993)	(89)	(3,082)
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	–	–	(741)	–	(741)
Other (c)	3	5	8	(783)	5	(778)
March 31, 2021	34	14	48	14,343	14	14,357

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

(iii) Liquidity risk

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

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

(Millions of yen)

	As of March 31, 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 previous fiscal year 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.

(Millions of yen)

	As of March 31, 2021				
	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	188,370	188,370	180,673	7,697	–
Lease liabilities	59,431	70,216	13,488	27,775	28,953
Short-term borrowings	75,710	76,199	76,119	–	–
Bonds	59,812	60,997	10,157	10,484	40,356
Long-term borrowings	193,966	196,712	65,640	110,702	20,370
Derivative liabilities					
Forward exchange contracts	3,846	3,846	3,846	–	–
Interest rate swaps	–	–	–	–	–
Currency swaps	101	101	–	101	–

(Note 1) The weighted average interest rate for short-term borrowings for the fiscal year under review is 0.54%, and the weighted average interest rate for long-term borrowings is 1.42%.

(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, 2020	(Millions of yen) March 31, 2021	Security	Interest rates (%)	Maturity date
The Company	Unsecured debenture #16	2014	9,992	9,999	Unsecured	0.487	June 16, 2021
The Company	Unsecured debenture #17	2017	9,974	9,983	Unsecured	0.16	December 13, 2022
The Company	Unsecured debenture #18	2020	19,914	19,926	Unsecured	0.25	March 12, 2027
The Company	Unsecured debenture #19	2020	9,951	9,955	Unsecured	0.29	March 12, 2030
The Company	Unsecured debenture #20	2021	–	9,949	Unsecured	0.38	March 18, 2031

(iv) Capital management

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

Net interest-bearing liabilities as of March 31, 2020 and 2021 amounted to ¥276,778 million and ¥249,158 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 and other financial liabilities

Other financial assets mainly include other receivables and loans receivable, and other financial liabilities mainly include deposits. Current items among other financial assets are settled in a short period, and thus their carrying amount reasonably approximates the fair value. As for securities classified as financial assets measured at FVTOCI, fair value of listed stock is determined based on the market price quoted on the exchange. Fair value of non-listed stock is determined based on a valuation technique using observable inputs such as quoted market prices of comparable companies as well as unobservable inputs. 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, 2020		As of March 31, 2021	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Assets				
Trade receivables (*1)	247,415	248,775	247,807	249,900
Liabilities				
Trade and other payables (*2)	(179,837)	(180,015)	(188,370)	(188,080)
Bonds and borrowings (*3)	(338,943)	(339,872)	(329,488)	(328,904)

(*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, 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)

(Millions of yen)

As of March 31, 2021	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	7,549	–	9,059	16,608
FVTPL financial assets:				
Other financial assets				
Derivative assets	–	538	–	538
Other financial assets	–	–	507	507
Total financial assets	7,549	538	9,566	17,653
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	–	(3,947)	–	(3,947)
Other:				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	(1,413)	(1,413)
Total financial liabilities		(3,947)	(1,413)	(5,360)

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, 2020	Year ended March 31, 2021
Balance at beginning of the year	9,139	8,804
Total gain/(loss)	(310)	767
Other comprehensive income	(310)	767
Purchased	112	309
Sold	(95)	(294)
Other	(42)	(20)
Balance at end of the year	8,804	9,566

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, 2021 is ¥1,340 million and ¥1,413 million, respectively. Changes in the year ended March 31, 2021 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, 2020	As of March 31, 2021
KYB Corporation	1,846	2,694
ELLE Construction Machinery (China) Co., LTD.	2,277	2,506
Wakita & Co., LTD.	1,186	1,199
Kanamoto Co., Ltd.	725	993
KOKEN BORING MACHINE CO., LTD.	576	829

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 ¥1 million and ¥141 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, 2020	Year ended March 31, 2021
Fair value at the time of derecognition	17	224
Accumulated gains at the time of derecognition	2	202

(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, 2021, hedge ineffectiveness recognized in profit or loss was not material.

As of March 31, 2021, 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 2021 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, 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.

