Hitachi Construction Machinery Co., Ltd.

Securities Code: 6305

Notice of Convocation of the 59th Annual Shareholder’s Meeting

※ZAXIS ELECTRIC series (electric excavator)

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Note: The amounts and number of shares contained in this notice for reference are rounded to the nearest integer.

Note: This document has been translated from part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Securities Code: 6305

June 5, 2023

To Our Shareholders

Masafumi Senzaki
Representative Executive Officer, President and Executive Officer
Hitachi Construction Machinery Co., Ltd.
16-1, Higashiueno 2-chome, Taito-ku, Tokyo

Notice of the convocation for the 59th Annual Shareholder's Meeting

Your presence is cordially requested for the 59th Annual Shareholder's Meeting of Hitachi Construction Machinery Co., Ltd. (the "Company") that will be held as indicated below.

When convening this general meeting of shareholders, the Company takes measures for providing information that constitutes the content of reference documents for the general meeting of shareholders, etc. (matters for which measures for providing information in electronic format are to be taken) in electronic format, and posts this information as "Notice of the 59th Annual Shareholder's Meeting" on the Company's website. Please access the Company's website by using the internet address shown below to review the information.

The Company's website:

https://www.hitachicm.com/global/en/ir/stock-and-bond/smeeting/

In addition to posting matters subject to measures for electronic provision on the website above, the Company also posts this information on the website of Tokyo Stock Exchange, Inc. (TSE). To access this information from the latter website, access the TSE website (Listed Company Search) by using the internet address shown below, enter the issuer's name (company name) "Hitachi Construction Machinery" or securities code "6305," and click "Search," and then click "Basic information" and select "Documents for public inspection/PR information." Under "Filed information available for public inspection," click "Click here for access" under "[Notice of General Shareholders Meeting /Informational Materials for a General Shareholders Meeting]."

TSE website (Listed Company Search):

https://www2.jpx.co.jp/tseHpFront/JJK020010Action.do?Show=Show

However, if you are unable to attend the Shareholder's Meeting in person, you could exercise your voting rights in writing or via electromagnetic means (the Internet, etc.). Please exercise your voting rights in accordance with the guidance on the following pages.

This Shareholder's Meeting will be live-streamed in real time on the Internet. Please see the enclosed guide for details.

1. **Date and Time:** Monday, June 26, 2023, at 10:00 a.m. (Japan Standard Time (JST)) (Reception starts at 9:00 a.m.)

2. **Venue:** CYNTHIA, 1st basement floor, Tokyo Dome Hotel
3-61 Koraku 1-chome, Bunkyo-ku, Tokyo

3. **Purpose of the Shareholder's Meeting**

Matters to be reported:

The Business Report, the Consolidated Financial Statements, the results of audits of the Consolidated Financial Statements by the Financial Auditor, the results of audits of the Consolidated Financial Statements by the Audit Committee and Non-Consolidated Financial Statements, for the 59th fiscal year (from April 1, 2022 to March 31, 2023)

Matters to be resolved:

Proposal: Election of Ten (10) Directors Due to Expiration of Terms of Office of All Directors

4. **Guide to the Exercise of Voting Rights**

(1) If there is no indication of approval or disapproval for the proposal after exercising your voting rights in writing (voting card), the Company shall assume you have indicated approval.

(2) If you exercise your voting rights via electromagnetic means (the Internet, etc.), even if the voting card is returned to us by postal mail, the Company shall treat the vote placed via electromagnetic means (the Internet, etc.) as valid.

(3) If you exercise your voting rights more than once via electromagnetic means (the Internet, etc.), the latest exercise shall be deemed to be valid.

(4) Please return the voting card so that it will be received by us **no later than 5:00 p.m. on Friday, June 23, 2023**.

(5) Please exercise your voting rights via electromagnetic means (the Internet, etc.) **no later than 5:00 p.m. on Friday, June 23, 2023**.

(6) As provided for in the Company's Articles of Incorporation, you may appoint another shareholder with voting rights in the Company to attend as your proxy. Please note, however, that it is necessary to submit a document evidencing the authority of proxy.

(7) If you intend to diversely exercise your voting rights, you are requested to notify the Company in writing of your intention to do so and state the reason for this till Thursday, June 22, 2023.

(8) If you plan to view live-streaming and have questions in advance, you are requested to send them through the dedicated website (https://www.icue-gmos.com/soukai/hitachicm/59/) no later than 5:00 p.m. on Friday, June 23, 2023 (JST). Frequently asked questions will be responded to at the venueon the day or on the Company's website at a later date.

Matters to be Resolved at the Annual Shareholder's Meeting

- If there are any modifications to the matters subject to measures for electronic provision or paper-based documents stating the matters subject to measures for electronic provision, we will announce them on our website and on the TSE website (Listed Company Search).
- Among the matters subject to measures for electronic provision, in accordance with the provisions of laws and regulations and Article 14 of the Articles of Incorporation of the Company, the following matters are not provided in the paper-based documents delivered to shareholders who have made a request for delivery of such documents.
  - Business Report (Financing Activities [Major Borrowings], Principal Businesses, Principal Business Locations, Employees, Matters Concerning Outside Directors and Audit Committee Members, Matters Concerning the Company's Stock, Financial Auditor, Policy on Decisions for Dividends of Surplus, and System to Ensure the Appropriateness of Operations and the Operational Status of the Relevant System)

  These matters are included in the Business Report that has been audited by the Audit Committee in preparing its audit report.
  - Notes to the Consolidated Financial Statements in the Consolidated Financial Statements
  - Notes to the Non-Consolidated Financial Statements in the Non-Consolidated Financial Statements

  These matters are included in the Consolidated Financial Statements and Non-Consolidated Financial Statements that have been audited by the financial auditors in preparing their accounting auditor's report.

The Company's website **https://www.hitachicm.com/global/en/**

Guidance for Exercising Voting Rights

You are able to exercise your voting rights for the Shareholder's Meeting by either of the following methods.

If you intend to attend the Shareholder's Meeting in person

Attending the Shareholder's Meeting

Please submit the voting card at the reception desk. We also ask that you bring this notice for reference during the Shareholder's Meeting.

Date and Time: Monday, June 26, 2023, at 10:00 a.m. (JST)

If you do not intend to attend the Shareholder's Meeting in person

In the event of posting the voting card

Please indicate your vote for or against the proposal on the voting card and return it by post. Voting Deadline: **<u>To be received by Friday, June 23, 2023 at 5:00 p.m. (JST)</u>**

Via the Internet

Please access the "Website for Exercising Voting Rights" using a PC or a smartphone, etc., refer to the "Guidance for Exercising Voting Rights via the Internet, Etc." on the next page and register "for" or "against" for each agenda item. Voting Deadline: **<u>Friday, June 23, 2023 at 5:00 p.m. (JST)</u>**

Guidance for Exercising Voting Rights via the Internet, Etc.

By scanning the QR code, "Smart Exercise"

1. Scan the "QR code for logging into the portal site for the Shareholders' Meeting" in the lower right corner of the voting rights exercise form.
   * "QR code" is a registered trademark of DENSO WAVE INCORPORATED.
2. You can check the agenda information, company information, etc. in an easy-to-read format on your smartphone.
   Click the "Voting Rights Exercise" button at the top of the screen to open the screen for voting rights exercise.
3. Please follow the instructions on the screen to enter "for" or "against" with respect to proposal. When the "Speaker's greetings complete" screen appears, the voting process is complete.

Note that your voting rights can be exercised only once by using the "Smart Exercise" method.
If you need to make a correction to the content of your vote after you have exercised your voting rights, please access the website for personal computer and log in by entering your "Voting Rights Exercise Code" and "Password" printed on the voting rights exercise form, and exercise your voting rights again.
* You can access the website for personal computer by scanning the QR Code again.

How to enter "Voting Rights Exercise Code" and "Password"

Website for Exercising Voting Rights
https://www.tosyodai54.net

1. Please access the Website for Exercising Voting Rights.
2. Please enter the "Voting Rights Exercise Code" shown on the voting rights exercise form.
3. Please enter the "Password" shown on the voting rights exercise form.
4. Please then follow the instructions on the screen to enter "for" or "against."

If you have a question on how to use a PC, smartphone or mobile phone for the exercise of voting rights via the Internet, please contact the organization on the right.	**Tokyo Securities Transfer Agent Co., Ltd.** Phone: **0120-88-0768** (toll free) Business hours: 9:00 a.m. – 9:00 p.m. (JST)

For institutional investors	The electronic voting platform for institutional investors operated by ICJ Inc. may be used as a means of exercising voting rights for the Company's Shareholder's Meeting.

- Please note that communication expenses incurred when accessing the Website for Exercising Voting Rights should be borne by yourself.
- Please note that there may be cases where you are not able to exercise your voting rights depending on the device you use.

Reference Documents for the Shareholder’s Meeting

Proposal: Election of Ten (10) Directors Due to Expiration of Terms of Office of All Directors

In accordance with Article 332 of the Companies Act, the terms of office of all ten (10) Directors will expire at the conclusion of the Shareholder’s Meeting. Accordingly, the Company proposes the election of ten (10) Directors based on the decision to propose their election by the Nominating Committee. It should be noted that under the provisions of the Company’s Articles of Incorporation the election of Directors is not conducted by cumulative voting.

The backgrounds, etc. of the candidates for Director are as follows. All of the candidates for Director have accepted in advance to be a Director, if they are elected at the Shareholder’s Meeting.

When electing Directors, the Company considers the experience, insight and expertise of each candidate, as well as the diversity of those attributes. As shown below, all of the candidates have extensive experience, deep insight, a high level of expertise, etc., and the Company believes that the diversity of those attributes has also been ensured.

No.	Name	Reappointment or New Appointment	Expertise of the candidate								
			International management	Research and development	Production and procurement	Sales and service	IT and digital	Finance and accounting	M&A	Legal	Human resources
<Candidate for Outside Director> <Candidate for Independent Director>											
1	Toshiko Oka	Reappointment						○	○		
2	Kazushige Okuhara	Reappointment	○			○					○
3	Maoko Kikuchi	Reappointment								○	
4	Toshinori Yamamoto	New Appointment	○		○			○			○
5	Joseph P.Schmelzeis,Jr.	New Appointment	○			○	○	○			○
<Candidate for Outside Director>											
6	Takatoshi Hayama	New Appointment	○				○				
7	Hidemi Moue	Reappointment	○					○	○		
<Candidate for Director>											
8	Keiichiro Shiojima	Reappointment						○	○		
9	Masafumi Senzaki	New Appointment	○	○	○	○					
10	Kotaro Hirano	Reappointment	○		○	○					

<table>
<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">Toshiko Oka
(March 7, 1964)

[Candidate for Outside Director]

[Candidate for Independent Director]

[Reappointment]

Share Ownership
310 shares</td><td>Position and responsibilities at the Company
Outside Director, Nominating Committee Member, Audit Committee Member, Compensation Committee Member

Attendance at Board of Directors Meetings on FY2022: 13/13 (100%)

Career summary and other principal positions held
4/1986 Joined Tohmatsu Touche Ross Consulting Limited
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, Proterial, Ltd. (previously, 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)</td></tr>
<tr><td>Reason for the election of candidate for Outside Director, overview of expected roles, etc.
The Company again nominates her as a candidate for Outside Director so that she can provide advice on the Company’s overall management and supervise the execution of duties by Executive Officers from an independent position, utilizing her extensive experience as the top executive of a consulting firms, and knowledge of M&A and deep insight. It should be noted that she has served as an Outside Director of the Company since June 2021, and her term of office will be two (2) years at the close of the 59th Annual Shareholder’s Meeting.</td></tr>
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<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">2</td><td rowspan="2">Kazushige Okuhara
(January 27, 1948)

[Candidate for Outside Director]

[Candidate for Independent Director]

[Reappointment]

Share Ownership
7,342 shares</td><td>Position and responsibilities at the Company
Outside Director, Nominating Committee (Chair), Audit Committee Member, Compensation Committee Member

Attendance at Board of Directors Meetings on FY2022: 13/13 (100%)

Career summary and other principal positions held
4/1970 Joined Fuji Heavy Industries Ltd.
10/1999 Senior Managing Director, TOKYO SUBARU Inc.
6/2001 Corporate Vice President, Senior General Manager of Japan Region, Subaru Sales & Marketing Division, Chief General Manager of Subaru Parts & Accessories Division 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 Division and Chief General Manager of Subaru Marketing Division
4/2005 Corporate Senior Vice President, General Manager of Human Resources Department
6/2006 Director, Corporate Executive Vice President, General Manager of Human Resources Department
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)</td></tr>
<tr><td>Reason for the election of candidate for Outside Director, overview of expected roles, etc.
The Company again nominates him as a candidate so that he can provide advice on the Company's overall management and supervise the execution of duties by Executive Officers from an independent position, utilizing his extensive experience as the top executive of a global company and knowledge and deep insight on personnel and labor policy. It should be noted that he has served as an Outside Director of the Company since June 2016, and his term of office will be seven (7) years at the close of the 59th Annual Shareholder's Meeting.</td></tr>
</table>

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<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">3</td><td rowspan="2">Maoko Kikuchi
(July 14, 1965)

[Candidate for Outside Director]

[Candidate for Independent Director]

[Reappointment]

Share Ownership
0 shares</td><td>Position and responsibilities at the Company
Outside Director, Nominating Committee Member, Audit Committee Member, Compensation Committee Member

Attendance at Board of Directors Meetings on FY2022: 13/13 (100%)

Career summary and other principal positions held
4/1992 Joined the Ministry of Justice Public Prosecutors Office as a Public Prosecutor
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
7/2020 Outside Director, the Company (to present)</td></tr>
<tr><td>Reason for the election of candidate for Outside Director, overview of expected roles, etc.
The Company again nominates her as a candidate so that she can provide advice on the Company’s overall management and supervise the execution of duties by Executive Officers from an independent position, utilizing her extensive experience and knowledge in the field of law and her experience and deep insight as a top executive and corporate auditor. It should be noted that she has served as an Outside Director of the Company since July 2020, and her term of office will be three (3) years at the close of the 59th Annual Shareholder’s Meeting.</td></tr>
</table>

No.	Name	Position and responsibilities at the Company, Career summary and other principal positions held
4	**Toshinori Yamamoto** (June 21, 1955) [Candidate for Outside Director] [Candidate for Independent Director] [New Appointment] Share Ownership 0 shares	**Position and responsibilities at the Company** – **Career summary and other principal positions held** 4/1979 Joined Tosoh Corporation 6/2007 Senior Officer, Senior General Manager of Chlor-alkali Division 6/2009 Director 6/2011 Managing Director, President of Chlor-Alkali Group and President of Petrochemical Group 6/2012 Managing Director, President of Chlor-Alkali Group 6/2013 Managing Director, President of Chlor-Alkali Group and Representative of Oversee China Operations 6/2015 Representative Director, Managing Director, President of Chlor-Alkali Group 3/2016 Representative Director, President 6/2016 Representative Director, President and Executive Officer 3/2022 Director and Corporate Adviser 6/2022 Corporate Adviser (to present)
		Reason for the election of candidate for Outside Director, overview of expected roles, etc. The Company nominates him as a candidate for Outside Director to further strengthen the Company’s management structures by providing advice on the Company’s overall management utilizing his extensive experience as the top executive of a global company and his experience in business planning, management, and domestic/overseas “MONOZUKURI” (manufacturing).

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<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">5</td><td rowspan="2">Joseph P. Schmelzeis, Jr.
(November 2, 1962)

[Candidate for Outside Director]
[Candidate for Independent Director]
[New Appointment]

Share Ownership
0 shares</td><td>Position and responsibilities at the Company
–

Career summary and other principal positions held
7/1984 Joined Bain & Company
7/1988 Vice President, American Express International
4/1998 Chief Operating Officer, Fontworks International
12/1999 Interim CEO, Crimson Ventures
11/2001 Representative Director, JPS International, Inc. (to present)
6/2011 Corporate Director, Division Manager, SEGA CORPORATION
6/2015 Senior Advisor, SEGA SAMMY HOLDINGS INC.
2/2018 Senior Advisor to the Ambassador, U.S. Embassy in Tokyo
3/2021 Executive Manager, Cedarfield Godo Kaisha (to present)
6/2022 Outside Director, DENSO CORPORATION (to present)</td></tr>
<tr><td>Reason for the election of candidate for Outside Director, overview of expected roles, etc.
In addition to the management experience in a global company, he has extensive experience in including launching venture business, as a strategic consultant, and striving to promote friendly relations between the United States and Japan as Senior Advisor to the Ambassador at the U.S. Embassy in Japan. The Company nominates him as a candidate for Outside Director to further strengthen the Company’s management structure by utilizing his extensive business experience and knowledge of geopolitics to provide advice on the Company’s overall management.</td></tr>
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<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">6</td><td rowspan="2">Takatoshi Hayama
(October 12, 1966)

[Candidate for Outside Director]

[New Appointment]

Share Ownership
0 shares</td><td>Position and responsibilities at the Company
–

Career summary and other principal positions held
4/1992 Joined Hitachi, Ltd.
4/2016 General Manager, Government & Public Solutions Dept. III, Government & Public Corporation Information Systems Division, Government & Public Corporation Business Unit
4/2021 General Manager, Government & Public Corporation Information Systems Division, Social Infrastructure Systems Business Unit
4/2023 Senior Officer and COO, Social Infrastructure Systems Business Unit (to present)</td></tr>
<tr><td>Reason for the election of candidate for Outside Director, overview of expected roles, etc.
The Company nominates him as a candidate for Outside Director to further strengthen the Company’s management structures by providing advice on the Company’s overall management utilizing his experience in the field of information and communications systems in the Hitachi Group and his extensive experience and deep insight as a top executive.</td></tr>
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<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">7</td><td rowspan="2">Hidemi Moue
(October 1, 1955)

[Candidate for Outside Director]

[Reappointment]

Share Ownership
0 shares</td><td>Position and responsibilities at the Company
Outside Director, Nominating Committee Member, Compensation Committee Member
Attendance at Board of Directors Meetings on FY2022: 11/11 (100%)
Career summary and other principal positions held
4/1979 Joined The Industrial Bank of Japan, Limited
6/1996 General Manager, Capital Markets Group 2, IBJ Securities Co., Ltd.
2/1998 General Manager, Business Development, Capital Markets Group, IBJ Securities Co., Ltd.
10/2000 General Manager, Corporate Finance Department, Capital Markets Group, Mizuho Securities Co., Ltd.
11/2002 President and CEO, Japan Industrial Partners, Inc. (to present)
6/2010 Auditor, Mobile Internet Capital, Inc. (to present)
6/2022 Outside Director, the Company (to present)
8/2022 Representative Director and President, HCJI Holdings, Ltd. (to present)</td></tr>
<tr><td>Reason for the election of candidate for Outside Director, overview of expected roles, etc.
The Company again nominates him as a candidate for Outside Director to further strengthen the Company’s management structures by providing advice on the Company’s overall management utilizing his extensive experience as a top executive of fund management firms, knowledge on finance and M&A fields, and deep insight. It should be noted that he has served as an Outside Director of the Company since June 2022, and his term of office will be one (1) year at the close of the 59th Annual Shareholder’s Meeting.</td></tr>
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<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">8</td><td rowspan="2">Keiichiro Shiojima
(November 24, 1965)

[Reappointment]

Share Ownership
4,400 shares</td><td>Position and responsibilities at the Company
Vice President and Executive Officer, Director, CFO, General Manager of Finance Division
Attendance at Board of Directors Meetings on FY2022: 13/13 (100%)
Career summary and other principal positions held
4/1988 Joined the Company
4/2011 General Manager, Credit Management Department, Finance Division
4/2014 Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
4/2016 General Manager, Finance Department, Finance Division, Corporate Management Group, the Company
4/2019 Deputy General Manager, Finance Division, Corporate Management Group
4/2020 Executive Officer, General Manager of Finance Division
6/2021 Director (to present)
4/2022 Vice President and Executive Officer, General Manager of Finance Division (to present)</td></tr>
<tr><td>Reason for the election of candidate for Director
He has extensive experience, excellent performance and deep insight by being engaged in the operations of business such as accounting and finance and the management of the Company and Hitachi Construction Machinery Group Companies. The Company again nominates him as a candidate for Director, as he will be able to further strengthen the Company’s management structures by sharing information, as a member of the Board of Directors, with other members.</td></tr>
</table>

<table>
<tr><th>No.</th><th>Name</th><th>Position and responsibilities at the Company,
Career summary and other principal positions held</th></tr>
<tr><td rowspan="2">9</td><td rowspan="2">Masafumi Senzaki
(July 16, 1965)

[New Appointment]

Share Ownership
3,161 shares</td><td>Position and responsibilities at the Company
Representative Executive Officer, President and Executive Officer, COO, supervising Internal Auditing Office and quality assurance

Career summary and other principal positions held
4/1991 Joined the Company
4/2017 General Manager, Russia and CIS Business Division
Director and President of LLC Hitachi Construction Machinery Eurasia Manufacturing
4/2018 Executive Officer,
General Manager of Marketing Group
4/2021 Vice President and Executive Officer,
General Manager of Corporate Strategy Group, and General Manager of Operations Management Group
4/2022 Senior Vice President and Executive Officer, General Manager of Corporate Strategy Group
4/2023 Representative Executive Officer, President and Executive Officer (to present)</td></tr>
<tr><td>Reason for the election of candidate for Director
He has experience in the field of “MONOZUKURI” (manufacturing) and extensive experience and deep insight in corporate management gained both in Japan and overseas for the Company and Hitachi Construction Machinery Group Companies. The Company nominates him as a candidate for Director as he will be able to further strengthen the Company’s management structure to take on suitable important responsibilities of the Group management and share information, as a member of the Board of Directors, with other members.</td></tr>
</table>

No.	Name	Position and responsibilities at the Company, Career summary and other principal positions held
10	**Kotaro Hirano** (June 4, 1958) [Reappointment] Share Ownership 14,968 shares	**Position and responsibilities at the Company** Representative Executive Officer, Chairman and Executive Officer, Director, CEO, Nominating Committee Member, Compensation Committee Member Attendance at Board of Directors Meetings on FY2022: 13/13 (100%) **Career summary and other principal positions held** 4/1981 Joined the Company 4/2013 Deputy General Manager, Production & Procurement Division 4/2014 Executive Officer 4/2016 Vice President and Executive Officer 4/2017 Representative Executive Officer, President and Executive Officer 6/2017 Director (to present) 4/2023 Representative Executive Officer, Chairman and Executive Officer (to present)
		Reason for the election of candidate for Director He has been engaged in the management of the Company and Hitachi Construction Machinery Group Companies, and has extensive knowledge and outstanding capability in management through the experience of business in various fields including production and procurement. The Company again nominates him as a candidate for Director to take on suitable important responsibilities of the Group management and share information, as a member of the Board of Directors, with other members.

