Annual Securities Report

58th term (from April 1, 2021 to March 31, 2022)

Hitachi Construction Machinery Co., Ltd.

[Cover]

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Contents

Part I Information on the Company

I. Overview of the Company

1. Transition of the Key Financial Data

(1) Five-year financial data

(Millions of yen, unless otherwise stated)

Fiscal year	54th term	55th term	56th term	57th term	58th term
As of and years ended	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Revenue	959,153	1,033,703	931,347	813,331	1,024,961
Income before income taxes	95,612	102,702	67,103	25,578	110,869
Net income attributable to owners of the parent	60,004	68,542	41,171	10,340	75,826
Comprehensive income attributable to owners of the parent	58,437	57,445	9,874	47,844	111,929
Total equity attributable to owners of the parent	448,502	486,407	473,537	513,602	611,608
Total assets	1,089,796	1,185,256	1,167,567	1,219,882	1,409,560
Equity per share attributable to owners of the parent (Yen)	2,109.04	2,287.31	2,226.80	2,415.22	2,876.11
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	282.16	322.31	193.61	48.62	356.57
Net income per share (Diluted) (Yen)	282.16	322.31	193.61	48.62	356.57
Equity attributable to owners of the parent ratio (%)	41.2	41.0	40.6	42.1	43.4
Equity per share attributable to owners of the parent (Yen)	14.1	14.7	8.6	2.1	13.5
Price earnings ratio (Times)	14.55	9.11	11.31	72.91	8.96
Net cash provided by (used in) operating activities	84,528	(25,693)	22,682	91,339	39,317
Net cash provided by (used in) investing activities	(37,562)	(30,339)	(34,749)	(32,281)	(6,854)
Net cash provided by (used in) financing activities	(30,483)	43,928	10,993	(46,011)	(25,615)
Cash and cash equivalents at end of period	81,929	67,347	62,165	80,330	94,257
Employees (Number)	23,925	24,591	25,248	24,873	24,987
[The average number of temporary employees for the year]	[2,167]	[2,527]	[2,322]	[1,963]	[2,142]

(Notes) 1. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”).

2. The Group used to recognize an intangible asset in relation to the configuration or customization costs in a cloud computing arrangement based on IAS 38 “Intangible Assets.” The Group changed its accounting policies from the beginning of the fiscal year under review to recognize the costs as an expense when it receives a configuration or customization service, taking into account the discussions held by the IFRS Interpretations Committee to finalize the agenda decision published in April 2021. As a result, the relevant key financial data for the 57th term have been retroactively adjusted to reflect the changes in accounting policies. For details of the retroactive adjustments, please refer to “V. Financial Information 1. Consolidated Financial Statements, etc. (1) Notes to Consolidated Financial Statements 3. Summary of significant accounting policies (Changes in accounting policies).”

(2) Non-consolidated financial data

(Millions of yen, unless otherwise stated)

Fiscal year	54th term	55th term	56th term	57th term	58th term
As of and years ended	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Revenue	477,221	545,949	482,571	392,842	551,859
Ordinary income	51,569	57,703	34,434	8,933	52,733
Net income	46,287	50,503	33,832	12,142	67,589
Common stock	81,577	81,577	81,577	81,577	81,577
Number of shares issued (Shares)	215,115,038	215,115,038	215,115,038	215,115,038	215,115,038
Net assets	252,936	281,616	295,232	300,991	356,424
Total assets	556,493	634,437	608,967	609,918	715,436
Net assets per share (Yen)	1,189.41	1,324.29	1,388.33	1,415.42	1,676.10
Dividends per share (Yen) [Of the above, interim dividends per share]	85.00 [36.00]	100.00 [43.00]	60.00 [36.00]	20.00 [10.00]	110.00 [45.00]
Net income per share (Yen)	217.66	237.49	159.10	57.10	317.84
Net income per share after adjustment for dilution (Yen)	217.66	237.49	159.10	57.10	317.84
Equity ratio (%)	45.5	44.4	48.5	49.3	49.8
Return on equity (%)	19.8	18.9	11.7	4.1	20.6
Price earnings ratio (Times)	18.86	12.37	13.76	62.08	10.05
Dividend payout ratio (%)	39.05	42.11	37.71	35.03	34.61
Employees (Number) [The average number of temporary employees for the year]	4,072 [384]	4,341 [461]	5,527 [561]	5,455 [477]	5,496 [453]
Total shareholder return (%) [Comparative indicator: TOPIX (Dividend-included)] (%)	151.0 [115.9]	112.5 [110.0]	87.7 [99.6]	137.3 [141.5]	128.6 [144.3]
Highest share price (Yen)	4,935	4,410	3,390	3,835	3,785
Lowest share price (Yen)	2,528	2,379	1,840	2,040	2,642

(Note) Highest and lowest share prices are quoted market prices on the First Section of the Tokyo Stock Exchange. In addition, due to the restructuring of the Tokyo Stock Exchange's market segments, the Company transferred from the First Section of the Tokyo Stock Exchange to the Prime Market on April 4, 2022.