For the year ended March 31, 2021

(Millions of yen)

	Notional amount		Carrying amount	
		More than 1 year	Assets	Liabilities
Fair value hedge				
Currency exchange risk	42,419		236	(3,078)
Cash flow hedge				
Currency exchange risk	22,463		261	(731)
Interest rate risk	–		–	–

The fair values of derivative assets and liabilities for which hedge accounting was not applied were ¥41 million for derivative assets, and ¥(138) 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, 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, 2021

(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	67,168	(24,749)

For the year ended March 31, 2021, 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, 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)

For the year ended March 31, 2021

(Millions of yen)

	April 1, 2020	Changes in fair value of hedging instruments recognized in OCI	Amount reclassified to profit or loss	March 31, 2021
Currency exchange risk	401	(985)	108	(476)
Interest rate risk	(77)	24	49	(4)

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, 2020	As of March 31, 2021
Accounts and notes receivable	6,494	4,499
Inventories	13,438	9,103
Other property, plant and equipment	49,789	59,272
Total	69,721	72,874

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, 2020	As of March 31, 2021
Hitachi Construction Machinery Tierra Co., Ltd.	Koka-city, Shiga	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Japan Co., Ltd.	Soka-city, Saitama	Construction Machinery Business	100.0	100.0
LLC Hitachi Construction Machinery Eurasia	Tver, Russia	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Europe) N.V.	Oosterhout, the Netherlands	Construction Machinery Business	98.9	98.9
Hitachi Construction Machinery (China) Co., Ltd.	Hefei, Anhui, China	Construction Machinery Business	81.3	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, U.S.A.	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Australia) Pty. Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	80.0	80.0
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	Solution Business	100.0	100.0
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, 2020	Year ended March 31, 2021
Monthly salary, year-end allowance and performance-linked compensation	884	715

(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, 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	–

For the year ended March 31, 2021

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayment of funds	18,455	2
		Interest on borrowings	55	–

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

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	–

For the year ended March 31, 2021

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Providing collateral	35,429	–

(Note) Hitachi Capital Corporation changed its company name to Mitsubishi HC Capital Inc. as of April 1, 2021.

(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, 2020	As of March 31, 2021
Guarantee obligations	53,671	58,179
Guarantee commitment	132	95
Total	53,803	58,274

(27) Subsequent events

Not applicable.

Notes to Consolidated Financial Statements

(28) Approval of consolidated financial statements

The consolidated financial statements were approved on June 29, 2021 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, 2020	Six months ended September 30, 2020	Nine months ended December 31, 2020	Year ended March 31, 2021
Revenue	170,157	360,902	558,727	813,331
Income before income taxes	1,787	4,779	11,833	25,578
Net income attributable to owners of the parent	201	211	3,126	10,340
Net income attributable to owners of the parent per share (basic) (Yen)	0.95	0.99	14.70	48.62

	First quarter (April 1 to June 30, 2020)	Second quarter (July 1 to September 30, 2020)	Third quarter (October 1 to December 31, 2020)	Fourth quarter (January 1 to March 31, 2021)
Net income attributable to owners of the parent per share (basic) (Yen)	0.95	0.04	13.71	33.92

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	22,094	17,785
Notes receivable - trade	6	0
Electronically recorded monetary claims - operating	212	213
Accounts receivable - trade (*1)	123,524	132,180
Merchandise and finished goods	57,741	52,318
Work in process	21,330	18,176
Raw materials and supplies	1,825	1,397
Prepaid expenses	1,970	1,360
Short-term loans receivable (*1)	42,924	52,538
Accounts receivable - other (*1)	30,656	28,714
Others	1,447	555
Allowance for doubtful accounts	(887)	(1,033)
Total current assets	302,842	304,202
Non-current assets		
Property, plant and equipment		
Buildings	29,869	29,722
Structures	3,493	3,495
Machinery and equipment	20,343	23,110
Vehicles	124	78
Tools, furniture and fixtures	3,625	3,611
Land	39,603	39,603
Construction in progress	5,329	6,121
Total property, plant and equipment	102,386	105,740
Intangible assets		
Software	11,479	11,384
Others	404	299
Total intangible assets	11,883	11,683
Investments and other assets		
Investment securities	5,754	7,870
Shares of subsidiaries and affiliates	146,287	146,808
Investments in capital of subsidiaries and affiliates	18,942	18,942
Long-term loans receivable from subsidiaries and affiliates	6,779	0
Long-term prepaid expenses	988	779
Prepaid pension costs	8,312	8,841
Deferred tax assets	3,129	3,762
Others	1,757	1,397
Allowance for doubtful accounts	(92)	(106)
Total investments and other assets	191,856	188,293
Total non-current assets	306,125	305,717
Total assets	608,967	609,918

See accompanying notes to financial statements.