Notes on the candidates

1. Mr. Takatoshi Hayama serves concurrently as COO of the Social Infrastructure Systems Business Unit of Hitachi, Ltd. The Company and Hitachi, Ltd. have a licensing relationship related to the Hitachi brand. Mr. Hidemi Moue serves concurrently as Representative Director and President of HCJI Holdings, Ltd. The Company and HCJI Holdings, Ltd. have entered into a capital alliance agreement. There are no relationships of special interest between the other respective candidates and the Company.
2. Matters pertaining to candidates for Outside Director

(1) The seven (7) candidates Ms. Toshiko Oka, Mr. Kazushige Okuhara, Ms. Maoko Kikuchi, Mr. Toshinori Yamamoto, Mr. Joseph.P.Schmelzeis,Jr., Mr. Takatoshi Hayama, and Mr. Hidemi Moue meet the requirements as candidates for Outside Director stipulated in the Regulations for Enforcement of the Companies Act. The five (5) candidates Ms. Toshiko Oka, Mr. Kazushige Okuhara, Ms. Maoko Kikuchi, Mr. Toshinori Yamamoto, and Mr. Joseph.P.Schmelzeis,Jr. are also candidates for Independent Director based on the provisions of Tokyo Stock Exchange, Inc.

(2) When candidates served as Director, Executive Officer, or Audit & Supervisory Board Member at other company during the past five (5) years and there was a violation of laws and regulations or the Articles of Incorporation or any other wrongful execution of operations at the other company concerned during the term of office of the candidates

Proterial, Ltd. (previously, Hitachi Metals, Ltd.) revealed in April 2020 that inappropriate numerical values had been recorded in inspection reports submitted to customers over a number of years for some products of the company and its subsidiaries. Ms. Toshiko Oka has been an Outside Director of the company from June 2016 to June 2021 and was not aware of the case until it was revealed. She has been regularly making statements from the perspective of compliance at meetings of the company's Board of Directors and Audit Committee, and after the case was revealed, she has been working to further strengthen the governance system such as by receiving reports on the investigation to determine the facts and identify the causes and the progress of customer response, and making recommendations for preventing recurrence.

3. "Share ownership" is as of March 31, 2023. It also shows the real share ownership, which includes holdings in the Hitachi Construction Machinery Officers' Shareholding Association.

Summary of details of agreements to limit liability

The Company has concluded agreements with Directors (excludes executive Directors etc.) under the provisions of paragraph 1, Article 427 of the Companies Act and Article 23 of the Company's Articles of Incorporation to limit liability for damages under paragraph 1, Article 423 of the Act. In the event that the reappointment of the four (4) candidates Ms. Toshiko Oka, Mr. Kazushige Okuhara, Ms. Maoko Kikuchi, and Mr. Hidemi Moue is approved, the Company intends to continue these agreements with them. Moreover, in the event that the appointment of three (3) candidates Mr. Toshinori Yamamoto, Mr. Joseph.P.Schmelzeis,Jr., and Mr. Takatoshi Hayama is approved, the Company intends to conclude the agreement with them. A summary of the agreements is as below.

1. In the event of liability for damages to the Company caused by failure to perform duties as a Director (excludes executive Directors etc.), the total shall be limited to the amount in each item of paragraph 1, Article 425 of the Companies Act.
2. 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.

Summary of details of 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 all Directors and Executive Officers as insureds, and the candidates for reappointment and Executive Officer Mr. Masafumi Senzaki among the candidates for this proposal are included in the insureds of the said insurance policy. Furthermore, if this proposal is approved as proposed and the candidates assume office as Directors, all candidates, including other candidates, will become insureds under the insurance policy. 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 an officer or a person at a certain position, 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. The Company plans to renew the insurance policy during the term of office as Director of each of the candidates in this proposal.

Business Report (From April 1, 2022 to March 31, 2023)

I Matters Pertaining to the Current State of the Consolidated Group

*The Company has been preparing consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") from the fiscal year ended March 2015.

1. Business activities and results

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

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

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

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

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

(Millions of yen)

Classification	Consolidated (% of the previous year)		Classification	Non-consolidated (% of the previous year)	
Revenue	1,279,500	(24.8%)	Revenue	726,900	(31.7%)
Adjusted operating income	135,700	(45.1%)	Operating income	29,900	(68.7%)
Income before income taxes	112,700	(1.6%)	Ordinary income	57,600	(9.2%)
Net income attributable to owners of the parent	70,200	(-7.5%)	Net income for this term	48,900	(-27.6%)

(Note) "Adjusted operating income" is used as an indicator of consolidated results instead of "operating income."

(1) Summary of revenue by region

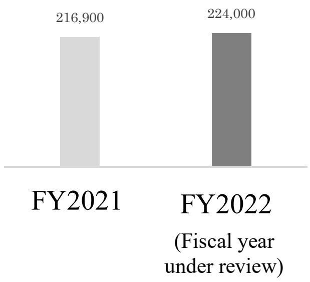
Japan

Revenue composition ratio 17.5%

Revenue 224,000

Up 3.3% year-on-year

(Millions of yen)



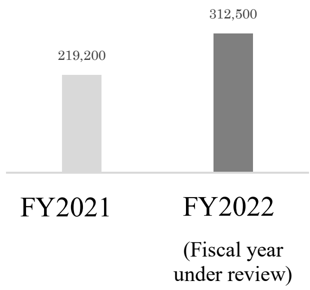
The Americas

Revenue composition ratio 24.4%

Revenue 312,500

Up 42.6% year-on-year

(Millions of yen)



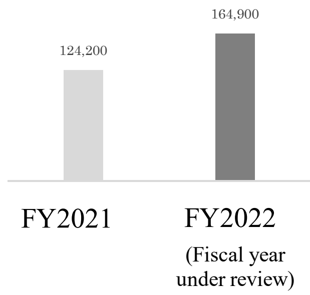
Europe

Revenue composition ratio 12.9%

Revenue 164,900

Up 32.8 year-on-year

(Millions of yen)



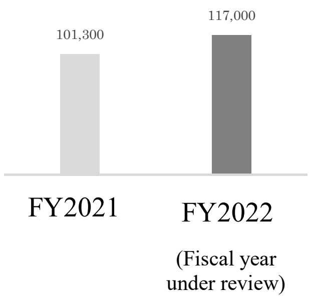
Russia-CIS, Africa, and Middle East

Revenue composition ratio 9.1%

Revenue 117,000

Up 15.5% year-on-year

(Millions of yen)



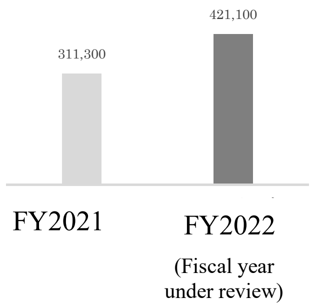
Asia and Oceania

Revenue composition ratio 32.9%

Revenue 421,100

Up 35.3% year-on-year

(Millions of yen)



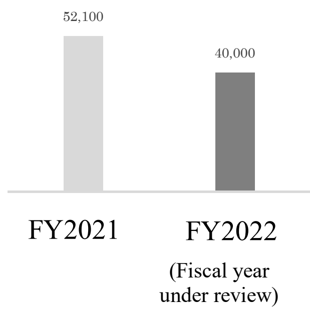
China

Revenue composition ratio 3.1%

Revenue 40,000

Down 23.2% year-on-year

(Millions of yen)



(2) Summary of revenue by business

1 Construction Machinery Business

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

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

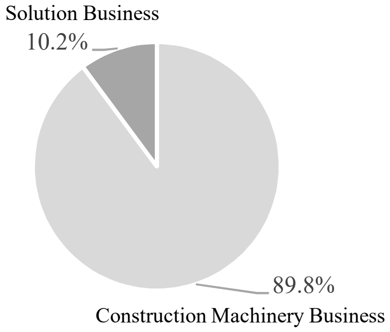
2 Solution Business

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

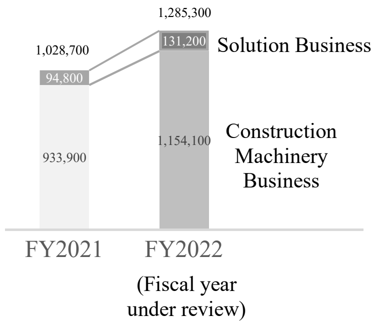
During the fiscal year under review (April 1, 2022 to March 31, 2023), revenue was ¥131,164 million (up 38.3% of the previous year's level) and adjusted operating income increased significantly to ¥11,747 million (up 55.0% of the previous year's level) due to the increase in revenue and effects of exchange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

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

Revenue composition ratio



Revenue trends (Millions of yen)



* The above revenues by business are figures before intersegment adjustments.

2. Capital investments

The Group carefully reviewed investment options for improved capital efficiency, and made capital investment of ¥119,338 million in total for the fiscal year under review. Major investments made are as below.

(1) Capital investments by the Company

- Investment for the construction of the "Engineering Building," a research and development facility at Tsuchiura Works

(2) Capital investments by the subsidiaries

- Investment to expand and upgrade the functions of product development at Hitachi Construction Machinery Tierra Co., Ltd.
- Investment to consolidate and relocate sales offices at Hitachi Construction Machinery Japan Co., Ltd.

3. Financing Activities

Financing Activities of the Group

The Group procured funds through short-term borrowings of ¥135,589 million and long-term borrowings of ¥55,809 million in order to allocate funds for working capital and capital expenditure as well as funds for investments and loans during the fiscal year under review, and repaid long-term borrowings of ¥29,772 million and redeemed bonds of ¥10,000 million.

4. Issues to be Addressed

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

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

Business environment

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

In August 2022, the Company's capital structure underwent a significant change. Hitachi, Ltd. transferred approximately half of its shares to HCJI Holdings, Ltd. established by ITOCHU Corporation and Japan Industrial Partners, Inc. resulting in a change in the largest shareholder. We have undergone a number of changes and are currently in a new phase of growth.

Changes in the social, technological, and economic environment

- Aging and a shortage of workers in secondary industry
- Broadly defined software, shift to utilization value, and progress in digital technology
- Acceleration of economic transformation to realize a sustainable global environment
- Emergence of geopolitical risks

Changes in the competitive environment

- Accelerating development of decarbonization technologies including electrification in developed countries and mining markets
- Firm establishment of conversion of customer needs "from hardware products to solutions"
- Rise of Chinese manufacturers in emerging countries
- Competition or cooperation with other industries with digitization

Capital structure changes

- **Hitachi, Ltd.** — Collaborative creation with the Hitachi Group in various R&D fields to accelerate environmental responses and the circular economy
- **ITOCHU Corporation** — Acceleration of business restructuring in North America and promotion of business expansion
- **Japan Industrial Partners, Inc.** — Strengthening of the medium- to long-term management substrate and improvement of corporate capabilities

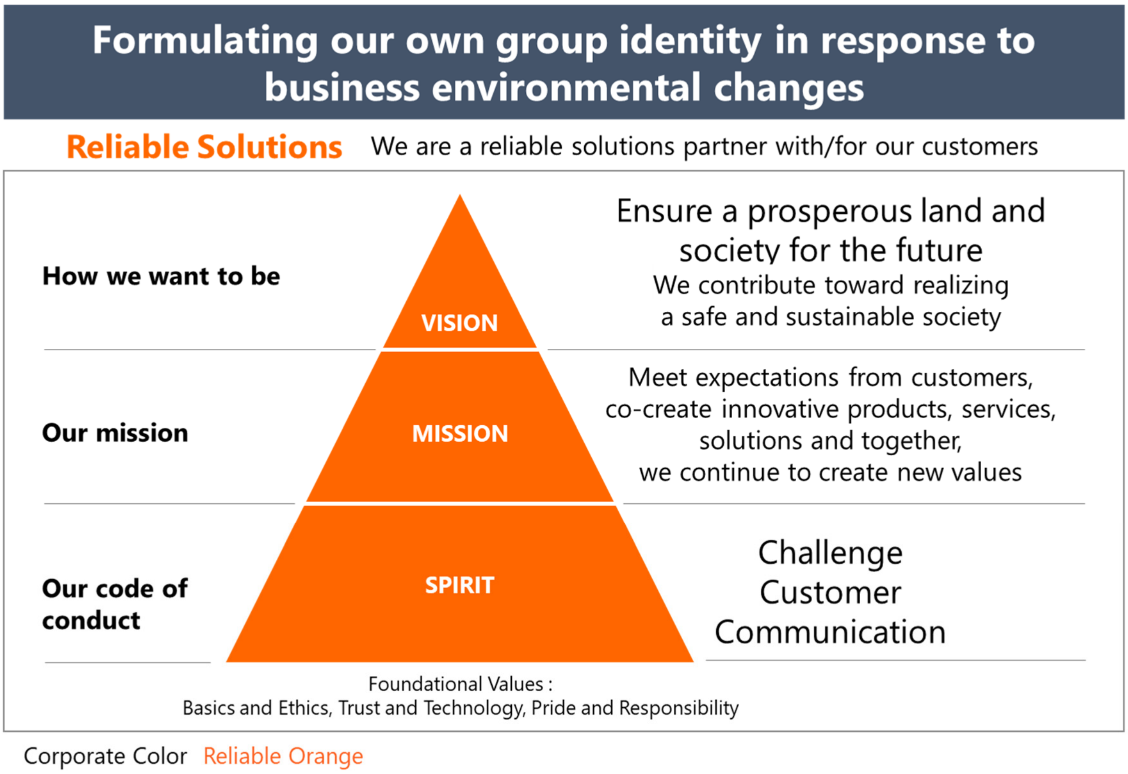
Hitachi Construction Machinery is entering a new phase of growth with various changes

Group ideology of Hitachi Construction Machinery

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

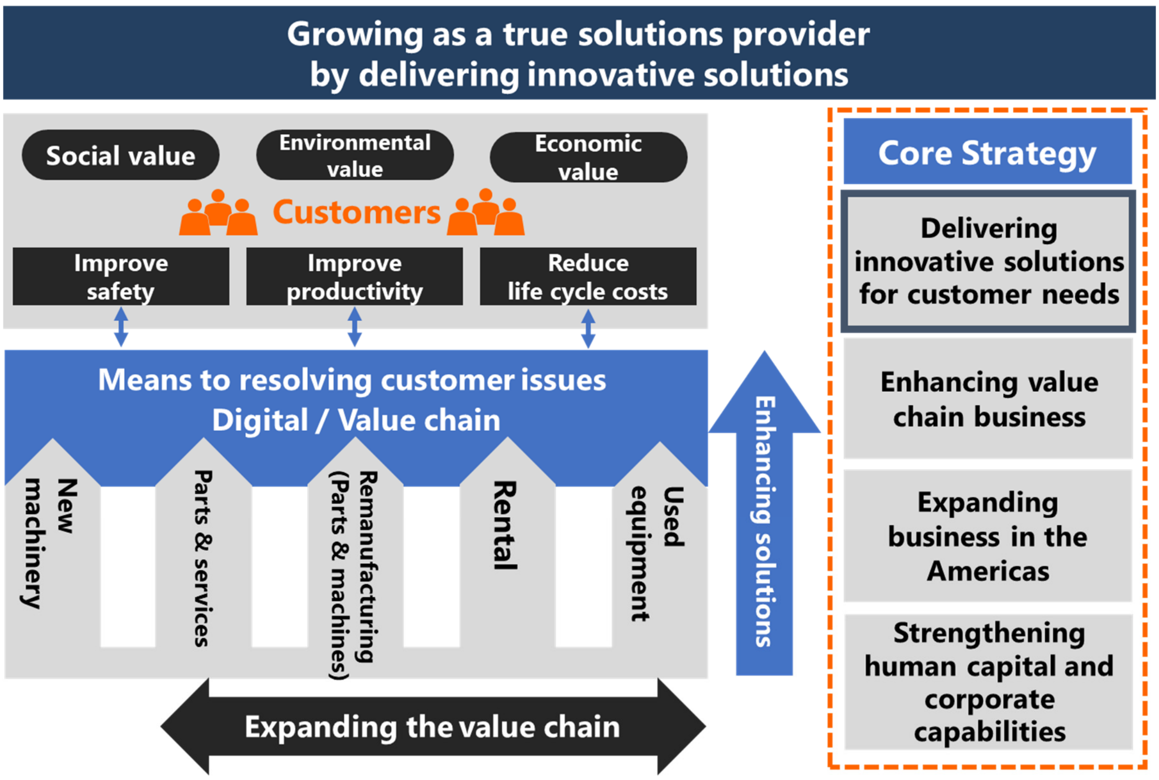
As stated in our mission below, we will collaborate with our customers and collaborative partners to create innovative products, services, and solutions based on our outstanding technologies by promptly responding to customer expectations and challenges.

Through this initiative, we will contribute to the realization of a safe and sustainable society by creating new value to connect our vision of a rich land and prosperous city to the future.



Pillars of management strategies in the new medium-term management plan

"Improvement in safety and productivity, reduction in life cycle costs, and environmental friendliness" are one of the business challenges that the customers are concerned with. These are current challenges that will also remain relevant after 10 years from now. The solutions to these challenges, however, will be different in ten years from now. The Company will keep offering our customers cutting-edge solutions to deal with these shifting challenges. The Company's mission as defined in our group ideology is to "continue creating new value together with our customers by meeting their expectations and co-creating innovative products, services, and solutions."



1) Providing innovative solutions that are tailored to the customers' needs

The first pillar of the new medium-term management plan is "providing innovative solutions that are tailored to customers' needs."

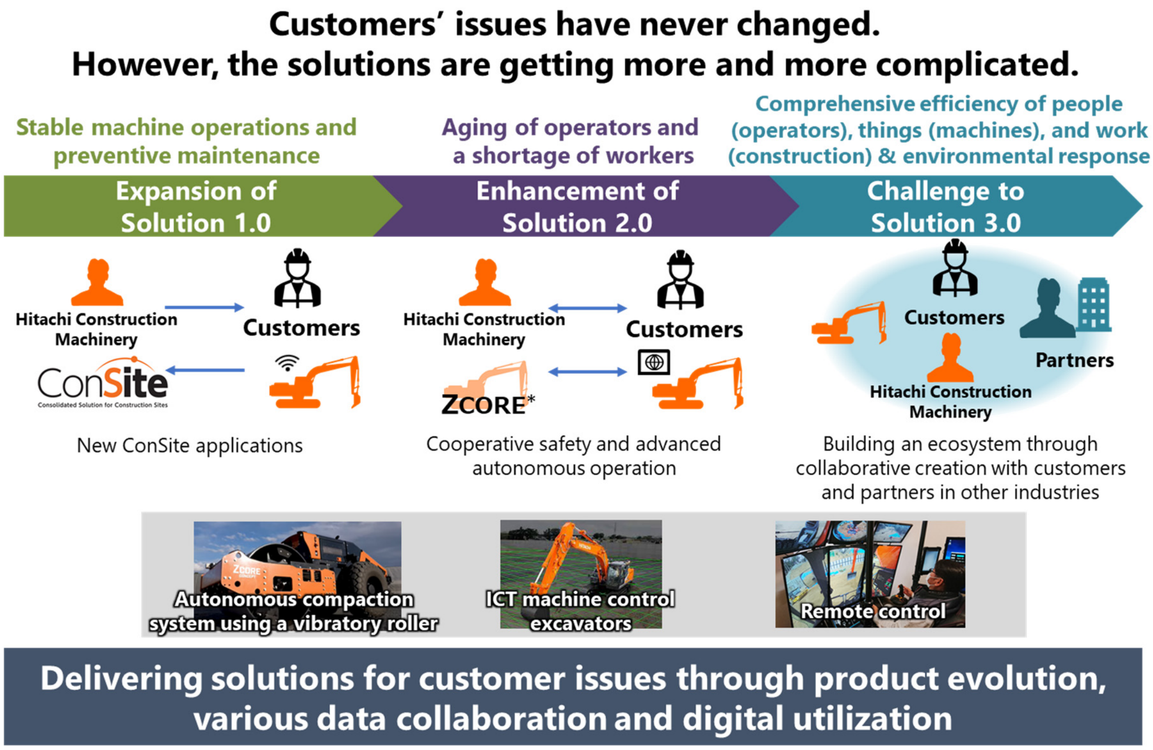
"Improvement in safety and productivity," and "reduction in life cycle costs, and environmental friendliness" are the challenges that the customers are concerned with and remain unchanged. However, solutions are becoming increasingly sophisticated as technology advances.

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

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

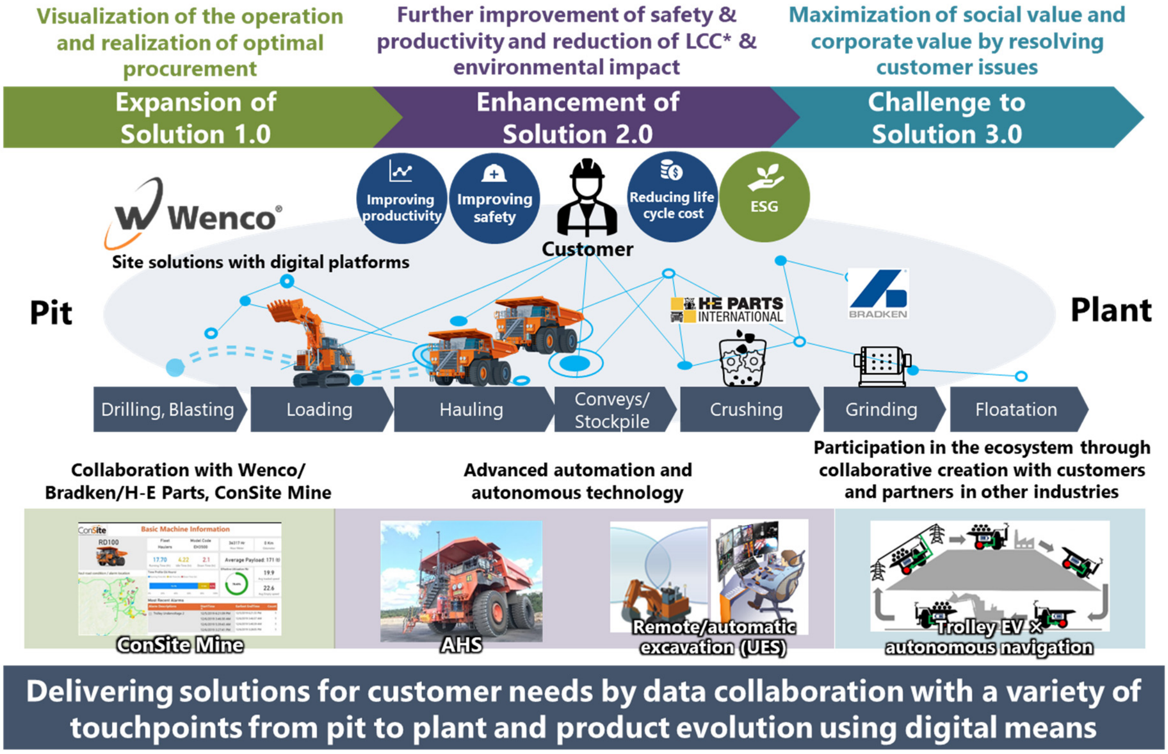
In the Compact Construction business, while further broadening Solution 1.0, we will continue to evolve our products, such as collaborative safety and advanced autonomous driving of Solution 2.0, to "provide innovative solutions that are tailored to the needs of our customers."

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



*ZCORE: Machine control platform for digital and connected features

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



*LCC: Life cycle cost

2) Expanding value chain business

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

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

3) Expanding business in the Americas

The business in the Americas has demonstrated stronger startup and growth potential than anticipated.

We strive to stabilize earnings by expanding new vehicle sales and the value chain business, aiming for revenue of more than 300 billion yen in FY 2025 from our own operations alone.

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

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

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

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

4) Strengthening human resources and corporate capabilities

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

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

In the "organization" category, we will deepen the business unit system introduced in 2022, which integrates design, manufacturing, sales, and service by customer industry and product size,

and enhance performance management on a global basis.

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

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

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

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

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

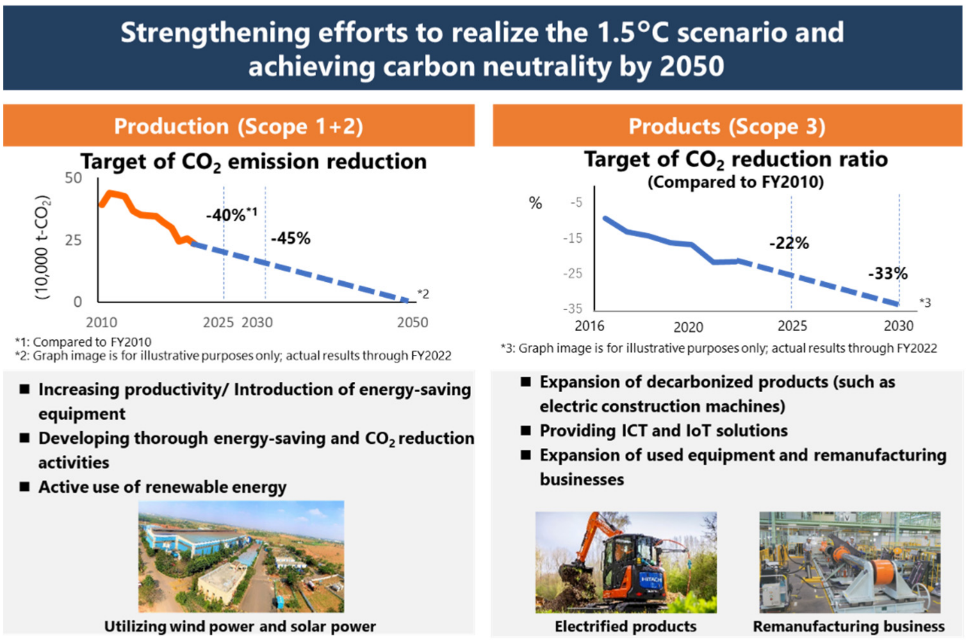
Working toward carbon neutrality

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

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

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

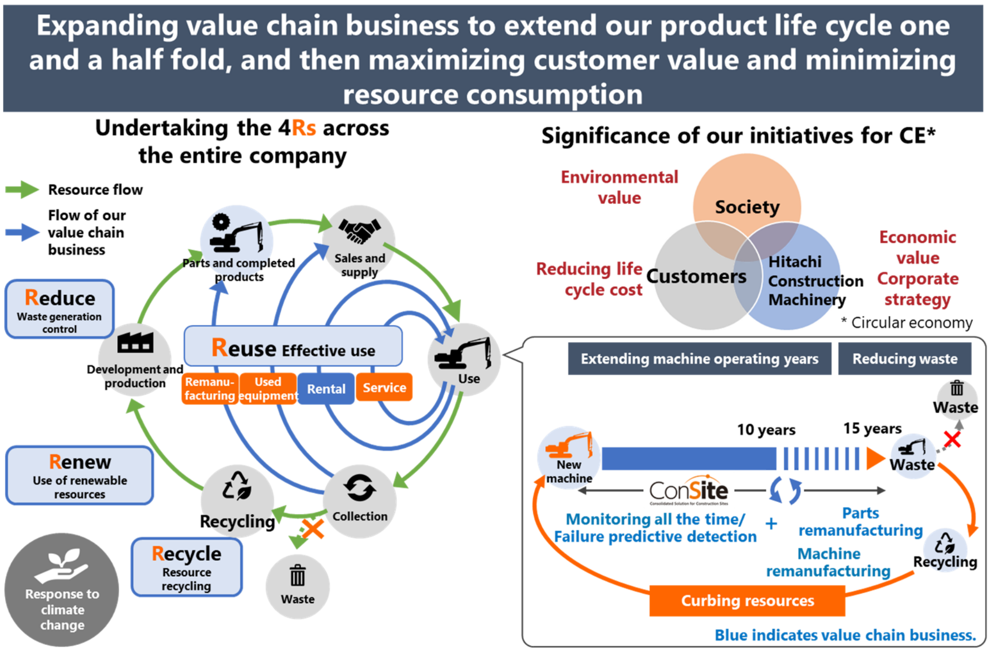
Through these efforts, we will advance towards our goal of becoming carbon neutral by 2050.



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

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

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



Quantitative objectives of the medium-term management plan

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

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

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

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

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

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

(2) Hitachi Construction Machinery Group's approach to sustainability

In August 2022, Hitachi Construction Machinery Group announced that it will become carbon neutral by the year 2050. We are undertaking a number of initiatives to achieve carbon neutrality.

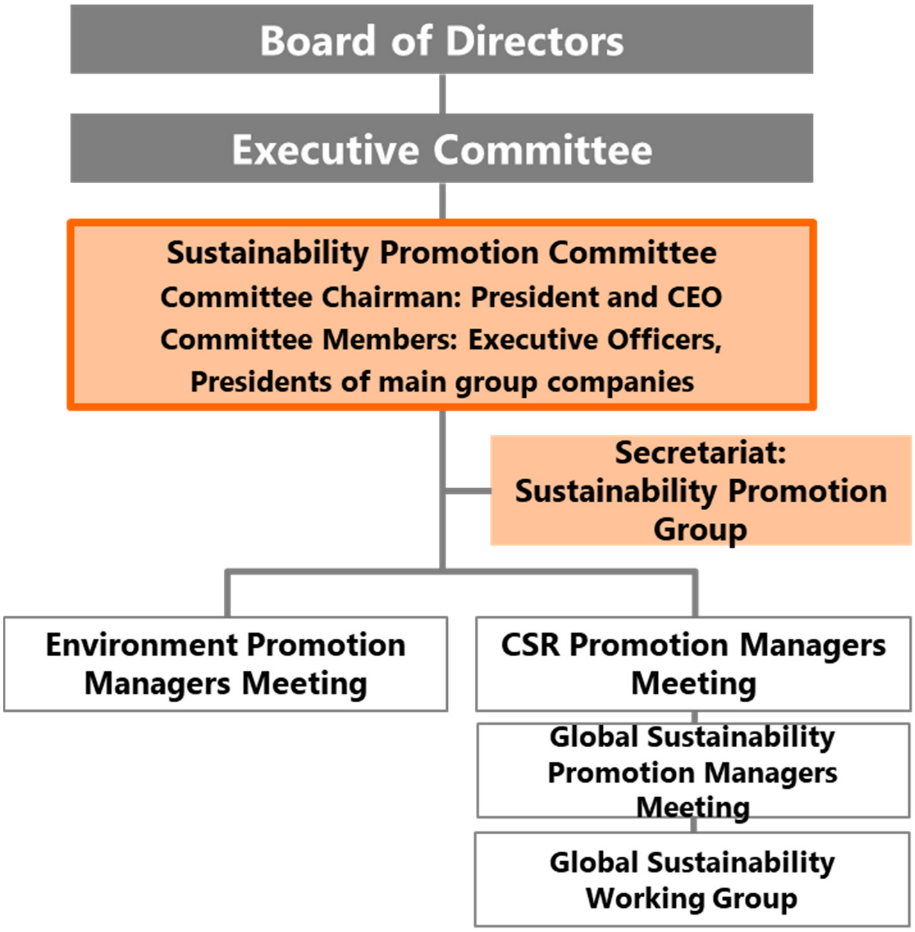
Fundamental sustainability policy

The Fundamental Sustainability Policy was created by the Hitachi Construction Machinery Group with the intention of promoting sustainability and aiding in the creation of a sustainable society by putting materiality into practice. With the use of construction machinery, we will support society's sustainable growth while working to increase our company's value.

Please refer to our website for details regarding "Fundamental Sustainability Policy."
https://www.hitachicm.com/global/en/sustainability/management/

Governance

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

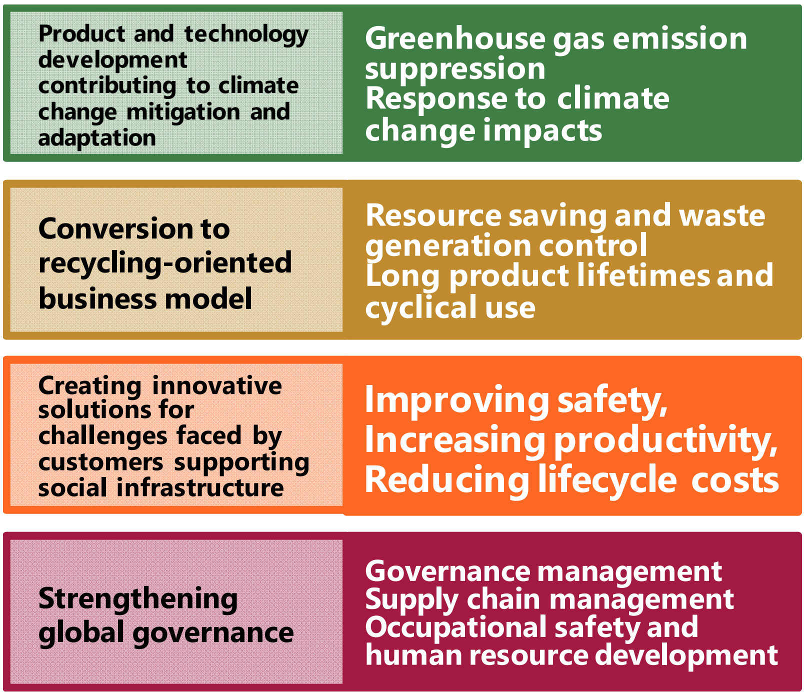


<Governance organization chart>

Strategies

~ Identifying materiality ~

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



<Four materialities identified by Hitachi Construction Machinery Group>

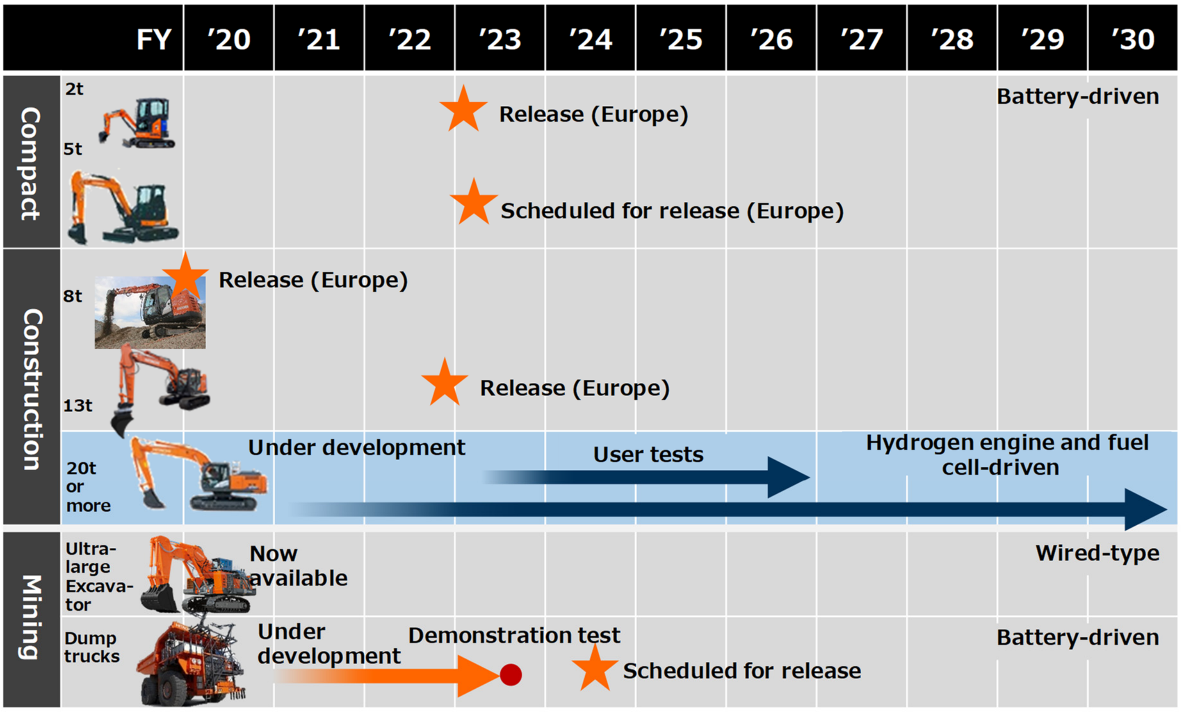
~ Product and technology development to tackle climate change ~

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

As a part of Hitachi Construction Machinery Group’s vision to achieve carbon neutrality, we have set and are promoting a target to reduce CO_2 emissions by 33% compared to FY2010 levels by FY2030 in order to provide consumers and society with environmentally friendly products that emit less CO_2.

To achieve this goal, we are developing an entire product range, from compact to ultra-large mining machinery. In addition to reducing fuel consumption, we are making early market introductions of electric construction machinery and making technical discoveries on water and hydrogen fuel products. Moreover, we are promoting the provision of solutions that realize CO_2 reduction at the stage of customer usage.

Also in production processes, we are promoting the reduction of CO_2 emissions in terms of energy conservation, conversion to renewable energy, electrification, and alternative fuels.



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

~ Transition to a resource-recycling business ~

Hitachi Construction Machinery Group contributes to resource recycling through "value chain businesses," which consist of businesses such as remanufacturing, used machinery, rentals, and services.

In the parts remanufacturing business, parts collected from customers are disassembled, serviced, and inspected, and consumable parts are replaced as necessary to remanufacture parts that guarantee the same functionality and performance as new parts. Advanced remanufacturing techniques can help reduce the consumption of resources by extending the service life of components. In addition, we will utilize our accumulated know-how to remanufacture discarded machinery to the same level of quality as new models and sell them as used models. In this way, we will reduce the use of new materials, contributing to a new resource-recycling business model.

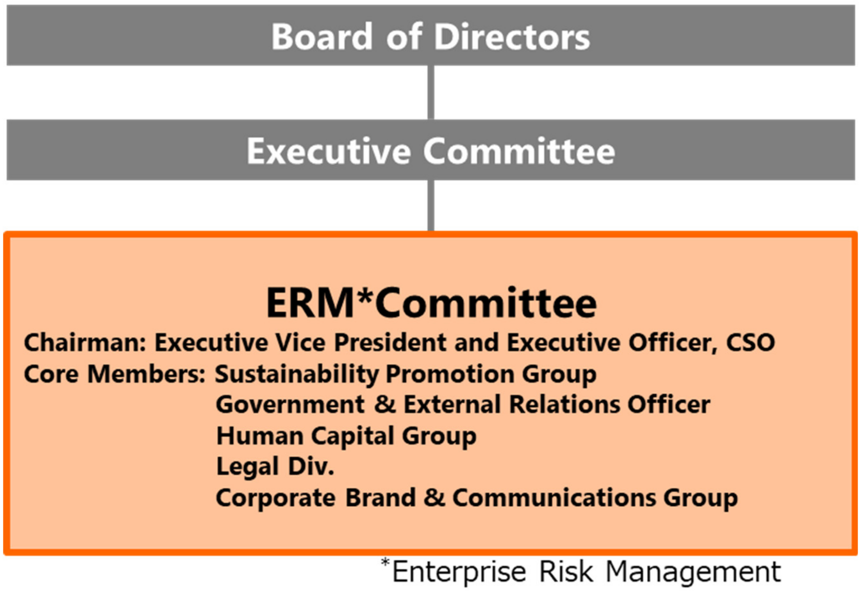
Next, in the rental and used machinery business, Hitachi Construction Machinery will provide advanced maintenance services through "ConSite" during the usage period of its approved "PREMIUM RENTAL" machinery. By doing so, we will extend the operational life of the machines and distribute them to developing countries as "PREMIUM USED" high-quality machinery with manufacturer warranties, thereby helping to reduce the number of machines that are disposed of.