	As of March 31, 2020	As of March 31, 2021
		(Millions of yen)
Liabilities		
Current liabilities		
Electronically recorded obligations - operating	22,546	18,248
Accounts payable - trade (*1)	47,489	50,339
Short-term borrowings	0	1,141
Short-term borrowings from subsidiaries and affiliates	36,829	18,526
Current portion of long-term borrowings	7,509	15,000
Current portion of bonds	0	10,000
Lease obligations	111	112
Accounts payable - other (*1)	12,207	10,549
Accrued expenses	10,240	9,995
Income taxes payable	545	621
Deposits received (*1)	21,609	18,521
Unearned revenue	1,407	1,280
Others	322	3,720
Total current liabilities	160,814	158,053
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term borrowings	83,325	78,607
Lease obligations	2,726	2,614
Provision for retirement benefits	7,946	8,203
Asset retirement obligations	209	216
Others	8,714	11,235
Total non-current liabilities	152,920	150,874
Total liabilities	313,735	308,927
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	3	–
Reserve for reduction entry	1,108	985
General reserve	12,952	12,952
Retained earnings brought forward	113,781	118,820
Total retained earnings	130,014	134,926
Treasury stock, at cost	(3,082)	(3,086)
Total shareholders' equity	293,468	298,376
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,532	2,937
Deferred gains or losses on hedges	232	(322)
Total valuation and translation adjustments	1,764	2,615
Total net assets	295,232	300,991
Total liabilities and net assets	608,967	609,918

See accompanying notes to financial statements.

2) Non-consolidated statements of income

Years ended March 31, 2020 and 2021 (Millions of yen)

	2020	2021
Net sales (*1)	482,571	392,842
Cost of sales (*1)	420,455	355,788
Gross profit	62,116	37,054
Selling, general and administrative expenses (*2)	66,781	60,603
Operating loss	(4,665)	(23,550)
Non-operating income		
Interest income (*1)	578	501
Dividend income (*1)	42,005	32,627
Foreign exchange gains	–	1,239
Miscellaneous income (*1)	1,695	2,532
Total non-operating income	44,279	36,900
Non-operating expenses		
Interest expenses (*1)	925	808
Foreign exchange losses	1,819	–
Miscellaneous loss (*1)	2,435	3,592
Total non-operating expenses	5,180	4,399
Ordinary income	34,434	8,951
Extraordinary income		
Gain on extinguishment of tie-in shares	658	–
Gain on sales of shares of subsidiaries and affiliates	2,066	–
Gain on sales of investment securities	181	196
Total extraordinary income	2,905	196
Extraordinary losses		
Loss on valuation of shares of subsidiaries and affiliates	45	–
Loss on valuation of investment securities	435	4
Total extraordinary losses	480	4
Income before income taxes	36,859	9,143
Income taxes - current	3,181	(1,954)
Income taxes - deferred	(154)	(1,046)
Net income	33,832	12,142

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

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	–
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			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	(3,077)	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		–			–	–
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

Year ended March 31, 2021

(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	3	1,108	12,952	113,781	130,014
Changes of items during period										
Dividends of surplus				–					(7,230)	(7,230)
Net income				–					12,142	12,142
Acquisition of treasury stock				–						–
Increase by merger				–						–
Reversal of reserve for special depreciation				–		(3)			3	–
Reversal of reserve for reduction entry				–			(124)		124	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	–	–	–	(3)	(124)	–	5,039	4,912
Balance at end of period	81,577	81,084	3,875	84,959	2,169	–	985	12,952	118,820	134,926

(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	(3,082)	293,468	1,532	232	1,764	295,232
Changes of items during period						
Dividends of surplus		(7,230)			–	(7,230)
Net income		12,142			–	12,142
Acquisition of treasury stock	(4)	(4)			–	(4)
Increase by merger		–			–	–
Reversal of reserve for special depreciation		–			–	–
Reversal of reserve for reduction entry		–			–	–
Net changes of items other than shareholders' equity		–	1,405	(554)	851	851
Total changes of items during period	(4)	4,908	1,405	(554)	851	5,759
Balance at end of period	(3,086)	298,376	2,937	(322)	2,615	300,991

Notes to Non-Consolidated Financial Statements

Significant accounting policies

1. Valuation standards and valuation methods for securities
   (1) Investments in subsidiaries and affiliates
   Stated at cost based on the moving-average method.
   (2) Available-for-sale securities
   (i) 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.)
   (ii) 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.
   (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.