In the parts and services business, through the "ConSite" menu, we are working to extend the service life of machinery through proper maintenance using IoT. At the same time, we monitor the operation of each machine and through work improvement proposals, we make suggestions to reduce fuel consumption, which also contributes to CO_2 reduction. For hydraulic excavators, "ConSite" is also being introduced in North, Central, and South America starting from March 2022.

Risk management

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

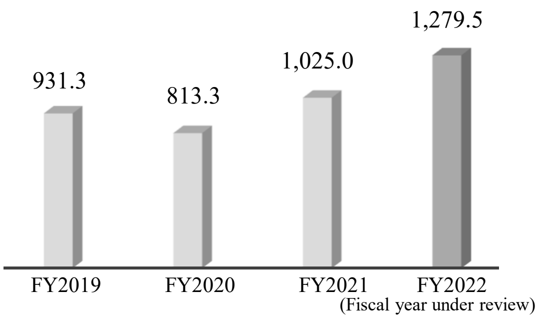
Under the leadership of the CSO (Chief Strategy Officer) and other management members, a system is in place to promptly support overall management and countermeasures when it comes to company-wide response policy based on business operations, risks requiring management decisions, and risks that could shake the very foundations of our global operations.



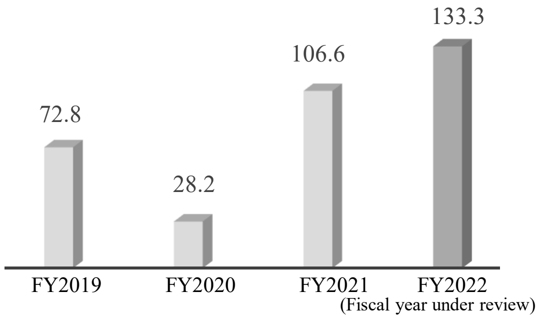
<Establishment of ERM Committee>

5. Summary of Assets and Results of Operation

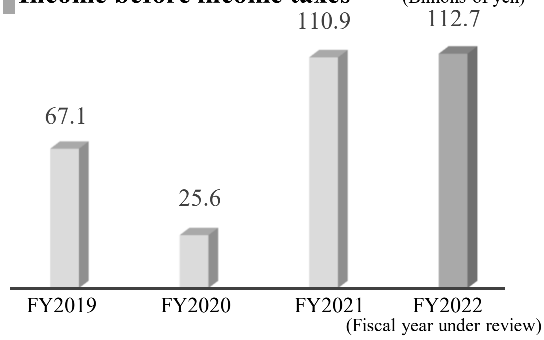
Revenue
(Billions of yen)



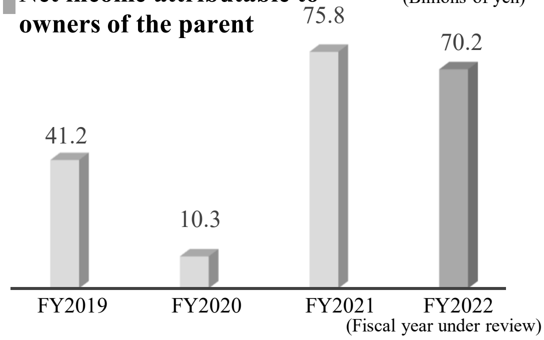
Operating income
(Billions of yen)



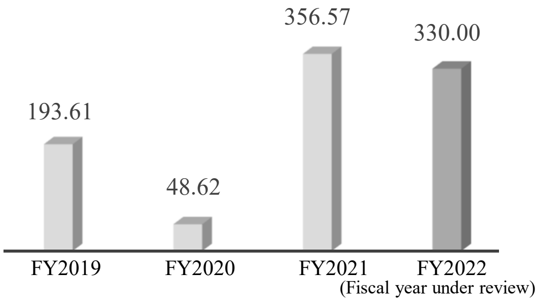
Income before income taxes
(Billions of yen)



Net income attributable to owners of the parent
(Billions of yen)

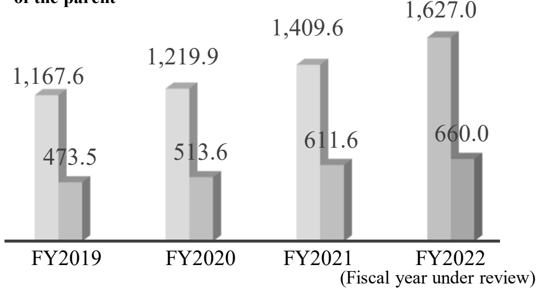


Net income per share (basic) attributable to owners of the parent
(Yen)



Total assets
Equity attributable to owners of the parent

(Billions of yen)



(Note) Net income per share (basic) attributable to owners of the parent is calculated based on the average total number of shares issued during the period (excluding treasury shares).

6. Parent Company and Significant Subsidiaries

(1) Parent Company

The Parent Company of the Company used to be Hitachi, Ltd.; however, on August 23, 2022, the number of shares held by Hitachi, Ltd. decreased due to the transfer of part of the Company's shares owned by Hitachi, Ltd., and it is no longer the parent company at the end of the current consolidated fiscal year. However, after the transfer, Hitachi, Ltd. will continue to be a major shareholder of 54,062,000 shares of the Company.

The Company is licensed to use the brand and the transaction terms are determined to be fair and reasonable by taking into consideration its brand value.

The Board of Directors of the Company has confirmed the appropriateness and reasonableness of those transactions, after gaining an understanding of such transaction terms, and judged that they do not prejudice the Company's interests.

(2) Significant subsidiaries

Name of entity	Common stock	Shareholding ratio (%)	Principal businesses
Hitachi Construction Machinery Tierra Co., Ltd.	¥1,441 million	100.00	Manufacturing, sales and services of mini excavators
Hitachi Construction Machinery Camino Co., Ltd.	¥400 million	100.00	Manufacturing and sales of construction machinery, transportation machinery and their parts
Tadakiko Co., Ltd.	¥277 million	100.00	Manufacturing and sales of parts, etc. of construction machinery
Shintohoku Metal Co., Ltd.	¥295 million	100.00	Manufacturing and sales of steel castings and special steel castings
Hitachi Kenki Logistics Technology Co., Ltd.	¥360 million	100.00	Packaging, shipping, and export and import service of construction machinery, etc.
Hitachi Construction Machinery Leasing Co., Ltd.	¥50 million	100.00	Installment sales and leasing of construction machinery, etc.
Hitachi Construction Machinery Japan Co., Ltd.	¥5,000 million	100.00	Rental, sales and services of construction machinery
Hitachi Construction Machinery (Europe) N.V.	70,154 thousand euros	98.88	Manufacturing, sales and services of construction machinery
P.T. Hitachi Construction Machinery Indonesia	17,200 thousand U.S. dollars	81.96 (33.87)	Manufacturing and sales of construction machinery
Hitachi Construction Machinery (China) Co., Ltd.	1,500,000 thousand RMB	91.34	Manufacturing and sales of construction machinery
Hitachi Construction Truck Manufacturing Ltd.	84,100 thousand U.S. dollars	100.00	Manufacturing and sales of rigid dump trucks
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	1,143 million Indian rupees	60.00	Manufacturing, sales and services of construction machinery
LLC Hitachi Construction Machinery Eurasia	1,740 million Russian rubles	100.00	Manufacturing and sales of construction machinery
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	39,956 thousand U.S. dollars	100.00	Sales and services of construction machinery
Hitachi Construction Machinery Distribution (China) Co., Ltd.	200,000 thousand RMB	100.00	Sales and services of construction machinery
Hitachi Construction Machinery (Shanghai) Co., Ltd.	66,224 thousand RMB	100.00	Sales and services of construction machinery
Hitachi Construction Machinery Financial Leasing (China) Co., Ltd.	1,103,578 thousand RMB	100.00	Installment sales and leasing of construction machinery, etc.
Hitachi Construction Machinery Africa Pty. Ltd.	167,935 thousand rand	100.00	Operational headquarters for South Africa region, and sales and services of construction machinery
PT Hexindo Adiperkasa Tbk	23,233 thousand U.S. dollars	53.67 (5.07)	Sales and services of construction machinery
Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	29,122 thousand Australian dollars	100.00	Operational headquarters for Oceania region
Hitachi Construction Machinery Holding U.S.A. Corp.	1,000 thousand U.S. dollars	100.00	Sales, etc. of construction machinery
Wenco International Mining Systems Ltd.	18,205 thousand Canadian dollars	100.00	Development, manufacturing, sales and maintenance of mining operation management systems
Hitachi Construction Machinery Middle East Corp. FZE	¥500 million	100.00	Sales and services of construction machinery
Hitachi Construction Machinery Americas Inc.	8,000 thousand U.S. dollars	100.00	Sales of construction machinery
H-E Parts International LLC	-	100.00	Provision of services related to mining and construction machinery
Bradken Pty Limited	653,215 thousand Australian dollars	100.00	Manufacturing of metal casting parts for mining and infrastructure industries, and provision of mining facilities and consumables in mining as well as maintenance service, etc.

(Notes) 1. The numbers in brackets in the shareholding ratio column represent the ratio of indirect ownership (included in the total) owned by the subsidiaries of the Company.
2. The total number of consolidated subsidiaries as stipulated in Article 2, paragraph (3), item (xxii) of the Regulations on Corporate Accounting is 79 including 26 significant subsidiaries in the above. There are 23 affiliates to which the equity method is applied.
3. Hitachi Construction Machinery Distribution (China) Co., Ltd. commenced operations on November 1, 2022, and became a significant subsidiary of the Company.

II Matters Concerning Directors and Audit Committee Members of the Company

1. Details of Directors and Executive Officers of the Company

(1) Directors

Position	Name	Responsibilities (Committee)	Significant concurrent positions outside the Company
Director	Toshiko Oka	Nominating Committee Member Audit Committee Member Compensation Committee Member	Professor, Graduate School of Global Business, Meiji University Outside Director, Sony Group Corporation Outside Director, Happinet CORPORATION Outside Director, ENEOS Holdings, Inc.
Director	Kazushige Okuhara	Nominating Committee (Chair) Audit Committee Member Compensation Committee (Chair)	
Director	Maoko Kikuchi	Nominating Committee Member Audit Committee Member Compensation Committee Member	Outside Director, MITSUI-SOKO HOLDINGS Co., Ltd.
Director	Haruyuki Toyama	Nominating Committee Member Audit Committee Member Compensation Committee Member	Special Counsel, IWATA GODO Outside Director, HORIBA, Ltd.
Director	Hidemi Moue*	Nominating Committee Member Compensation Committee Member	President and CEO, Japan Industrial Partners, Inc. Auditor, Mobile Internet Capital, Inc. Representative Director and President, HCJI Holdings, Ltd.
Director	Tetsuo Katsurayama	Audit Committee (Chair)	
Director	Keiichiro Shiojima		
Director	Michifumi Tabuchi		
Director	Kotaro Hirano	Nominating Committee Member Compensation Committee Member	
Director	Yoshinori Hosoya	Audit Committee Member	COO, Social Infrastructure Systems Business Unit, Hitachi, Ltd.

(Notes)
1. The six (6) candidates Ms. Toshiko Oka, Mr. Kazushige Okuhara, Ms. Maoko Kikuchi, Mr. Haruyuki Toyama, Mr. Hidemi Moue, and Mr. Yoshinori Hosoya are Outside Directors stipulated in the Companies Act, and the four (4) candidates Ms. Toshiko Oka, Mr. Kazushige Okuhara, Ms. Maoko Kikuchi, and Mr. Haruyuki Toyama are also Independent Officers based on the provisions of Tokyo Stock Exchange, Inc.
2. Directors marked with an asterisk (*) were newly appointed at the 58th Annual Shareholder's Meeting of the Company held on June 27, 2022.
3. Mr. Hideki Takahashi resigned as Director due to the expiry of his term of office at the conclusion of the 58th Annual Shareholder's Meeting of the Company held on June 27, 2022.
4. Director (Audit Committee Member), Ms. Toshiko Oka, has many years of experience as a consultant in finance, accounting and M&A practices and possesses extensive experience and knowledge in the fields of finance and accounting. Director (Audit Committee Member), Mr. Haruyuki Toyama, was involved in finance practices at the Bank of Japan over many years and possesses extensive experience and knowledge in the fields of monetary affairs and finance. Director (Audit Committee Member), Mr. Tetsuo Katsurayama, served as the head of the Accounting and Finance Division of the Company, as well as Executive Officer in charge of the said Division

and the Chief Financial Officer, over many years and possesses extensive experience and knowledge in the fields of finance and accounting.

5. The Company has concluded agreements with seven (7) Directors of Ms. Toshiko Oka, Mr. Kazushige Okuhara, Ms. Maoko Kikuchi, Mr. Haruyuki Toyama, Mr. Hidemi Moue, Mr. Tetsuo Katsurayama, and Mr. Yoshinori Hosoya under the provisions of paragraph (1), Article 427 of the Companies Act and Article 23 of the Articles of Incorporation to limit liability for damages under paragraph (1), Article 423 of the Companies Act. Those agreements are intended to limit the liability for damages of those Directors (excluding those who are Executive Directors, etc.) to the total amount of each item of paragraph (1), Article 425 of the Companies Act.
Furthermore, the 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.
6. In order to interview Executive Officers, etc., receive reports from the Internal Auditing Division and others, obtain information through audits on the subsidiaries and attend various meetings on a continuing and effective basis, the Company has appointed Director Mr. Tetsuo Katsurayama as a full-time Audit Committee Member.

(2) Executive Officers

Position	Name	Responsibilities in the Company and significant concurrent positions outside the Company
Representative Executive Officer, President and Executive Officer	Kotaro Hirano*	CEO, supervising Internal Auditing Office and quality assurance
Representative Executive Officer, Executive Vice President and Executive Officer	Michifumi Tabuchi*	Officer responsible for "MONOZUKURI" (manufacturing) and Corporate Export Regulation, President of Production & Procurement Group
Executive Vice President and Executive Officer	Naoyoshi Yamada	CSO, supervising Corporate Strategy Group and Sustainability Promotion Group, and supervising Marketing Strategy Group, Government & External Group, and Brand & Communications Group headquarters
Senior Vice President and Executive Officer	Sonosuke Ishii	President of Mining Business Unit and General Manager of America Business Division (concurrently serving as Chairman of Hitachi Construction Machinery Americas Inc.)
Senior Vice President and Executive Officer	Masafumi Senzaki	COO, General Manager of Corporate Strategy Group and Sustainability Promotion Group, and in charge of Marketing Strategy Group, Government & External Group, and Brand & Communications Group
Vice President and Executive Officer	Yusuke Kajita	President of Construction Business Unit
Vice President and Executive Officer	Keiichiro Shiojima*	CFO and General Manager of Finance Division
Vice President and Executive Officer	Seishi Toyoshima	CHRO, President of Human Capital Group, and in charge of Legal Division
Vice President and Executive Officer	Kazunori Nakamura	CTO, supervising Research & Development Group, and in charge of Development Strategy Office and Power & Information Control Platform Business Group
Vice President and Executive Officer	Hideshi Fukumoto	President of New Business Creation Unit
Executive Officer	Hiroshi Kanezawa	General Manager of Mining Development & Production Division, Mining Business Unit
Executive Officer	Tooru Sugiyama	Vice President of Mining Business Unit
Executive Officer	Seimei Toonishi	CDIO and General Manager of DX Promotion Group
Executive Officer	Yoshihiro Narukawa	CPO and Vice President of Production & Procurement Group
Executive Officer	Masaaki Hirose	General Manager of Japan Business Division (concurrently serving as Representative Director of the Board and President of Hitachi Construction Machinery Japan Co., Ltd.)
Executive Officer	Eiji Fukunishi	President of Spare Parts and Service Business Unit
Executive Officer	Hidehiko Matsui	CMO, President of Global Marketing Group, and Rental & Used Machine Business Unit

Executive Officer	Satoshi Yamanobe	General Manager of China Business Division (concurrently serving as President and Director of Hitachi Construction Machinery (China) Co., Ltd.)
Executive Officer	Sandeep Singh	General Manager of India Business Division (concurrently serving as President and Director of Tata Hitachi Construction Machinery Co., Pvt., Ltd.)

(Notes) 1. The Board of Directors of the Company resolved on March 31, 2022 to appoint the above Executive Officers who took office as of April 1, 2022.
2. Executive Officers marked with an asterisk (*) concurrently serve as Director.
3. They are listed in Japanese syllabic order by position.

2. Other important matters concerning Directors and Audit Committee Members of the Company

Changes to Executive Officers were made effective April 1, 2023.

<New management structure>

Position	Name	Responsibilities in the Company and significant concurrent positions outside the Company
Representative Executive Officer, Chairman and Executive Officer	Kotaro Hirano	CEO
Representative Executive Officer, President and Executive Officer	Masafumi Senzaki	COO, supervising Internal Auditing Office and quality assurance
Representative Executive Officer, Executive Vice President and Executive Officer	Michifumi Tabuchi	Officer responsible for “MONOZUKURI” (manufacturing) and Corporate Export Regulation, President of Production & Procurement Group
Executive Vice President and Executive Officer	Naoyoshi Yamada	CSO, supervising Corporate Strategy Group and Sustainability Promotion Group, and in charge of Marketing Strategy Group, Government & External Group, and Brand & Communications Group headquarters
Senior Vice President and Executive Officer	Sonosuke Ishii	President of Mining Business Unit and General Manager of America Business Division (concurrently serving as Chairman and of Hitachi Construction Machinery Americas Inc.)
Senior Vice President and Executive Officer	Yusuke Kajita	President of Construction Business Unit
Vice President and Executive Officer	Keiichiro Shiojima	CFO and General Manager of Finance Division
Vice President and Executive Officer	Seishi Toyoshima	CHRO, President of Human Capital Group, and in charge of Legal Division
Vice President and Executive Officer	Kazunori Nakamura	CTO, General Manager of Power & Information Control Platform Division, General Manager of Research & Development Group, in charge of Compact Business Unit
Vice President and Executive Officer	Eiji Fukunishi	President of Spare Parts and Service Business Unit
Vice President and Executive Officer	Hidehiko Matsui	CMO, President of Rental & Used Machine Business Unit and General Manager of Global Marketing Group
Executive Officer	Hiroshi Kanezawa	General Manager of Mining Development & Production Division, Mining Business Unit
Executive Officer	Tooru Sugiyama	Vice President of Mining Business Unit
Executive Officer	Seimei Toonishi	CDIO, President of New Business Creation Unit, and General Manager of DX Promotion Group
Executive Officer	Yoshihiro Narukawa	CPO and Vice President of Production & Procurement Group
Executive Officer	Tetsuya Hamabe	General Manager of Corporate Strategy Group
Executive Officer	Masaaki Hirose	General Manager of Japan Business Division (concurrently serving as Representative Director of the Board and President of Hitachi Construction Machinery Japan Co., Ltd.)
Executive Officer	Satoshi Yamanobe	General Manager of China Business Division (concurrently serving as President and Director of Hitachi Construction Machinery (China) Co., Ltd.)
Executive Officer	Sandeep Singh	General Manager of India Business Division (concurrently serving as President and Director of Tata Hitachi Construction Machinery Co., Pvt., Ltd.)

(Note) They are listed in Japanese syllabic order by position.

3. Policy on Determining the Details of Compensation for Directors and Executive Officers

(1) Method of Determination of Policies

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

(2) Overview of the Policy

(i) 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.

(ii) Director

Compensation for Directors consists of monthly compensation.

- Monthly compensation shall be set as a fixed amount in light of the duty that is the supervisory function. The level of payment is determined in accordance with a full-time or part-time basis, basic salary, allowance for committee members for committees to which the Director belongs and his or her position.
  In case of Directors who also serve as Executive Officers, compensation as a Director is not paid.