Significant accounting estimates

(1) Valuation of shares of subsidiaries and affiliates whose fair values are extremely difficult to determine
   (i) Amounts recorded in the financial statements as of March 31, 2021
   Shares of subsidiaries and affiliates whose fair values are extremely difficult to determine: ¥146,184 million
      Of the above amount, carrying amounts of major shares of subsidiaries and affiliates acquired through M&A, etc.
      - Bradken Pty Limited: ¥58,766 million
      - H-E Parts International LLC: ¥20,713 million

(ii) Information contributing to understanding of accounting estimates

As for shares of subsidiaries and affiliates, actual value of a share decreased significantly after comparison between the actual value and the purchase price of the share, the recoverability is assessed in light of business performance based on the company's business plan. For the business plan, actual results in and after the next fiscal year often differ from the plan due to risks related to changes in business environment and other factors. If actual results are different, this may affect operating results, etc.

In addition, certain shares of subsidiaries and affiliates acquired through M&A, etc. are assessed based on the actual value in view of excess earning power calculated in measurement of the company's corporate value at the time of acquisition, and others. Whether or not excess earning power, etc. is impaired is affected by future achievability of the business plan. If the business plan is not achieved and excess earning power is impaired in and after the fiscal year, this may affect operating results, etc.

(2) Recoverability of deferred tax assets

(i) Amounts recorded in the financial statements as of March 31, 2021

Deferred tax assets: ¥3,762 million

(ii) Information contributing to understanding of accounting estimates

Because the same information is provided in "(2) Basis of presentation, Recoverability of deferred tax assets" and "(11) Deferred taxes and income taxes," the note has been omitted.

Changes in presentation

The Group has applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the fiscal year ended March 31, 2021, and provided a note on significant accounting estimates. However, the content related to the fiscal year ended March 31, 2020 has not been provided in this note, in accordance with the transitional treatment specified in the proviso of paragraph 11 of the accounting standard.

Additional information

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

Significant accounting estimates based on future earnings forecasts in the year ended March 31, 2021 are based on the assumption that impacts of stagnant economic activities due to the spread of the new coronavirus infection (COVID-19) will basically remain in the first half of the year ending March 31, 2022 and conditions will start to normalize in the second half, although the Company conducts its business activities globally and circumstances are different depending on regions.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2021. 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.

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated balance sheets

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

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Short-term monetary claims	157,058	177,963
Short-term monetary debts	40,804	39,570

*2. Guarantee obligations

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

(1) Guarantees

(Millions of yen)

As of March 31, 2020		As of March 31, 2021	
ACME Business Hold co, LLC	37,463	ACME Business Hold co, LLC	41,704
Eurasian Machinery LLP	5,006	Marubeni Equipment Finance (Oceania) Pty. Ltd	5,610
Marubeni Equipment Finance (Oceania) Pty. Ltd	4,022	Eurasian Machinery LLP	4,043
SCAI S.p.A.	2,391	SCAI S.p.A.	2,596
Other	660	Other	326
Total	49,542	Total	54,279

(2) Guarantee commitment

(Millions of yen)

As of March 31, 2020		As of March 31, 2021	
OKUBO GEAR Co., LTD	132	OKUBO GEAR Co., LTD	95
Total	132	Total	95

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and affiliates

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Operating transaction		
Sales	371,758	302,230
Purchase	159,268	127,981
Non-operating transaction	46,405	38,557

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, 2020	Year ended March 31, 2021
Packing and shipping expenses	12,415	10,555
Employees' salaries and allowances	10,128	10,617
Retirement benefit expenses	672	714
Subcontract expenses	7,019	5,507
Depreciation	1,904	2,098
R&D expenses	17,136	17,958
Approximate ratio (%)		
Selling expenses	32	31
General and administrative expenses	68	69

Notes on securities

Shares of subsidiaries and affiliates

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

As of March 31, 2021

(Millions of yen)

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Shares of subsidiaries	624	10,938	10,314
Total	624	10,938	10,314

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

(Millions of yen)