(iii) Executive Officer

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

- Monthly compensation is 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. The fluctuation range is about 0 to 200%. The evaluation method will be carried out at the following ratio.

Category	Company-wide performance	Division performance	Individual Mission
President	80%	-	20%
Executive Officer	50%	30%	20%

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

<table>
<tr><th rowspan="2">Category</th><th rowspan="2">Evaluation indicator</th><th colspan="4">Composition ratio</th></tr>
<tr><th colspan="2">President</th><th colspan="2">Other Executive Officers</th></tr>
<tr><td rowspan="4">(i) Company-wide performance</td><td>Adjusted operating profit margin</td><td>32%</td><td rowspan="4">80%</td><td>20%</td><td rowspan="4">50%</td></tr>
<tr><td>Consolidated operating cash flows</td><td>16%</td><td>10%</td></tr>
<tr><td>Consolidated value chain sales</td><td>16%</td><td>10%</td></tr>
<tr><td>ESG assessment</td><td>16%</td><td>10%</td></tr>
<tr><td colspan="2">(ii) Division performance targets</td><td colspan="2">-</td><td colspan="2">30%</td></tr>
<tr><td colspan="2">(iii) Division targets (three indicators for the management issues including organizational health)</td><td colspan="2">20%</td><td colspan="2">20%</td></tr>
</table>

- 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.
- Restricted stock units will be granted to Executive Officers starting with the fiscal year beginning April 2023. Accordingly, the Company has partially revised the policy for the determination of compensation, etc. of individual Directors and Executive Officers described above.

4. Total Amount of Compensation, etc. for Directors and Executive Officers

Classification	Number of persons	Total amount for each type of compensation (Millions of yen)			Total amount of compensation (Millions of yen)
		Basic compensation	Performance-linked compensation	Non-monetary compensation	
Director (of which, Outside Directors)	8 (6)	103 (73)	- -	-	103 (73)
Executive Officer	19	551	290	-	841
Total	27	654	290	-	944

(Notes) 1. There are ten (10) Directors (out of which six (6) are Outside Directors) and 19 Executive Officers as at the end of the fiscal year under review; however, the total number of officers is 26 as three (3) Directors concurrently serve as Executive Officer. The three (3) Directors who concurrently serve as Executive Officers receive only compensation as Executive Officers.

2. Directors shown in the above table include one (1) Director who resigned during the fiscal year under review.

3. Since Hitachi, Ltd. is no longer the parent company of the Company due to the equity change on August 23, 2022, Mr. Yoshinori Hosoya was appointed as an Outside Director. Mr. Yoshinori Hosoya's compensation is included in the Outside Directors.

4. The Compensation Committee of the Company held three meetings on the details of compensation for individual Directors and Executive Officers for the fiscal year ended March 31, 2023 to determine those details in line with the policy described in 3. above. Accordingly, we judge that the details of individual compensation conform with such policy.

5. As performance indicators for performance-linked compensation, the Company has set financial indicators, such as the adjusted operating income ratio, and targets, etc., in the medium-term management plan. The reason for selecting these targets is to calculate the amount of compensation based on the business plan and business results for the relevant fiscal year within a certain range stipulated in the "Basic Policy for Compensation to Director and Executive Officers." As for the method of calculating the performance-linked compensation, the amount shall be determined within a certain range, depending on the degree of achievement of targets and outcome of business operations of which each person is in charge. The results of the performance indicators for performance-linked compensation paid to the Company's executive officers for the fiscal year under review were adjusted operating margin of 10.6%, consolidated operating cash outflow of ¥26,100 million, and consolidated value chain sales of ¥5,200 million, etc. In terms of ESG evaluation, we improved our CO2 reduction rate concerning emissions, for both those from production activities and those associated with use of the Company's products.

5. Summary of Details of Directors and Officers Liability Insurance Policy

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 the 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. Overview of Effectiveness Evaluation Results of Board of Directors

The Company conducts an annual evaluation of the effectiveness of the Board of Directors in accordance with Article 12 (Evaluation of the Board of Directors) of the Company's "Corporate Governance Guidelines" to ensure and improve the effectiveness of the Board of Directors. Overview of the evaluation results of the effectiveness of the Board of Directors in FY2022 are as follows.

<Evaluation Method>

(1) Discussed at Board of Directors meeting held in December 2022 to incorporate a third-party investigation into effectiveness evaluation.

(2) In January 2023, a third-party organization conducted a questionnaire-based survey based on the following items for all ten (10) Directors. Interviews were conducted all Directors in March based on the results of the survey.

Questionnaire Items

No.	Items	No.	Items
1.	Desirable Status of Board of Directors	6.	Performance of Directors and Executive Officers
2.	Composition of Board of Directors	7.	Support system and training for Directors
3.	Management of Board of Directors	8.	Dialogue with shareholders (investors)
4.	Discussion of Board of Directors	9.	Committees (Audit Committee, Nominating Committee, Compensation Committee)
5.	Monitoring function of Board of Directors	10.	Summary

(3) The third-party organization aggregates and analyzes the survey results, based on the questionnaires and interviews.

(4) The Board of Directors Bureau summarizes the improvement status of the issues with respect to the results of the previous fiscal year, and reports the results at the Board of Directors meeting held in March. Issues to be improved and improvement measures are deliberated, and disclosure in corporate governance reports, etc. is discussed during the meeting.

<Analysis and Evaluation>

The evaluation of the effectiveness of the Board of Directors, which began in FY2015, has been led by the in-house Board of Directors Secretariat. However, in the light of equity change that took place in August, we decided on an external evaluation of the effectiveness of our Board of Directors in FY2022, and outsourced all of the questionnaires, interviews, tabulations, and analyses so as to identify inadequate discussions and responses at the Board of Directors and conduct more substantial discussions.

While the Company exceeded the average score compared with other companies in the third-party measurement and was evaluated as "mostly functioning", issues such as (1) discussion of management strategy and business portfolio strategy at the Board of Directors meeting, (2) efforts to improve the monitoring function of the Board of Directors, and (3) review of the operation of the nominating committee were raised to have a more fulfilling discussion.

<Future Initiatives>

Based on the analysis and evaluation results, the Board of Directors of the Company will discuss each item, and work on the following items to continuously improve effectiveness.

1. Creating opportunities for further discussions on management strategies and business portfolio strategies
2. Arrangement of agenda and further strengthening of continuous monitoring
3. The Nominating Committee organizes the skill matrix and appoints and appoints directors with expertise and diversity.

Consolidated financial statements (international financial reporting standards)

Consolidated statements of financial position (as of March 31, 2023)

(Millions of yen)

Assets	
Current assets	
Cash and cash equivalents	111,992
Trade receivables	301,096
Contract assets	4,221
Inventories	450,782
Income taxes receivable	974
Other financial assets	29,863
Other current assets	9,977
Total current assets	**908,905**
Non-current assets	
Right-of-use assets	65,305
Property, plant and equipment	417,077
Intangible assets	39,704
Goodwill	40,421
Investments accounted for using the equity method	16,508
Trade receivables	39,253
Deferred tax assets	21,349
Other financial assets	73,391
Other non-current assets	5,090
Total non-current assets	**718,098**
Total assets	**1,627,003**

Liabilities	
Current liabilities	
Lease liabilities	11,649
Liabilities Trade and other payables	244,034
Contract liabilities	13,320
Bonds and borrowings	310,944
Income taxes payable, etc.	19,215
Other financial liabilities	12,883
Other current liabilities	2,825
Total current liabilities	**614,870**
Non-current liabilities	
Lease liabilities	60,149
Liabilities Trade and other payables	7,562
Contract liabilities	9,611
Bonds and borrowings	196,523
Retirement and severance benefits	20,715
Deferred tax liabilities	6,882
Other financial liabilities	5,649
Other non-current liabilities	4,002
Total non-current liabilities	**311,093**
Total liabilities	**925,963**
Equity	
Equity attributable to owners of the parent	
Common stock	81,577
Capital surplus	75,724
Retained earnings	463,174
Accumulated other comprehensive income	42,611
Treasury stock, at cost	(3,094)
Total equity attributable to owners of the parent	**659,992**
Non-controlling interests	**41,048**
Total equity	**701,040**
Total liabilities and equity	**1,627,003**

Consolidated statements of income (April 1, 2022 to March 31, 2023)

(Millions of yen)

Revenue	1,279,468
Cost of sales	(901,520)
Gross profit	**377,948**
Selling, general and administrative expenses	(242,247)
Other income	16,482
Other expenses	(18,873)
Operating income	**133,310**
Financial income	4,999
Financial expenses	(20,111)
Equity in net earnings of associates	(5,537)
Income before income taxes	**112,661**
Income tax expense	(36,939)
Net income	**75,722**

Net income attributable to:	
Owners of the parent	70,175
Non-controlling interests	5,547
Net income	75,722

Consolidated statements of changes in equity (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Re-measurements of defined benefit plans	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	78,397	414,541	3,243	7,188	(348)
Net income			70,175			
Other comprehensive income				(1,151)	148	142
Comprehensive income	—	—	70,175	(1,151)	148	142
Acquisition of treasury stock						
Paid dividends			(24,454)			
Increase/decrease due to additional acquisition of interests in subsidiaries		(3,553)				
Amount transferred to retained earnings			2,912	(2,758)	(154)	
Written put options over non-controlling interests		880				
Total transactions with equity owners	—	(2,673)	(21,542)	(2,758)	(154)	—
Balance at end of period	81,577	75,724	463,174	(666)	7,182	(206)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of period	30,100	40,183	(3,090)	611,608	56,323	667,931
Net income		—		70,175	5,547	75,722
Other comprehensive income	6,201	5,340		5,340	902	6,242
Comprehensive income	6,201	5,340	—	75,515	6,449	81,964
Acquisition of treasury stock		—	(4)	(4)		(4)
Paid dividends		—		(24,454)	(5,627)	(30,081)
Increase/decrease due to additional acquisition of interests in subsidiaries		—		(3,553)	(15,469)	(19,022)
Amount transferred to retained earnings		(2,912)		—		—
Written put options over non-controlling interests		—		880	(628)	252
Total transactions with equity owners	—	(2,912)	(4)	(27,131)	(21,724)	(48,855)
Balance at end of period	36,301	42,611	(3,094)	659,992	41,048	701,040

Non-Consolidated Financial Statements

Non-consolidated balance sheet (as of March 31, 2023)

(Millions of yen)

Assets	
Current assets	**480,576**
Cash and deposits	16,413
Electronically recorded monetary claims – operating	222
Accounts receivable - trade	231,156
Merchandise and finished goods	77,619
Work in process	23,934
Raw materials and supplies	1,859
Prepaid expenses	1,696
Short-term loans receivable	92,757
Accounts receivable - other	34,221
Others	998
Allowance for doubtful accounts	(300)
Non-current assets	**402,888**
Property, plant and equipment	**119,232**
Buildings, net	35,750
Structures, net	5,246
Machinery and equipment, net	23,913
Vehicles, net	103
Tools, furniture and fixtures, net	4,350
Land	36,386
Construction in progress	13,484
Intangible assets	**12,821**
Software	12,665
securities	156
Investments and other assets	**270,836**
Investment securities	8,231
Shares of subsidiaries and associates	140,420
Investments in capital of subsidiaries and affiliates	52,472
Long-term prepaid expenses	477
Prepaid pension costs	1,779
Deferred tax assets	6,532
Long-term accounts receivable with subsidiaries and affiliates	51,330
Others	17,937
Allowance for doubtful accounts	(8,343)
Total assets	**883,465**

Liabilities	
Current liabilities	**332,213**
Electronically recorded obligations – operating	31,803
Accounts payable - trade	90,208
Short-term borrowings	118,395
Short-term borrowings from subsidiaries and affiliates	9,807
Current portion of long-term borrowings	12,671
Lease obligations	226
Accounts payable - other	17,140
Allowance for doubtful accounts	11,794
Income taxes payable	5,260
Deposits received	29,109
Contract liabilities	2,723
Others	3,077
Fixed liabilities	**169,014**
Bonds payable	40,000
Long-term borrowings	110,041
Lease obligations	2,865
Provision for retirement benefits	8,498
Contract liabilities	7,362
Others	248
Total liabilities	**501,227**
Net assets	
Shareholders' equity	**378,710**
Common stock	**81,577**
Capital surplus	**84,959**
Legal capital surplus	81,084
Other capital surplus	3,876
Retained earnings	**215,268**
Legal retained earnings	2,169
Other retained earnings	213,099
Reserve for reduction entry	4,201
Reduction entry for special account reserve	1,923
General reserve	12,952
Retained earnings brought forward	194,023
Treasury stock, at cost	**(3,094)**
Valuation and translation adjustments	**3,527**
Valuation difference on available-for-sale securities	**3,414**
Deferred gains or losses on hedges	**113**
Total net assets	**382,237**
Total liabilities and net assets	**883,465**

Non-consolidated statements of income (April 1, 2022 to March 31, 2023)

(Millions of yen)

Revenue	726,894
Cost of sales	603,496
Gross profit	123,399
Selling, general and administrative expenses	93,456
Operating income	**29,942**
Non-operating income	42,982
Interest income and dividends	39,925
Miscellaneous income	3,058
Non-operating expenses	15,330
Interest expenses	920
Foreign exchange losses	12,388
Miscellaneous losses	2,022
Ordinary income	**57,595**
Extraordinary income	15,701
Gain on sale of shares of affiliates	5,962
Gain on sales of property, plant and equipment	9,739
Extraordinary losses	15,642
Provision for doubtful accounts	8,177
Loss on revision of retirement benefit plans	7,405
Impairment losses on fixed assets	60
Income before income taxes	**57,654**
Income taxes – current	10,395
Income taxes – deferred	(1,644)
Net income	**48,904**

Non-consolidated statements of changes in equity (April 1, 2022 to March 31, 2023)

(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 reduction entry	Reduction entry	Reserve for reduction entry	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	81,577	81,084	3,876	84,959	2,169	861	—	12,952	174,836	190,818
Changes of items during period										
Dividends of surplus				–					(24,455)	(24,455)
Net income				–					48,904	48,904
Acquisition of treasury stock				–						–
Accumulation of reserve for reduction entry				–		3,480			(3,480)	–
Reversal of reserve for reduction entry				–		(140)			140	–
Provision of reserve for special account for reduction entry				–			1,923		(1,923)	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	–	–	–	3,340	1,923	–	19,186	24,449
Balance at end of period	81,577	81,084	3,876	84,959	2,169	4,201	1,923	12,952	194,023	215,268

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(3,090)	354,264	2,503	(344)	2,159	356,424
Changes of items during period						
Dividends of surplus		(24,455)			–	(24,455)
Net income		48,904			–	48,904
Acquisition of treasury stock	(4)	(4)			–	(4)
Accumulation of reserve for reduction entry		–				–
Reversal of reserve for reduction entry		–			–	–
Provision of reserve for special account for reduction entry		–			–	–
Net changes of items other than shareholders' equity		–	911	457	1,368	1,368
Total changes of items during period	(4)	24,445	911	457	1,368	25,813
Balance at end of period	(3,094)	378,710	3,414	113	3,527	382,237

To Our Shareholders

Items not included in paper-based documents delivered to shareholders requesting delivery of paper-based documents in accordance with laws and regulations and the Articles of Incorporation on giving notice of convocation of the 59th Annual Shareholder’s Meeting

Hitachi Construction Machinery Co., Ltd.

The aforementioned materials are provided to the shareholders for their review by posting them on the Company’s website pursuant to laws and regulations and the provisions of the Articles of Incorporation of the Company.

I. Financing Activities

Major creditors of the Group

Major borrowings of the Group at the end of the fiscal year under review are as follows.

(Millions of yen)

Creditor	Balance as of March 31, 2023
Mitsubishi UFJ Financial Group, Inc.	99,782
Sumitomo Mitsui Financial Group, Inc.	99,455
Mizuho Financial Group, Inc.	87,566
Sumitomo Mitsui Trust Bank, Limited	21,483
Shinkin Central Bank	17,250

II. Principal Businesses

<table>
<tr><th>Businesses</th><th colspan="2">Main products, etc.</th></tr>
<tr><td rowspan="9">Construction Machinery Business</td><td>Construction</td><td>Medium- and small-sized hydraulic excavators, wheeled excavators, mini excavators, wheel loaders, backhoe loaders, crawler cranes, machinery for foundation works, road construction machinery, and crawler-type carriers</td></tr>
<tr><td>Resource development</td><td>Ultra-large and large hydraulic excavators, hydraulic backhoe vessels, rigid dump trucks, and articulated dump trucks</td></tr>
<tr><td>Environment</td><td>Soil improvement equipment, shredders, timber recycling equipment, and screens</td></tr>
<tr><td>Product development</td><td>Super-long excavators, demolition machines, scrap processing machines, forestry specification machines, electric-powered excavators, radio-controlled operating systems, and double-arm working machines</td></tr>
<tr><td>Equipment</td><td>Hydraulic equipment for construction machinery, and generic hydraulic equipment</td></tr>
<tr><td>Rental service</td><td>Rental of construction machinery and construction-related products</td></tr>
<tr><td>Used equipment</td><td>Sales of used construction machinery, etc.</td></tr>
<tr><td>Services</td><td>Maintenance of and services for construction machinery and others, specific self-inspection, parts sales, technical training, and operational management of mining machinery</td></tr>
<tr><td>Transportation and finance</td><td>Transportation of construction machinery and parts, etc., and finance including installment sale and leasing of construction machinery</td></tr>
<tr><td>Solution Business</td><td>Services</td><td>Parts development, manufacturing and sales as well as provision of services and solutions after the sale of mining facilities and machinery that are not included in the Construction Machinery Business segment</td></tr>
</table>

III. Principal Business Locations

(1) Principal business locations of the Company

Name	Location	Name	Location
Head Office	Tokyo	Hitachinaka Works	Ibaraki Prefecture
Tsuchiura Works	Ibaraki Prefecture	Hitachinaka-Rinko Works	Ibaraki Prefecture
Kasumigaura Works	Ibaraki Prefecture	Banshu Works	Hyogo Prefecture
Ryugasaki Works	Ibaraki Prefecture		

(2) Principal business locations of the subsidiaries

Name (in Japan)	Location	Name (overseas)	Location
Hitachi Construction Machinery Tierra Co., Ltd.	Shiga Prefecture	Hitachi Construction Machinery (Europe) N.V.	The Netherlands
Hitachi Construction Machinery Camino Co., Ltd.	Yamagata Prefecture	P.T. Hitachi Construction Machinery Indonesia	Indonesia
Tadakiko Co., Ltd.	Chiba Prefecture	Hitachi Construction Machinery (China) Co., Ltd.	China
Shintohoku Metal Co., Ltd.	Akita Prefecture	Hitachi Construction Truck Manufacturing Ltd.	Canada
Hitachi Kenki Logistics Technology Co., Ltd.	Ibaraki Prefecture	Tata Hitachi Construction Machinery Co., Pvt., Ltd.	India
Hitachi Construction Machinery Leasing Co., Ltd.	Saitama Prefecture	LLC Hitachi Construction Machinery Eurasia	Russia
Hitachi Construction Machinery Japan Co., Ltd.	Saitama Prefecture	Hitachi Construction Machinery Asia and Pacific Pte.	Singapore
		Hitachi Construction Machinery Distribution (China) Co., Ltd.	China
		Hitachi Construction Machinery (Shanghai) Co., Ltd.	China
		Hitachi Construction Machinery Financial Leasing (China) Co., Ltd.	China
		Hitachi Construction Machinery Africa Pty. Ltd.	South Africa
		PT Hexindo Adiperkasa Tbk	Indonesia
		Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	Australia
		Hitachi Construction Machinery Holding U.S.A. Corp.	U.S.A.
		Wenco International Mining Systems Ltd.	Canada
		Hitachi Construction Machinery Middle East Corp. FZE	UAE
		Hitachi Construction Machinery Americas Inc.	U.S.A.
		H-E Parts International LLC	U.S.A.
		Bradken Pty Limited	Australia

IV. Employees

Construction Machinery Business [Increase/(decrease) from the previous period]	Solution Business [Increase/(decrease) from the previous period]	Total number of employees [Increase/(decrease) from the previous period]	Average age [The Company]	Average length of service [The Company]
21,801 [+133]	3,629 [+310]	25,430 [+443]	40.1 years old	15.5 years

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

V. Matters Concerning Outside Directors

(1) Concurrent positions at other organizations and relationships between the Company and such other organizations

Name	Significant concurrent positions outside the Company
Toshiko Oka	Professor, Graduate School of Global Business, Meiji University Outside Director, Sony Group Corporation Outside Director, Happinet CORPORATION Outside Director, ENEOS Holdings, Inc.
Maoko Kikuchi	Outside Director, MITSUI-SOKO HOLDINGS Co., Ltd.
Haruyuki Toyama	Special Counsel, IWATA GODO Outside Director, HORIBA, Ltd.
Hidemi Moue	President and CEO, Japan Industrial Partners, Inc. Auditor, Mobile Internet Capital, Inc. Representative Director and President, HCJI Holdings, Ltd.
Yoshinori Hosoya	COO, Social Infrastructure Systems Business Unit, Hitachi, Ltd.

(Note) Significant concurrent positions outside the Company held by Outside Directors are as shown in the table above. Director Hidemi Moue concurrently serves as President and Representative Director of HCJI Holdings Co., Ltd. HCJI Holdings Co., Ltd. is a major shareholder in the Company holding more than 25% of the Company’s shares, and has entered into a capital tie-up agreement with the Company.
Director Yoshinori Hosoya concurrently serves as COO of Social Infrastructure Systems Business Unit of Hitachi, Ltd. Hitachi, Ltd. is a major shareholder holding more than 25% of the Company’s shares. The Company and Hitachi, Ltd. have a licensing relationship related to the Hitachi brand.

(2) Relatives of executive officers or officers (excluding those who are executive officers) of the Company or entities that have a special relationship with the Company

There are no applicable persons.

(3) Major activities of Outside Directors

Name	Activities and the outline of duties conducted in relation to roles expected from outside Director
Toshiko Oka	Ms. Toshiko Oka attended all 13 Board of Directors' meetings, all six (6) Nominating Committee's meetings, all 21 Audit Committee's meetings, as well as all six (6) Compensation Committee's meetings held during the fiscal year under review, and stated her opinions necessary for the deliberation of the agenda as appropriate by capitalizing on her extensive experience as a top executive of consulting firms, knowledge on M&A and deep insight.
Kazushige Okuhara	Mr. Kazushige Okuhara attended all 13 Board of Directors' meetings, all six (6) Nominating Committee's meetings and all 21 Audit Committee's meetings, as well as all six (6) Compensation Committee's meetings held during the fiscal year under review, and stated his opinions necessary for the deliberation of the agenda as appropriate by capitalizing on his extensive experience as the top executive of a global company and knowledge and deep insight on personnel and labor policy.
Maoko Kikuchi	Ms. Maoko Kikuchi attended all 13 Board of Directors' meetings, all six (6) Nominating Committee's meetings and all 21 Audit Committee's meetings held during the fiscal year under review, as well as all five (5) Compensation Committee's meetings held after her appointment as a Compensation Committee Member on June 27, 2022 and stated her opinions necessary for the deliberation of the agenda as appropriate by capitalizing on her extensive experience and knowledge in the field of law, and her experience and deep insight as a top executive and corporate auditor.
Haruyuki Toyama	Mr. Haruyuki Toyama attended all 13 Board of Directors' meetings, all six (6) Nominating Committee's meetings, all 21 Audit Committee's meetings, and all six (6) Compensation Committee's meetings held during the fiscal year under review, and stated his opinions necessary for the deliberation of the agenda as appropriate by capitalizing on his extensive experience and knowledge in the fields of monetary affairs and finance.
Hidemi Moue	Mr. Hidemi Moue attended all 11 Board of Directors' meeting held since him taking office on June 27, 2022, all six (6) Nominating Committee's meetings as well as all six (6) Compensation Committee's meetings held during the fiscal year under review, and stated his opinions necessary for the deliberation of the agenda as appropriate by capitalizing on his extensive experience as a top executive of fund management firms, knowledge on finance and M&A fields and deep insight.
Yoshinori Hosoya	Mr. Yoshinori Hosoya attended 11 out of the 13 Board of Directors' meetings and 19 out of the 21 Audit Committee's meetings held in the fiscal year under review, and stated his opinions necessary for the deliberation of the agenda as appropriate by capitalizing on his extensive experience in the field of information and communications systems in the Hitachi Group, and deep insight.

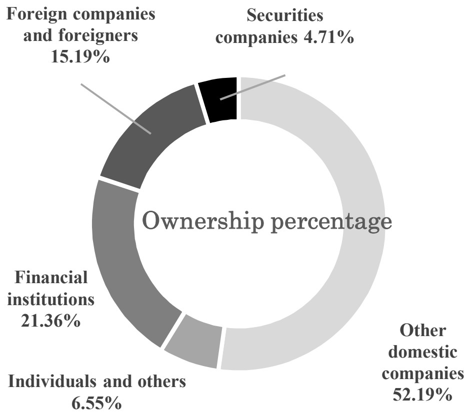
(Note) Since Hitachi, Ltd. is no longer the parent company of the Company due to the equity change on August 23, 2022, Mr. Yoshinori Hosoya was appointed as an Outside Director.

VI. Matters Concerning the Company’s Stock

(1) Total number of authorized shares 700,000,000

(2) Total number of shares issued 215,115,038
(including treasury stock of 2,465,562 shares)
Capital stock ¥81,576,592,620
Number of shares per share unit 100

(3) Number of shareholders 23,407



(4) Major shareholders (top 10 shareholders)

Name of the shareholder	Share ownership (Thousands of shares)	Shareholding ratio (%)
HCJI Holdings, Ltd.	55,290	26.00
Hitachi, Ltd.	54,062	25.42
The Master Trust Bank of Japan, Ltd. (Trust Account)	31,342	14.74
Custody Bank of Japan, Ltd. (Trust Account)	12,409	5.84
JPMorgan Securities Japan Co., Ltd.	4,906	2.31
Goldman Sachs Japan Co., Ltd. BNYM	2,277	1.07
STATE STREET BANK WEST CLIENT-TREATY 505234	2,047	0.96
JP MORGAN CHASE BANK 385781	1,402	0.66
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	1,275	0.60
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	1,249	0.59

(Notes) 1. The 2,465,562 shares of treasury stock held by the Company are not included in the above table.
2. Shareholding ratios are calculated by excluding the 2,465,562 shares of treasury stock.

VII. Financial Auditor

(1) Name of Financial Auditor

Ernst & Young ShinNihon LLC

(2) Fees, etc. to Financial Auditor for the fiscal year

(Millions of yen)

Category		Amount
Total of money and other economic benefits to be paid by the Company and its subsidiaries		169
	Out of which, the amount of fees, etc. payable by the Company*	130

(Notes) 1. The audit agreement between the Company and the Financial Auditor does not separate between the fees for audit under the Companies Act and those for audit under the Financial Instruments and Exchange Act, and it is impractical to distinguish between the two, either. Accordingly, the amount marked with an asterisk "*" presents the sum of those two.

2. The Audit Committee confirmed the contents of the audit plan of the Financial Auditor, 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 the Financial Auditor are appropriate, and given the consent in accordance with Article 399, paragraph (1) of the Companies Act.

(3) Description of non-audit services

No applicable matters.

(4) Matters pertaining to persons to whom a business suspension order has been issued for the past two (2) years

No applicable matters.

(5) Policy regarding decisions on the dismissal or non-reappointment of the Financial Auditor

If the Audit Committee considers that the Financial Auditor falls under any of the provisions of Article 340, paragraph (1) of the Companies Act and judges it necessary to dismiss the Financial Auditor immediately, the Audit Committee shall dismiss the Financial 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 shareholder's meeting convened after the dismissal.

In addition to the cases mentioned above, the Audit Committee shall, when deemed necessary to change the Financial Auditor, such as in cases where the Financial Auditor is recognized to have difficulty in properly fulfilling its auditing duties, decide the contents of a proposal to be submitted to the shareholder's meeting related to the dismissal or non-reappointment of the Financial Auditor.

VIII. Policy on Decisions for Dividends of Surplus

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 movements, etc.

IX. System to Ensure the Properness of Operations and the Operational Status of the Relevant System

1. Matters that are deemed necessary by the Ministry of Justice Order for the execution of duties of the Audit Committee

(1) Matters concerning Directors and employees to assist in duties of the Audit Committee of the Company

(i) The Audit Committee Bureau has been provided as an organization to assist the duties of the Audit Committee, and full-time personnel members who work exclusively for the Bureau and are not subject to orders and instructions of Executive Officers have been assigned.

(ii) The Internal Auditing, Legal and General Administrative Departments are to provide support to the Audit Committee in addition to the personnel of the Audit Committee Bureau, and specific areas in which they provide support are as below.

(a)	Internal Auditing Department	Implementation of internal audit in accordance with audit plans reported to the Audit Committee
(b)	Legal Department	Determination of the agenda for the Board of Directors' meetings, administration relating to the preparation and provision of the minutes, administration relating to the management of materials, and other administration relating to the interpretation and application, etc. of laws and regulations
(c)	Secretary Department	Coordination of the schedule of each Director

(iii) The Audit Committee may appoint Assistants from among the Company's employees to assist with duties, in addition to those stipulated in the preceding two paragraphs.
Assistants shall assist the Audit Committee in conducting audits and on-site audits, and assist in all activities of the Audit Committee, such as investigating, analyzing, reporting, and expressing opinions on matters to be audited in cooperation with related departments.
There are no Directors with the particularly explicit duty of assisting the duties of the Audit Committee.

(2) System for ensuring the independence of the Directors and the personnel in the preceding items from Executive Officers as well as the effectiveness of instructions to such Directors and personnel from the Audit Committee

(i) 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.

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

(iii) If a disciplinary action is to be taken against the personnel who belong to the Audit Committee Bureau or Assistants, the Executive Officer in charge of human resources shall obtain approval from the Audit Committee in advance.

(3) System for reporting to the Audit Committee and ensuring no disadvantageous treatment for reason of reporting

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

(ii) Results of internal audits of the Company and its subsidiaries performed by the Internal Auditing Department shall be reported to the Audit Committee without delay.

(iii) 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.

(iv) 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. The Company stipulates in its regulations that a whistleblower shall not be treated disadvantageously due to such reporting, and the compliance department thoroughly ensures its implementation of such regulations.

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

(4) 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 Administrative Department is in charge of the payment of expenses and other clerical work related to the execution of duties by the Audit Committee. When there is a request from the Audit Committee for advance payments or other payments for expenses, General Administrative Department shall immediately process the request unless it is clearly evident that such expenses or liabilities are not required for execution of the duties of the Audit Committee.

(5) Other systems to ensure the effectiveness of audits by the Audit Committee of the Company

(i) The Audit Committee shall effectively audit the following matters based on annual audit policies and audit plans.
  (a) The Audit Committee Members attend important meetings
  (b) The Audit Committee Members make inquiries to Executive Officers and employees of the status about the execution of their duties
  (c) The Audit Committee Members review approval documents, etc. on significant matters for important internal approval, etc.
  (d) The Audit Committee Members observe operations and inspect the assets of the Company's headquarter, major offices and subsidiaries, and make inquiries as necessary.

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

2. 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.

(1) Same as "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.

(2) 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.

3. Establishment of other systems at the Company that are deemed necessary by the Ministry of Justice Order to ensure the appropriateness of operation of a corporate group consisting of the Company and subsidiaries

(1) System for saving and maintaining the information pertaining to the execution of duties by Executive Officers of the Company

(i) Information and documents pertaining to the decision and execution of duties of the Executive Officers shall be stored and maintained in accordance with company regulations.

(ii) Such information and documents shall be submitted promptly by Executive Officers upon the request of an Audit Committee Member.

(2) Regulations and other systems for management of the risk of losses to the Company and its subsidiaries

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

(ii) A company-wide Risk Management Committee (ERM committee) identifies risks that require company-wide response policies and management decisions, informs relevant departments, assesses risks, discusses important themes of risk management, and make policy decisions on countermeasures.

(iii) Efforts shall be made to identify possible new risks through periodic reports, etc. from Executive Officers on the status of business operation at the Company and its subsidiaries that are given periodically by Executive Officers at the Executive Committee's meetings, among other things. Also, the President and Executive Officer instructs each relevant department and promptly appoints an Executive Officer responsible for taking measures therefore.

(iv) When the risks materialize and significant losses are expected to be incurred, the Executive Officer shall report to Audit Committee Members promptly.

(3) System for ensuring that duties of Executive Officers of the Company and directors of the subsidiaries are executed efficiently

The following business management system shall ensure the efficiency of the execution of duties by Executive Officers of the Company and Directors of the subsidiaries.

(i) Decision-making by Executive Officers

For any important matters that may affect the Company or the entire Hitachi Construction Machinery Group, the Executive Committee Rules, which have been established as a mechanism to make decisions carefully after deliberations from various points of view at meetings, require that such important matters be deliberated at the Executive Committee meetings and meetings on policies, etc. before a decision is made by an Executive Officer in charge.

(a) Executive Committee

- It is a committee comprised of all Executive Officers and meets twice a month, in principle.
- It deliberates and reports on important matters stipulated in the Executive Committee Rules.

(b) Meetings on management and policies

- It is a committee comprised of Executive Officers in the post of Vice President or above, and meets once a month, in principle.
- It deliberates on individual important matters.

(ii) Budget and performance management

Performance management of the Company and its subsidiaries uses a matrix management system that manages performance by business unit that is responsible for financial performance, and that manages performance by business units for each region where the units are responsible for management performance. Such performance management aims for increased emphasis on independent profitability and self-management. Further, we work on improving corporate value with an awareness of capital cost from both financial and management perspectives by using NPV, to thoroughly implement performance management of the Hitachi Construction Machinery Group. Budget management and NPV performance management are applicable to non-consolidated financial and management performance, performance of consolidated group companies, and consolidated results of the group.

(iii) Internal audit

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.

(iv) Ensuring the reliability of financial reporting

(a) In order for the Audit Committee to supervise the Accounting Auditor and for ensuring the independence of the Accounting Auditor from the Executive Officers, the Audit Committee shall carry out the following matters as duties therefore.

- Receive reports in advance about audit plans of the Accounting Auditor
- Give prior approval on the compensation of the Accounting Auditor

(b) A documented business process for matters to be reflected in financial reporting shall be executed steadily and examined by internal auditors, or external auditors when necessary, at the Company and its subsidiaries.

(v) Other matters concerning the subsidiaries

(a) The Company dispatches Directors and corporate auditors to subsidiaries.

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

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

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

(i) Compliance with laws and regulations related to business activities

(a) Internal audits by the Internal Auditing Office and other relevant departments of the Company and its subsidiaries are conducted to ensure compliance and to deter violations of laws and regulations.

(b) 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.

(c) The Company has implemented a “Compliance Reporting System” which enables employees of the Company and its subsidiaries to report to the relevant departments of the Company.

- The compliance department, which is the secretariat of the “Compliance Reporting System,” shall receive internal reports of any illegal activities, etc.
- The compliance department, which is the secretariat of the “Compliance Reporting System,” carries out necessary investigations, etc., replies to the whistleblower.
- The compliance department ensures that there is no disadvantageous treatment to the whistle-blower.

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

(ii) Company rules

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 the following matters relating to internal controls shall be approved by the Board of Directors.

(a) Regulations that determine the system the method of establishment of regulations

(b) Regulations related to the company institutions

(c) Particularly important rules regarding compliance with laws and regulations, information management, etc.

An Executive Officer shall be appointed to approve establishment and abolishment of other company rules depending on their materiality.

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

(5) System for reporting the execution of duties by Directors of the subsidiaries to the Company

(i) Any significant operational matters regarding a subsidiary shall be deliberated by the Executive Committee of the Company.

(ii) 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.

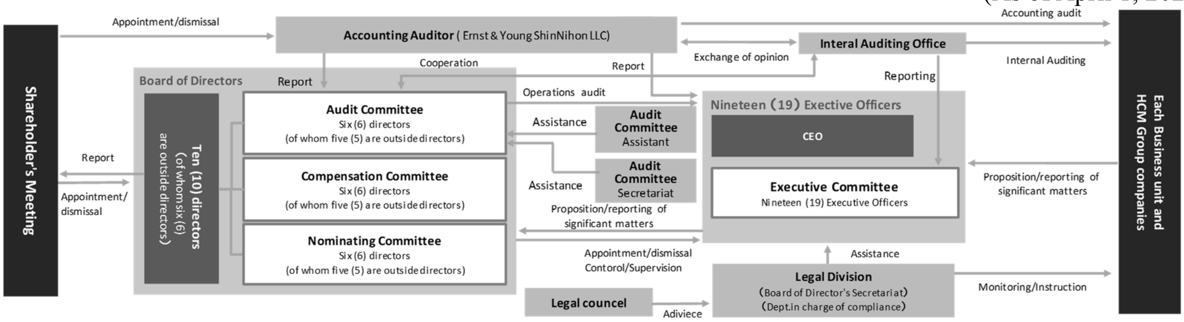
(6) System for ensuring the appropriateness of operation of a corporate group consisting of the Company and its subsidiaries

(i) The Company positions the Hitachi Construction Machinery Group’s Code of Conduct as the basis for brand and sustainability promotion activities, and shares an understanding of the social responsibilities that companies should fulfill.

(ii) The Company shall inform its subsidiaries of the Hitachi Construction Machinery Group’s Code of Conduct and the policies, rules, etc. based on it, and work to maintain them.

(iii) The Company and its subsidiaries have a policy to conduct transactions within Hitachi Construction Machinery Group fairly based on market prices.

(As of April 1, 2023)



The operational status of the ‘system to ensure the properness of operations’ during the fiscal year ended March 31, 2023 is outlined below.

(1) Audit Committee

- The Company has assigned one (1) full-time member to the Audit Committee, and established the Audit Committee Bureau as an organization to assist the duties of the Audit Committee with one (1) dedicated employee and another who also serves at the Internal Auditing Office, assigned from the perspective of BCP. The Audit Committee Bureau is not under the supervision of any Executive Officer, and reports to the Audit Committee. The Internal Auditing Office, Legal and Secretarial Divisions also assist with its duties. Effective April 1, 2023, we have newly appointed an Assistant to the Audit Committee to strengthen the audit system.
- Audit Committee Members interview all Executive Officers regarding the status of the execution of their duties, including exchanging views with Representative Executive Officers, and deliberate and review the appropriateness of the execution of the duties.
- Audit Committee Members receive periodic reports on the contents of whistle-blowing through the “Compliance Reporting System” and actions taken at the Company and its group companies from the departments in charge of compliance, and confirm the results of actions as needed.
- Expenses arising from the execution of the duties of Audit Committee Members are processed for payment, etc. by General Affairs Division.
- Audit Committee Members perform the following based on annual audit policies and audit plans.
  (a) Attend important meetings.
  (b) Interview Executive Officers and employees on the status of the execution of duties.
  (c) Inspect documents for important internal approval, etc.
  (d) Observe operations and inspect the assets of the Company’s Head Office, major business locations and its group companies, and receive reports from various divisions including the Internal Auditing Office, Accounting and Finance Division, or divisions in charge of product quality and environment.
- The Audit Committee met 21 times during fiscal 2022. Due to COVID-19, the Company visited four (4) domestic group companies to hear reports on their businesses and business operations, and interviewed two (2) overseas group companies via Internet about their businesses and business operations.

(2) Compliance and risk management

- The Company and its group companies have established the “Hitachi Construction Machinery Group’s Code of Conduct” and the “Hitachi Construction Machinery Group’s Code of Ethics and Compliance,” and have been working on education and various measures with the highest priority on ‘safety and compliance.’

Initiatives for compliance

- The Company established the Compliance Management Committee to share information regarding compliance management within the Company, while working in cooperation with compliance management committees of its group companies to implement measures for compliance and ensure that compliance measures are thoroughly understood.
- The Compliance Management Committee met once during the first half and second half, respectively (two (2) times in total).
- Major compliance rules common to the Hitachi Construction Machinery Group have been established to ensure compliance with antibribery laws, competition laws and control of money laundering laws (including the prevention of transactions with antisocial forces) in all countries and regions in which the Company and the group companies operate.
- The Company and its group companies distribute a message from the President of the Company on compliance every year to its group companies as well.
- With a view to raising awareness of compliance, videos for e-Learning training have been produced (in 11 languages in total). Also, the training videos are split in parts to shorten the viewing time per video and make it easier to watch them. Those e-Learning training videos are distributed to all group companies, and the specific contents of training are as below.
  (a) Message from top management to clarify the stance of the Company and its group companies toward compliance
  (b) Raising awareness of ethics and laws and regulations in general, by using concrete examples
  (c) Raising awareness of the importance of antibribery laws, competition laws and control of money laundering laws (including the prevention of transactions with antisocial forces), and operations based on the major compliance rules
- In order to grasp the status of compliance for the Company group as a whole, the Company conducts compliance audits based on a plan as part of operational audits by divisions in charge of audits, while clarifying the reporting practices based on the “Compliance and Risk Management Regulation,” which have been newly established at the

Company and its group companies. Further, in addition to thoroughly implementing measures to prevent cases detected through those efforts from re-occurring, we rolled them out across the Company and its group companies to prevent re-occurrence.