Type of securities	As of March 31, 2020	As of March 31, 2021
Shares of subsidiaries	135,864	136,849
Shares of affiliates	9,799	9,335

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, 2020	As of March 31, 2021
Deferred tax assets		
Net operating loss carryforwards	1,881	2,758
Accrued business tax	158	182
Provision for bonuses	1,765	1,695
Accrued expenses	3,653	5,135
Allowance for doubtful accounts	272	316
Write down of inventories	1,302	1,724
Loss on valuation of shares of subsidiaries and affiliates	14,708	14,708
Loss on valuation of investment securities	202	202
Provision for retirement benefits	2,433	2,512
Impairment loss	222	12
Excess over depreciation limit	1,664	1,860
Foreign tax credit carryforwards	–	671
Others	718	892
Subtotal of deferred tax assets	28,978	32,668
Valuation allowance on tax loss carryforwards	(1,671)	(2,636)
Valuation allowance on total deductible temporary differences	(18,983)	(21,090)
Subtotal of valuation allowance	(20,654)	(23,726)
Total	8,324	8,942
Deferred tax liabilities		
Insurance receivables	641	–
Prepaid pension costs	2,545	2,707
Reserve for reduction entry	489	435
Reserve for special depreciation	1	–
Valuation difference on available-for-sale securities	676	1,296
Valuation difference on fair value of land	652	652
Others	191	89
Total	5,195	5,179
Net deferred tax assets	3,129	3,762

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, 2020	As of March 31, 2021
Effective statutory tax rates (%)	30.6	26.8
(Adjustments)		
Aggregate income of specified foreign subsidiaries	3.0	6.3
Non-deductible amount for tax expense of donations	0.7	2.5
Income not taxable for tax purpose, such as dividend income	(33.6)	(92.9)
Withholding tax on dividends received by foreign subsidiaries	1.1	1.8
Change in valuation allowance	4.5	19.3
Foreign tax credit	0.5	(0.5)
Other	1.5	3.9
Effective income tax rates after tax effect accounting	8.2	(32.8)

Business combinations, etc.
Not applicable.

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, 2020	Increase during reporting period	Decrease during reporting period	Depreciation and amortization during reporting period	Balance as of March 31, 2021	Accumulated depreciation and amortization
Property, plant and equipment						
Buildings	29,869	2,089	21	2,214	29,722	41,996
Structures	3,493	457	7	448	3,495	11,598
Machinery and equipment	20,343	6,948	108	4,072	23,110	90,151
Vehicles	124	24	0	69	78	1,659
Tools, furniture and fixtures	3,625	2,102	28	2,089	3,611	31,784
Land	39,603	–	–	–	39,603	–
Construction in progress	5,329	11,920	11,128	–	6,121	–
Total property, plant and equipment	102,386	23,540	11,293	8,893	105,740	177,187
Intangible assets						
Software	11,479	8,394	5,604	2,885	11,384	15,546
Others	404	–	6	99	299	2,886
Total intangible assets	11,883	8,394	5,610	2,984	11,683	18,432

[Supplementary schedule of provisions]

(Millions of yen)

Account	Balance as of April 1, 2020	Increase during reporting period	Decrease during reporting period	Balance as of March 31, 2021
Allowance for doubtful accounts	979	1,139	979	1,139

(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

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

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

Filed to Director-General of Kanto Local Finance Bureau on July 21, 2020

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on July 21, 2020

(3) Quarterly Securities Reports and Written Confirmations

First quarter of the 57th term (from April 1, 2020 to June 30, 2020)

Filed to Director-General of Kanto Local Finance Bureau on August 7, 2020

Second quarter of the 57th term (from July 1, 2020 to September 30, 2020)

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

Third quarter of the 57th term (from October 1, 2020 to December 31, 2020)

Filed to Director-General of Kanto Local Finance Bureau on February 10, 2021

(4) Extraordinary Securities Report

Extraordinary Securities Report based on Article 19, paragraph (2), item (ix)-2 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on July 21, 2020

(5) Amended Extraordinary Securities Report

Amendment Registration Statement of the Extraordinary Securities Report that was filed on July 21, 2020, as stated (4) above.

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

(6) Amended Shelf Registration Statement

Filed to Director-General of Kanto Local Finance Bureau on July 21, 2020

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

(7) Shelf Registration Supplement and Appendices

Filed to Director-General of Kanto Local Finance Bureau on March 12, 2021

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

Not applicable.