Reporting system

- A whistle-blowing system through which a department in charge of compliance receives reports directly or through an external organization has been established and is operated carefully in accordance with the "Compliance Whistleblowing System Regulation."

BCP

- With respect to material risks that may impact business continuity, the Company shall respond in accordance with the "Compliance and Risk Management Regulation" and also discloses to the employees' pamphlets that describe urgent responses so that an accident or natural disaster can be dealt with promptly and without fail. The Company also conducts quarterly safety confirmation drills for all employees.

Export control, environmental matters and information security

- Departments in charge work in cooperation with relevant departments at the Company and its group companies to provide rules and procedures to prevent issues in light of revisions to relevant laws and regulations in line with changes in global circumstances and the environment and technological progress, to establish a structure to perform checking from various aspects.
- The relevant various committees that met during fiscal 2022 together with the matters deliberated/reported on are as below.

(a) Export Regulation Committee: four (4) times in total

Matters deliberated/reported on: First half: one (1) meeting held "Deliberation on matters to be reported periodically"
Second half: three (3) meetings held "Measures Against Unauthorized Export Cases"
Dissemination of export control notices and communication notes, details of export control training and attendance, status of export control voucher reviews, audit status, activities for maintaining the Authorized Economic Operator (AEO) status (systems, activity records, and reports on audits conducted), and others (reports on export control systems and system-based export control measures at group companies)

(b) Sustainability Promotion Committee: two (2) times in total

Matters deliberated/reported on: Implementation of KPIs for each materiality, proposals on decarbonization and Circular Economy policies, ESG information disclosure reports

(c) CSR Promotion Managers Meeting: two (2) times in total

Matters deliberated/reported on: Estimated results of KPIs for each materiality, policy for the disclosure of ESG information

(d) Environmental Promotion Managers Meeting: two (2) times in total

Matters deliberated/reported on: Proposal on decarbonization and Circular Economy policies, planning of measures for compliance with environment-related laws and regulations, and records of and plans for reducing four (4) environmental loads

(e) Environment Management Committee: six (6) times in total

Matters deliberated/reported on: Compliance with environment-related laws and regulations, environmental accidents, and records of and plans for reducing four (4) environmental loads

(f) Information Security Committee: two (2) times in total

Matters deliberated/reported on: Merits and demerits of obligating overseas group companies to take out cyber insurance, establishment of subcommittee and activity report, Product Cybersecurity Preparatory Committee, Deliberations by the Product/Service Data Governance Subcommittee, Fiscal 2022 Information Security Committee System Report, Recent security risk status reports and countermeasures (CSIRT), Product/Service Data Governance Subcommittee Activity Report, Improvement Report on Targeted Attack Email Training

- It provides periodic group training and e-Learning.

(3) Monitoring

- In order to monitor if respective measures are being implemented properly, departments in charge carry out self-audits and internal audits periodically.

Self-audits and internal audits

- In addition to self-audits that are carried out in accordance with various rules for health and safety, environmental management, export control and quality control, among other things, self-audits are conducted by each division of the Company to confirm voluntarily that business operations are being run properly.
- As a department in charge of internal audits, the Company has the Internal Auditing Office that directly reports to the President and is staffed with 12 dedicated staff including the Head of the Office, and one (1) person who concurrently works at the Audit Committee Bureau.
- 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.
- The Internal Auditing Office has two reporting lines, as it reports directly to the President within the organizational structure while also reporting on audit plans and audit results to the Audit Committee.
- We conducted internal audits of four (4) companies in Japan and eight (8) outside Japan for a total of 12 companies by implementing remote audits that use Internet-based tools and outsourcing audits of certain overseas group companies to specialized internal audit service providers. With respect to the audit findings, we follow up on the improvement status of each relevant company, including on those from audits in the past years, provide them with support to organizational response, and grasp overall progress.
- We obtain audit plans and audit reports from the group companies with a division dedicated to internal audit to improve the audit quality across the Group and, at the Internal Auditing Office of the Company, have introduced internal assessment in accordance with the standards of the Institute of Internal Auditors to improve its own audit quality.

J-SOX (internal control)

- The J-SOX Committee is a deliberative body that determines implementation policies on internal control of the Company and group companies and assesses the effectiveness thereof. It reviews the operational status of the internal control system for confirming the reliability of financial reporting and, if any deficiencies are found, demands improvements and confirms the improvement status.
- The J-SOX Committee consists of the head of each division in charge of DX (IT system information management), legal matters, accounting and finance, and audit, and full-time Audit Committee Members attend meetings of the committee as observers till the fiscal 2022.
- Four (4) meetings of the J-SOX Committee were held in the fiscal 2022.

(4) Decisions on important matters

- Various committees that met during fiscal 2022 regarding important management matters that affect the Company or its group companies and the matters deliberated/reported on are as follows.
  - (a) Executive Committee’s meetings: 24 times in total
    Matters deliberated/reported on: Deliberations and reports on important matters stipulated in the Executive Committee Rules
  - (b) Meetings on sales and production: 12 times in total
    Matters deliberated/reported on: Matters regarding demand, sales and inventory forecast, those relating to sales of the Company on a standalone basis (locally required values), those relating to production plans at respective plants, and consultation, discussion, and progress reporting on matters relating to various measures
  - (c) Meetings on management and policies: 46 times in total
    Matters deliberated/reported on: Medium-term management plan, matters pertaining to important measures in annual budgets, management issues relating to the future, and consultation, discussion, and progress reporting on cross-divisional management issues

X. Notes to the Consolidated Financial Statements

1. Notes, etc. on basis of presenting consolidated financial statements

(1) Basis for preparation of consolidated financial statements

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 120, paragraph of the Regulations on Corporate Accounting. The consolidated financial statements have certain disclosure items, as required by IFRS, omitted pursuant to the second sentence of the said paragraph.

Amounts shown are rounded off to the nearest one million yen.

(2) Matters pertaining to the scope of consolidation, etc.

The number of consolidated subsidiaries that are within the scope of consolidation is 79.

Main consolidated subsidiaries are as below.

Hitachi Construction Machinery Japan Co., Ltd., Hitachi Construction Machinery Tierra Co., Ltd., Hitachi Construction Machinery Camino Co., Ltd., Hitachi Construction Machinery (China) Co., Ltd., Hitachi Construction Machinery Sales (China) Co., Ltd., Tata Hitachi Construction Machinery Co., Pvt., Ltd., Hitachi Construction Machinery Asia Pacific Pte. Ltd., P.T. Hitachi Construction Machinery Indonesia, Hitachi Construction Machinery (Europe) N.V., Hitachi Construction Machinery America Inc., Hitachi Construction Machinery Truck Ltd., Hitachi Construction Machinery Financing and Leasing (China) Co., Ltd., Hitachi Construction Machinery Oceania Holdings Pty., Ltd., H-E Parts International LLC, Bradken Pty Limited

The scope of consolidation has been changed from the fiscal year ended March 31, 2023 as below.

Number of companies included in the scope of consolidation during the fiscal year ended March 31, 2023: 2

(i) Inclusion due to new establishment: 1

(ii) Inclusion due to acquisition: 1

Number of companies excluded from the scope of consolidation during the fiscal year ended March 31, 2023: 3

(i) Exclusion due to liquidation: 3

(3) Matters pertaining to the application of the equity method

The number of associates accounted for by the equity method is 23.

Main affiliates subject to the equity method are as below.

P.T. HEXA FINANCE INDONESIA, HTC Leasing Company Limited

The scope of application of the equity method has been changed from the fiscal year ended March 31, 2023 as below.

Number of companies included in equity-method affiliates during the fiscal year ended March 31, 2023: 2

(i) Inclusion due to new establishment: 1

(ii) Inclusion due to acquisition: 1

Number of companies excluded from equity-method affiliates during the fiscal year ended March 31, 2023: 1

(i) Exclusion from the scope of application of the equity method due to sale of shares: 1
Sumitomo Heavy Industries Construction Cranes Co., Ltd.

Associates not accounted for by the equity method: 3

(4) Matters pertaining to fiscal years, etc. of consolidated subsidiaries

The consolidated subsidiaries settle their accounts on the same date as the rest of the consolidated group, except for the following.

Hitachi Construction Machinery (China) Co., Ltd., Hitachi Construction Machinery Sales (China) Co., Ltd., Hefei Rijian Shearing Co., Ltd., Qingdao Chengri Construction Machinery Co., Ltd., Suzhou Chengya Construction Machinery Co., Ltd., Hitachi Construction Machinery Financial Leasing (China) Co., Ltd., LLC Hitachi Construction Machinery Eurasia, and 17 other companies

To create the consolidated financial statements, the Company uses the statements of financial position and statements of income of these subsidiaries which are prepared based on provisional account settlement as of March 31 2023.

(5) Matters pertaining to accounting policies

(i) Valuation standards and valuation methods for important assets

i) Financial instruments

(a) Non-derivative financial assets

The Group initially recognizes trade 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 models 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 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 (also including direct transaction costs). After initial recognition, the carrying amount of financial assets measured at amortized cost is measured using the effective interest method. Interest accrued on financial assets measured at amortized cost is included in finance income in the consolidated statements of income.

<u>Financial assets measured at fair value through other comprehensive income (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. Changes in fair value are recognized in other comprehensive income, with the cumulative amount recognized in accumulated other comprehensive income. However, dividends on equity instruments designated as FVTOCI financial assets are recognized in profit or loss, except where they are considered to be a return of the investment.

<u>Financial assets measured at fair value through profit or loss (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. After initial recognition, these instruments are measured at fair value and the changes in fair value are recognized in profit or loss.

<u>Impairment of financial assets</u>

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 in an 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 in an 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 in an 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 a debtor's payment of contractual cash flows has been identified and there are no reasonable expectations for recovering the financial asset in its entirety or a portion thereof. 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 recoverable 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 for recovering the financial assets in their entirety or a portion and the carrying amounts are generally written off.

(b) 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.

(c) 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.

(d) 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.

ii) 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.

(ii) Depreciation and amortization methods for important assets

i) Property, plant and equipment

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

- 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.

ii) Intangible assets

(a) Goodwill

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

(b) 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: Estimated useful life for each major class of assets are as follows.

- Software 2 to 10 years
- Others 2 to 20 years

iii) Right-of-use assets

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

iv) Impairment of non-financial assets

The Group determines any indications of impairment with each asset, and conducts an impairment test when there are indications that the carrying value is not recoverable. Irrespective of any indicators of impairment, the Group tests goodwill for impairment at the end of each fiscal year.

An impairment test is performed by estimating the recoverable amount of each asset of cash-generating unit (CGU) and comparing it with its carrying amount. A CGU is the smallest group of assets that generates cash flows generally independent from other assets or asset groups.

The recoverable amount means an amount that is the higher of fair value less costs of disposal or value in use per asset or CGU. In calculating value in use, estimated future cash flows are discounted to the present value at a pretax discount rate that reflects the time value of money and risks specific to relevant assets. If the carrying amount of the asset or the CGU exceeds its recoverable amount, an impairment loss is recognized for such asset.

For an asset other than goodwill, its recoverable amount is subsequently estimated for the asset or the CGU when there is an indication that an impairment loss previously recognized on the asset may no longer exist or has decreased. If it is found that the estimated recoverable amount exceeds the carrying amount, 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.

(iii) Significant allowances and 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.

(iv) Other important matters for compiling consolidated financial statements

i) Revenue recognition

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

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

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

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Variable consideration, such as discounts and rebates, is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The promised amount of consideration does not include a significant financing component, because ordinary transactions are completed with payments within one (1) year.

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

For transactions whereby control over goods and services, etc. is transferred over time, the Company measures its progress towards complete satisfaction of that performance obligation on the basis of output or input methods in consideration of the nature of the goods and services for the purpose of recognizing revenue. When the Company cannot reasonably measure the progress, revenue is recognized only to the extent of the costs incurred. The Group recognizes the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract as an asset if those costs are expected to be recovered, and those assets are amortized based on the methods used to recognize revenue of the goods or services to which the assets relate. The Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset is less than one (1) year.

ii) Leases

(a) Lessee

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

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.

(b) 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.

iii) Accounting treatment of post-retirement 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 that 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 net amount calculated by deducting the fair value of plan assets from the present value of defined benefit obligations is presented as defined benefit liability or asset in non-current liabilities or non-current assets.

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

iv) Translation of material foreign currency-denominated assets and liabilities into yen

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

(a) Foreign currency-denominated transactions

Foreign currency transactions are converted into the relevant functional currencies 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.

(b) Statements of financial position and statements of income of foreign entities

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 rate during the period if there are no significant fluctuations in the exchange rate.

Such foreign exchange gains and losses resulting from the currency conversion of the statements of financial position and the statements of income of a foreign entity are recognized in OCI. Cumulative foreign exchange gains or losses that have been recognized in OCI are transferred to profit or loss upon the divesture of a foreign entity.

v) Group Relief System adopted

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

vi) Treatment of Global Minimum Tax System

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

IAS 12 does not offer specific guidance on accounting for corporate income taxes under the Global Minimum Tax System. As suggested by the Exposure Draft International Tax Reform—Pillar Two Model Rules (proposed amendments to IAS 12 Income Taxes) published by the IASB, it is unclear whether the Pillar Two model rules (corresponding to the Global Minimum Tax System under the Amended Corporation Tax Act) create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. In addition, the tax rate that will apply to the Group's excess profit in future periods depends on various factors and it is difficult, if not impossible, to forecast reliably.

Therefore, the Group applied judgement to formulate an appropriate accounting policy in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. As a result, it concluded that not accounting for deferred taxes associated with corporate income taxes under the Global Minimum Tax System would yield the most relevant and reliable accounting information. The Group expects that this accounting policy will result in accounting treatment that is consistent with the amendments to IAS 12, scheduled to be released in late May 2023.

2. Notes on accounting estimates

(1) Valuation of goodwill

The method to determine impairment losses for goodwill is described in “iv) Impairment of non-financial assets” in “ii) Depreciation and amortization methods for important assets” in “(5) Matters pertaining to accounting policies.”

Significant goodwill recorded in the consolidated statements of financial position as of March 31, 2023 is principally goodwill of ¥8,982 million mainly due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in 2016, and goodwill of ¥22,145 million mainly due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in 2017.

The recoverable amount per cash-generating unit (CGU) is calculated at the higher of fair value less costs of disposal or value in use. Comparison with similar publicly traded companies, and a market approach where a price that can be achieved in orderly transactions between market participants, such as market capitalization of the asset, etc. is reasonably estimated and calculated, are principally used as valuation techniques used to calculate fair value less costs of disposal. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five (5) years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs.

The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU exceeded the carrying amount as of March 31, 2023, the value in use may fall below the carrying amount in and after the next fiscal year if the discount rate increases, and this may affect operating results, etc.

(2) Recoverability of deferred tax assets

Deferred tax assets recorded in the consolidated statement of financial position as of March 31, 2023 was ¥21,349 million.

Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which unused tax losses, unused tax credits and future deductible temporary differences can be utilized. In assessing the recoverability of deferred tax assets, the Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, by examining whether or not future taxable income can be generated in specific tax jurisdictions during the periods in which these deductible differences, etc. become deductible.

The Group has judged that it is more likely than not that it will realize the benefits of these deductible differences as of March 31, 2023. However, the period in which taxable income is generated and the amount are affected by future changes in uncertain economic conditions. If the period in which taxable income is actually generated and the amount differs from the estimates in and after the next fiscal year, this may affect operating results, etc.

(3) Valuation of indemnification claim against ACME Business Holdco, LLC

Notes are omitted as the same information is provided in “(2) Notes on investments accounted for using the equity method” in “9. Other notes.”

Impact of the Russia-Ukraine conflict

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

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

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

3. Notes to the consolidated statements of financial position

	(Millions of yen)
(1) Matters pertaining to provisions directly deducted from assets	
Trade receivables	14,034
Other financial assets	48
(2) Matters pertaining to accumulated depreciation and impairment losses of assets	
Right-of-use assets	56,105
Property, plant and equipment	465,807

(3) Matters concerning guarantee obligations

The Group's guarantee obligations and guarantee commitment associated with borrowings from financial institutions are as follows

Guarantee obligations	13,530
Guarantee commitment	49
(4) Assets pledged as collateral	
Trade receivables	6,399
Inventories	13,128
Property, plant and equipment	60,294
Liabilities corresponding to the above	
Trade and other payables (current)	4,175
Bonds and borrowings (current)	19,499
Trade and other payables (non-current)	7,561
Bonds and borrowings (non-current)	23,228

4. Notes to the consolidated statements of changes in equity

(1) Total number of issued shares Common stock	215,115,038
(2) Number of treasury shares Common stock	2,465,562

(3) Matters pertaining to distribution of surplus

(i) Dividends paid

Resolved by	Class of shares	Source of dividends	Total amount of dividends (Millions of yen)	Dividend per share (yen)	Record date	Effective date
The Board of Directors meeting held on May 23, 2022	Common stock	Retained earnings	13,822	65	March 31, 2022	May 31, 2022
The Board of Directors meeting held on October 26, 2022	Common stock	Retained earnings	10,632	50	September 30, 2022	November 30, 2022

(ii) Dividends on common stock whose record date falls in the fiscal year under review and whose effective date falls in the following fiscal year

To be resolved by	Class of shares	Source of dividends	Total amount of dividends (Millions of yen)	Dividend per share (yen)	Record date	Effective date
The Board of Directors meeting held on May 22, 2023	Common stock	Retained earnings	12,759	60	March 31, 2023	May 31, 2023

(4) Matters pertaining to share award rights and subscription rights to shares

No applicable matters.

5. Notes on financial instruments

(1) Matters pertaining to financial instruments

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

(i) Market risk

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

i) 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.

ii) 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.

iii) Equity instruments price volatility risk

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

(ii) Credit risk (risk of non-performance, etc. of counterparties)

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 identified in a timely way and mitigated. Basically, no significant concentration of credit risk is present as the Group has transactions with customers in various geographical areas.

Since securities held to maturity are highly rated securities, the Group finds little credit risk.

In addition, the Group enters into derivative transactions only with counterparties that 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 credit risk equals the financial assets' carrying amount after impairment reported in the consolidated statements of financial position, if collateral held is not considered.

(iii) Liquidity risk (risk of becoming unable to make payment on the due date)

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

(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 of maintaining and strengthening its sound financial structure, the Group closely monitors the balance of interest-bearing liabilities, net of cash, deposits, and pooled deposits.

(2) Matters pertaining to fair value, etc. 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.

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

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

ii) Other financial assets and other financial liabilities

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

iii) Bonds and borrowings

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

(ii) Financial instruments measured at amortized cost

The carrying amounts and fair values of financial assets and financial liabilities measured at amortized cost are as follows. Financial assets and financial liabilities whose carrying amounts reasonably approximate the fair values are not included.

(Millions of yen)

Category	Carrying amount	Fair value
Assets		
Trade receivables	340,349	342,290
Liabilities		
Liabilities Trade and other payables	251,596	251,815
Bonds and borrowings	507,467	504,466

(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 (3) 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 March 31, 2023	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Equity securities	7,907	–	8,449	16,356
FVTPL financial assets:				
Other financial assets				
Derivative assets	–	4,669	–	4,669
Other financial assets	–	–	531	531
Total financial assets	7,907	4,669	8,980	21,556
FVTPL financial liabilities				
Other financial liabilities				
Derivative liabilities	–	(3,844)	–	(3,844)
Other				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	(3,713)	(3,713)
Total liabilities	–	(3,844)	(3,713)	(7,557)

The following tables present the changes in Level 3 financial instruments measured at fair value on a recurring basis for the fiscal year under review.

(Millions of yen)

	Year ended March 31, 2023
Balance at beginning of the year	10,106
Total gain/(loss)	(1,183)
Other comprehensive income	(1,183)
Purchased	434
Sold	(344)
Other	(33)
Balance at end of the year	8,980

6. Notes on per share information

(1) Equity per share attributable to owners of the parent ¥3,103.66
(2) Net income attributable to owners of the parent per share (basic) ¥330.00

7. Notes on revenue recognition

(1) 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.

(Millions of yen)

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

(2) 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 for sale of products and parts are satisfied at a point in time upon completion of the sale and customers' acceptance and inspection of the goods, revenue is recognized when control over the goods is transferred to customers. Conditions for acceptance, such as loading to a ship, receipt by the customer, completion of performance tests, are determined under contracts with customers or relevant agreements. Consideration for a transaction is generally collected within four (4) months after the relevant performance obligations are satisfied. Because the period between when performance obligations are satisfied and when consideration is received is usually within one (1) year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one (1) year, they are immaterial.

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

Consideration for a transaction is usually paid in fixed amounts every one (1) to three (3) months in case of periodic maintenance services. For paid product guarantee services, consideration for the duration of a contract is collected in advance at the time of executing the contract. Because the period between when performance obligations are satisfied and when consideration is received is usually within one (1) year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one (1) year, they are immaterial. In contracts with some customers, revenue is measured at the amount of promised consideration less discounts, sales returns and the like.

(Solution Business)

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

Because the period between when performance obligations are satisfied and when consideration is received is usually within one (1) year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one (1) year, they are immaterial.

(3) 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, 2023

(Millions of yen)

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

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

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

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

(4) Transaction price allocated to remaining performance obligations

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

(Millions of yen)

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

The Group expects to perform roughly 80% of the balance of performance obligations to be performed as of March 31, 2023 within three (3) years, and roughly 20% after three (3) years and within five (5) years.

There is no significant amount of consideration arising from contracts with customers that is not included in the transaction price.

(5) 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.

8. Notes on significant subsequent events

No applicable matters.

9. Other notes

(1) Notes to the consolidated statements of income

The main components of other income are as follows:

(Millions of yen)

Category	Amount
Gain on sales of property, plant and equipment (Note 1)	11,471
Subsidy income	204
Gain on business restructuring	328
Other	4,479
Total	16,482

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

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

The main components of other expenses are as follows:

(Millions of yen)

Category	Amount
Loss on sales of property, plant, and equipment	280
Loss on disposal of property, plant and equipment	968
Impairment of property, plant, and equipment (Note 1)	1,912
Expenses for business structure reform (Note 2)	12,595
Other	3,118
Total	18,873

(Note 1) Impairment of property, plant, and equipment

Impairment of property, plant and equipment for the fiscal year under review includes an impairment loss of ¥1,323 million (¥523 million for property, plant and equipment and ¥800 million for intangible assets) recognized for a portion of the assets of the Americas cash-generating unit at a Bradken subsidiary in the Solution Business segment due to a decline in profitability resulting from changes in the business environment. The recoverable value of the asset is measured by its value in use, which is calculated by the estimated pre-tax future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the pre-tax weighted average cost of capital. The estimated future cash flows are discounted at a discount rate of 10.5% to calculate the value in use.

(Note 2) Expenses for business structure reform

Expenses for business structure reform recognized for the year ended March 31, 2023 include a special severance payment and so forth. A liquidation loss of ¥10,629 million related to the transition to a risk-sharing corporate pension plan for the Company and certain of its domestic subsidiaries is also included.

(2) Notes on investments accounted for using the equity method

In the current fiscal year, ACME Business Holdco, LLC (hereinafter referred to as “ACME”), an American rental company which is an investee of a consolidated subsidiary of the Company and an equity-method associate, defaulted on a loan from a financial institution and the Company, the guarantor of the debt, made subrogation payments to the lender, the financial institution. As a result, the Company determined that an indication of impairment existed in the investments accounted for using the equity method and performed an impairment test.

In performing the impairment test, the recoverable value of the investment in ACME accounted for under the equity method, was assessed based on the fair value after deduction of disposal costs. This mainly includes property held by ACME for rental purposes and shares of its subsidiaries, which are taken into account in the valuation results of these assets by external valuation experts using the market approach. As a result, an impairment loss of ¥7,280 million on investments accounted for using the equity method is included in “Equity in net earnings of associates” in the consolidated statements of income.

The amount of ¥51,330 million in indemnity claims against ACME resulting from Company’s fulfillment of its guarantee obligation to the lender is included in “other financial assets (non-current)” on the consolidated statement of financial position. The Company’s assessment of expected credit losses on such indemnity claims is based on the fact that the Company is in dispute with ACME and its related parties as of the end of the current fiscal year. Therefore, the Company estimated the recoverability of the receivables according to the credit risk based on its projected litigation strategy. If the circumstances under which such assumptions have been made were to change, the estimated amount of expected credit losses on the indemnity claims may differ. Therefore, the Group considers such estimates to be significant.

(3) Notes on amendments to post-retirement benefit plans

On March 1, 2023, the Company and some of its domestic subsidiaries introduced a risk-sharing corporate pension plan for the Pension Fund of Hitachi Construction Machinery. Under this plan, in addition to the amount equivalent to the standard premium, an amount equivalent to the risk-sharing premium is stipulated in advance in the Articles of Incorporation. The amount of benefits will increase or decrease according to the financial status of the risk-sharing corporate pension plan in each fiscal year to achieve a balance in pension financing.

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

XI. Notes to the Non-Consolidated Financial Statements

Amounts shown are rounded off to the nearest one million yen.

1. Notes on matters pertaining to significant accounting policies

(1) Valuation standards and valuation methods for securities

Investments in subsidiaries and affiliates

Stated at cost based on the moving-average method.

Available-for-sale securities

Securities other than shares, etc. with no market price:

Stated at fair value. (Any changes in unrealized holding gain or loss, net of the applicable income taxes, are directly included in net assets, and the cost of securities sold is calculated by the moving-average method)

Shares, etc. with no market price:

Stated at cost based on the moving-average method.

(2) Valuation standards and valuation methods for inventories

Merchandise and finished goods, raw materials and supplies

Stated at cost based on the moving-average method.

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

(i) Property, plant and equipment (excluding leased assets)

Amortized using the straight-line method.

(ii) 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).

(iii) Leased assets

Leased assets under finance lease transactions where the ownership of the assets is not considered to be transferred

Depreciated using the straight-line method by using their useful lives as the lease period and assuming zero residual value.

(4) Allowances and provisions

(i) Write down of inventories

To prepare for bad debt losses from uncollectible receivables, a general provision for doubtful accounts is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. Specific provision is provided based on the assessment of the collectability of individual receivables.

(ii) 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.

Treatment of unrecognized actuarial gains and losses and unrecognized prior service costs in the non-consolidated balance sheets differs from that in the consolidated statements of financial position.

(5) Revenue and expenses

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

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Variable consideration, such as discounts and rebates, is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The promised amount of consideration does not include a significant financing component, because ordinary transactions are completed with payments within one (1) year.

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

For transactions whereby control over goods and services, etc. is transferred over time, the Company measures its progress towards complete satisfaction of that performance obligation on the basis of output or input methods in consideration of the nature of the goods and services for the purpose of recognizing revenue. When the Company cannot reasonably measure the progress, revenue is recognized only to the extent of the costs incurred.

The Company recognizes the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract as an asset if those costs are expected to be recovered, and those assets are amortized based on the methods used to recognize revenue of the goods or services to which the assets relate. The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset is less than one (1) year.

(6) Accounting for deferred assets
  (i) Share issuance cost
    Bond issuance costs are fully recognized as expenses when paid.
  (ii) Bond issuance cost
    Bond issuance costs are fully recognized as expenses when paid.

(7) Method of hedge accounting
  (i) Method of hedge accounting
    Deferral hedge accounting is applied.
  (ii) Hedging instruments and hedged items
    The Company uses forward exchange contracts to mitigate foreign currency exchange risks associated with import and export transactions. It also engages in interest rate swap agreements according to respective financing periods, to fix the risk of fluctuations in cash flows in long-term borrowings.
  (iii) Hedging policy
    As currency related derivative transactions are mainly used to hedge the foreign exchange risk associated with sales contracts denominated in U.S. dollars, the use of derivatives is limited to the amount of accounts receivable - trade and sales contracts denominated in foreign currencies.
    Through interest-related derivative transactions, the Company aims to fix the interest rate for each long-term borrowing at the prevailing market rate as of each fund procurement since the Company emphasizes obtaining long-term borrowings at stable interest rates.
  (iv) 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.

(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.

2. Notes on changes in accounting policies

(1) Implementation Guidance on Accounting Standard for Fair Value Measurement

The Company has applied the "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the "Guidance on Accounting Standard for Fair Value Measurement.") and relevant ASBJ regulations from the beginning of the fiscal year under review, and in accordance with paragraph (27)-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, the new accounting policies set forth in the Accounting Standard for Fair Value Measurement and relevant regulations have been applied prospectively. This change in accounting policies had no impact on the fiscal year under review.

3. Notes on accounting estimates

(1) Valuation of shares of subsidiaries and affiliates with no market price

(i) Amounts recorded in the non-consolidated financial statements as of March 31, 2023

Shares of subsidiaries and affiliates with no market price: ¥139,796 million

Of the above amount, carrying amounts of major shares of subsidiaries and affiliates acquired through M&A, etc.

- Bradken Pty Limited ¥58,766 million
- H-E Parts International LLC ¥20,713 million

(ii) Information contributing to understanding of accounting estimates

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

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

(2) Recoverability of deferred tax assets

(i) Amounts recorded in the non-consolidated financial statements as of March 31, 2023

Net operating loss carryforwards ¥6,532 million

(ii) Information contributing to understanding of accounting estimates

Notes are omitted as the same information is provided in "(2) Recoverability of deferred tax assets" in "2. Notes on accounting estimates" in the Notes to the Consolidated Financial Statements.

(3) Valuation of indemnification claim against ACME Business Holdco, LLC

(i) Amounts recorded in the non-consolidated financial statements as of March 31, 2023

Long-term accounts receivable with associated companies ¥51,330 million

Write down of inventories ¥8,177 million

(ii) Information contributing to understanding of accounting estimates

In the current fiscal year, ACME Business Holdco, LLC (hereinafter referred to as "ACME"), an American rental company and an associate of the Company, defaulted on a loan from a financial institution and the Company, the guarantor of the debt, made subrogation payments to the lender, the financial institution. The amount of ¥51,330 million in indemnity claims against ACME resulting from Company's fulfillment of its guarantee obligation to the lender is included in "long-term accounts receivable from subsidiaries and associates" on the balance sheet. To prepare for losses due to defaults on such indemnity claims, the estimated unrecoverable amount is calculated by taking into consideration the recoverability of each individual account, and the estimated unrecoverable amount is recorded as an allowance for doubtful accounts.

As of the end of the current fiscal year, the Company is in dispute with ACME and its affiliates regarding the assumption of the estimated unrecoverable amount. Taking into consideration the strategic forecast of the litigation and the financial condition of ACME, as well as the results of an evaluation by an external evaluation specialist using a market approach of the fixed assets for rent and shares of subsidiaries held by ACME, the Company recorded an extraordinary loss of ¥8,177 million as a provision for allowance for doubtful accounts for the receivables from ACME for which there is concern about recovery.

If circumstances under which the Company made assumptions, such as litigation strategy projections, ACME's financial condition and results of operations, and assumptions made in estimating the valuation of assets, change in the next fiscal year, they could have a material impact on the amount of the allowance for doubtful accounts in the non-consolidated financial statements for the next fiscal year.

4. Notes to the non-consolidated balance sheets

	(Millions of yen)
(1) Accumulated depreciation for property, plant and equipment	180,929
(2) Guarantee obligations	
Guarantees	24,132
Guarantee commitment	49
(3) Monetary claims and monetary debts to subsidiaries and affiliates	
Short-term monetary claims	311,382
Short-term monetary debts	70,330

5. Notes to the non-consolidated statements of income

	(Millions of yen)
(1) Transactions with subsidiaries and affiliates	
Operating transaction	
Sales	524,459
Purchase	277,112
Total amount of non-operating transactions	46,046

6. Notes to the non-consolidated statements of changes in equity

Number of treasury stock as at the last day of the fiscal year ended March 31, 2023

Common stock 2,465,562 shares

7. Notes on revenue recognition

Information that forms the basis for understanding revenue is provided in "(iv) Other important matters for compiling consolidated financial statements" in "(5) Matters pertaining to accounting policies" of "1. Notes, etc. on basis of presenting consolidated financial statements" in the Notes to the Consolidated Financial Statements and "(5) Revenue and expenses" of "1. Notes on matters pertaining to significant accounting policies" in the Notes to the Non-consolidated Financial Statements.

Information on disaggregation of revenue and information for understanding the amounts of revenue in the fiscal year under review as well as in and after the next fiscal year are omitted as the same information is provided in "7. Notes on revenue recognition" in the Notes to the Consolidated Financial Statements.

8. Notes on tax effect accounting

(1) Components of deferred tax assets and deferred tax liabilities by major cause

	(Millions of yen)
Deferred tax assets	
Net operating loss carryforwards	1,143
Accrued business tax	421
Provision for bonuses	2,238
Accrued expenses	3,384
Allowance for doubtful accounts	2,596
Write down of inventories	1,576
Loss on valuation of shares of subsidiaries and affiliates	12,825
Loss on valuation of investment securities	113
Provision for retirement benefits	2,602
Excess over depreciation limit	2,009
Others	2,117
Subtotal of deferred tax assets	31,024
Valuation allowance on tax loss carryforwards	(849)
Valuation allowance on total deductible temporary differences	(18,286)
Subtotal of valuation allowance	(19,135)
Total	11,889
Deferred tax liabilities	
Prepaid pension costs	545
Reserve for reduction entry	2,703
Valuation difference on available-for-sale securities	1,379
Others	731
Total	5,357
Net deferred tax assets	6,532

(2) Accounting treatment for national corporate taxes and local corporate taxes or tax effect accounting relating to these taxes

The Company adopts Group Relief System from the fiscal year ended March 31, 2023. Furthermore, the Company undertakes and discloses the accounting treatment for national corporate taxes and local corporate taxes or tax effect accounting relating to these taxes in compliance with provisions in the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ Practical Issues Task Force No. 42, August 12, 2021).

9. Notes on related-party transactions

(1) Parent Company and major corporate shareholders, etc.

Attribute	Name of entity	Address	Common stock or investments	Business activities	Percentage of voting rights held (%)	Relationship with related party	Transaction	Transaction amount (Millions of yen)	Account	Balance as of March 31, 2023 (Millions of yen)
Other associates	ITOCHU Corporation	Minato-ku, Tokyo	¥253,448 million	General trading company	Held Indirect 26.0	Sales of the Company's products	Sales, etc. of products (Note 1)	27,526	Accounts receivable - trade	29,021
Other associates	Hitachi, Ltd.	Chiyoda-ku, Tokyo	¥462,818 million	Manufacture, sales and service of electric machinery, equipment and various products	Held Direct 25.4	Payment of brand value royalty Officers with concurrent positions	Payment of brand value royalty	2,606	Accounts payable - other	8,250

(2) Subsidiaries, etc.

Attribute	Name of entity	Address	Common stock or investments	Business activities	Percentage of voting rights held (%)	Relationship with related party	Transaction	Transaction amount (Millions of yen)	Account	Balance as of March 31, 2023 (Millions of yen)
Subsidiary	Hitachi Construction Machinery Tierra Co., Ltd.	Koka-city, Shiga	¥1,441 million	Manufacturing, sales and services of mini excavators	Holding Direct 100.0	Manufacturing of the Company's products Lending and borrowing, etc. of funds	Purchase, etc. of products (Note 2)	122,393	Accounts payable - trade	13,985
							Receipt of deposits (Note 3)	8,644	Deposits received	28,766
							Payment of interest (Note 4)	24		
Subsidiary	Hitachi Construction Machinery Japan Co., Ltd.	Soka-city, Saitama	¥5,000 million	Rental, sales and services of construction machinery	Holding Direct 100.0	Sales, leasing and services of the Company's products Lending and borrowing, etc. of funds Officers with concurrent positions	Sales, etc. of products (Notes 1 and 6)	129,493	Accounts receivable - trade	33,270
							Lending of funds (Note 3)	8,616	Short-term loans receivable	38,739
							Receipt of interest (Note 4)	101		
Subsidiary	Hitachi Construction Machinery Leasing Co., Ltd.	Soka-city, Saitama	¥50 million	Installment sales and leasing of construction machinery, etc.	Holding Direct 100.0	Leasing of the Company's products Lending and borrowing, etc. of funds	Lending of funds (Note 3)	2,628	Short-term loans receivable	27,810
							Receipt of interest (Note 4)	84		
Subsidiary	Hitachi Kenki Logistics Technology Co., Ltd.	Tsuchiura city, Ibaraki	¥360 millions	Packaging, shipping, and export and import service of construction machinery, etc.	Holding Direct 100.0	Packing and shipping of the Company's products	Purchase, etc. of products (Note 2)	86,955	Accounts payable - trade	6,274
Subsidiary	Hitachi Construction Machinery (Europe) N.V.	Oosterhout, the Netherlands	70,154 thousand euros	Manufacturing, sales and services of construction machinery	Holding Direct 98.9	Manufacturing and sales of the Company's products	Sales, etc. of products (Note 1)	127,980	Accounts receivable - trade	54,569
Subsidiary	Hitachi Construction Machinery Americas, Inc.	Georgia, U.S.A	8,000 Thousand U.S. dollars	Sales of construction machinery	Holding Direct 100.0	Sales of the Company's products Officers with concurrent positions	Sales, etc. of products (Note 1)	68,159	Accounts receivable - trade	13,871
							Lending of funds (Note 3)	1,671	Short-term loans receivable	20,030
							Receipt of interest (Note 4)	511		
Subsidiary	Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	66,224 thousand RMB	Sales and services of construction machinery	Holding Direct 100.0	Borrowing, etc. of funds	Repayment of funds	401	Short-term borrowings	9,807
							Payment of interest (Note 4)	22		

Attribute	Name of entity	Address	Common stock or investments	Business activities	Percentage of voting rights held (%)	Relationship with related party	Transaction	Transaction amount (Millions of yen)	Account	Balance as of March 31, 2023 (Millions of yen)
Subsidiary	Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	New South Wales, Australia	29,122 thousand Australian dollars	Sales and services of construction machinery	Holding Direct 100.0	Sales of the Company's products	Sales, etc. of products (Notes 1 and 5)	63,376	Accounts receivable - trade	26,412
Subsidiary	LLC Hitachi Construction Machinery Eurasia	Tver, Russia	1,739,357 thousand rubles	Manufacturing and sales of construction machinery	Holding Direct 100.0	Manufacturing and sales of the Company's products	Sales, etc. of products (Note 1)	10,943	Accounts receivable - trade	11,764
Affiliate	Eurasian Machinery B.V.	Almaty Province Kazakhstan	1,000 thousand U.S. dollars	Sales and services of construction machinery	Holding Direct 40.0	Sales of the Company's products	Sales, etc. of products (Note 1)	9,409	Accounts receivable - trade	14,293
Affiliate	ACME Business Holdco, LLC	Delaware, U.S.A.	–	Rental and services of construction machinery	Holding Indirect 33.3	None	Claims associated with performance of guarantee obligation (Note 7, 8)	51,330	Long-term accounts receivable with subsidiaries and affiliates	51,330

Transaction amounts are presented exclusive of consumption taxes, etc., and the year-end balances are presented inclusive of consumption taxes, etc. for transactions in Japan.
Transaction terms and conditions or the policy for determining them, etc.

(Note 1) Sale prices are negotiated and decided in reference to market prices, etc. for each period.
(Note 2) Purchase prices are negotiated and decided in reference to market prices, etc. for each period.
(Note 3) They represent loans and deposits of funds under the pooling system through which the funds of subsidiaries and affiliates, etc. are centralized into the Company and such funds are lent to subsidiaries and affiliates, etc. that are in need of funds, and the financial arrangements are made on a daily basis. Accordingly, the transaction amount shown is a change from the balance at the end of the fiscal year ended March 31, 2022.
Interest rates on loans and deposits of funds are decided considering the market interest rates.
(Note 4) Receipt and payment of interests are decided considering the market interest rates.
(Note 5) The transaction amount and the balance of accounts receivable - trade include those through trading companies.
(Note 6) The transaction amount and the balance of accounts receivable - trade include those through leasing companies.
(Note 7) ACME Business Holdco, LLC defaulted on a loan from a financial institution and the Company, the guarantor of the debt, made subrogation payments to the lender, the financial institution. Long-term accounts receivable with subsidiaries and affiliates described above represent indemnification claims against ACME Business Holdco, LLC resulting from Company's fulfillment of its guarantee obligation to the lender.
(Note 8) The Company recorded an allowance for doubtful accounts of ¥8,177 million for the long-term accounts receivable from ACME Business Holdco, LLC. Furthermore, in the current fiscal year, the Company recorded a provision for allowance for doubtful accounts of ¥8,177 million.

10. Notes on per share information

(1) Net assets per share ¥1,797.50
(2) Net income per share ¥229.97

11. Notes on significant subsequent events

No applicable matters.

12. Other notes

No applicable matters.