2. History

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

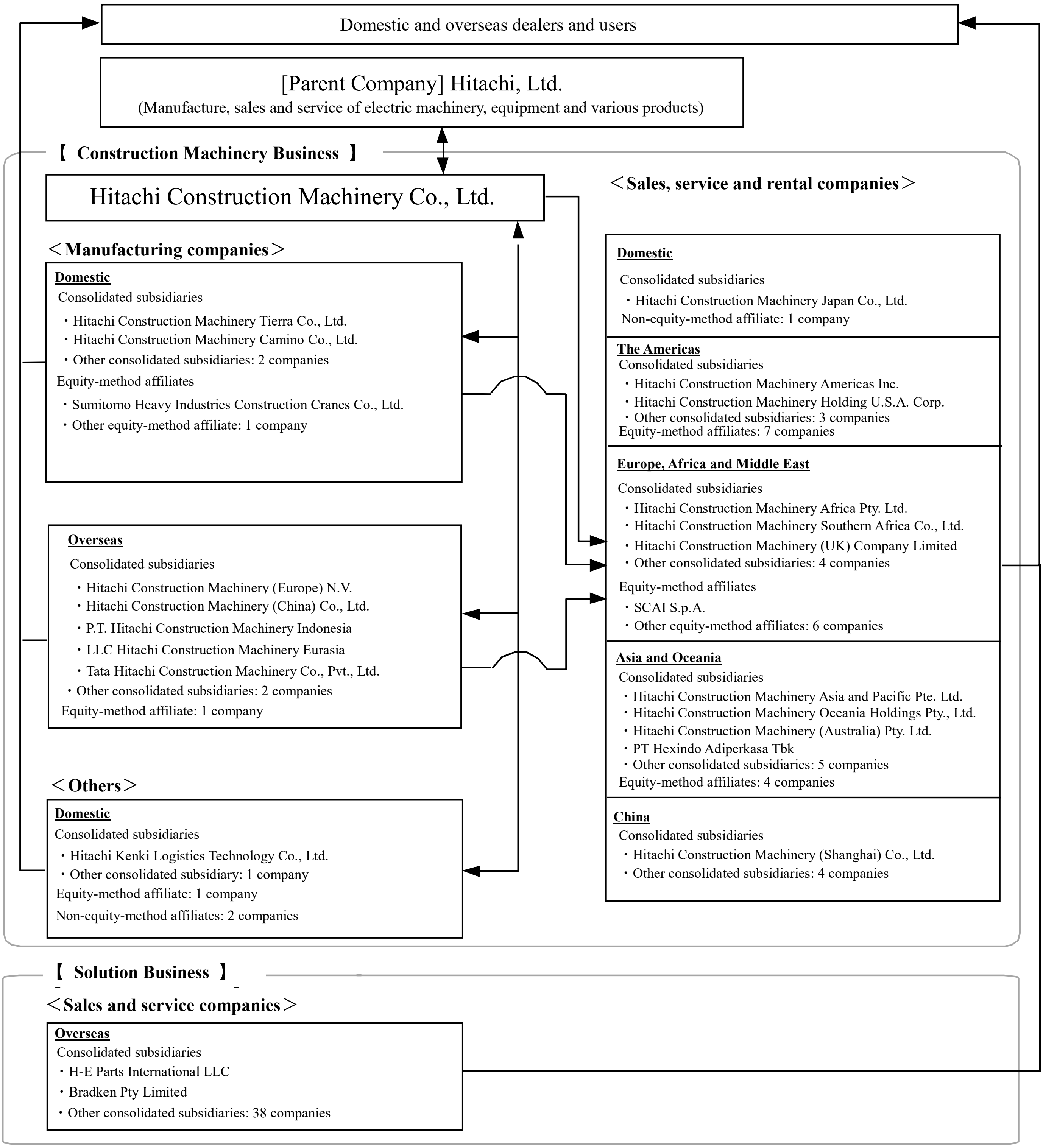
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions of Hitachi, Ltd.
November 1969	Split off Hitachi, Ltd.'s construction machinery manufacturing division from the Parent Company and established, with the Adachi and Tsuchiura works, Hitachi Construction Machinery Manufacturing Co., Ltd.
October 1970	Established Hitachi Construction Machinery Co., Ltd. through merger of Hitachi Construction Machinery Manufacturing Co., Ltd. and (former) Hitachi Construction Machinery Co., Ltd., with share capital of ¥3.8 billion.
August 1972	Established Hitachi Construction Machinery (Europe) N.V. in the Netherlands. (Currently a consolidated subsidiary)
October 1973	Merged with Sagami Kogyo Co., Ltd. (capital stock of ¥50 million). Par value of shares was changed from ¥500 to ¥50. Capital increased to ¥3.85 billion.
March 1974	Incorporated Adachi Works into Tsuchiura Works in order to strengthen the manufacturing ability based on the Government policy of plant relocation.
July 1979	Established Hitachi Construction Machinery Camino Co., Ltd. (Currently a consolidated subsidiary)
December 1981	Listed on the Second Section of the Tokyo Stock Exchange.
August 1984	Established Hitachi Construction Machinery Asia and Pacific Pte. Ltd. in Singapore. (Currently a consolidated subsidiary)
June 1988	Established Deere-Hitachi Construction Machinery Corp. in the United States.
September 1989	Listed on the First Section of the Tokyo Stock Exchange.
January 1990	Acquired management rights of Hitachi Construction Machinery Tierra Co., Ltd. (Currently a consolidated subsidiary)
January 1990	Listed on the First Section of the Osaka Securities Exchange.
May 1991	Established P.T. Hitachi Construction Machinery Indonesia. (Currently a consolidated subsidiary)
December 1991	Acquired management rights of Niigata Material Co., Ltd.
April 1995	Established Hitachi Construction Machinery (China) Co., Ltd. (Currently a consolidated subsidiary)
June 1997	Invested in P.T. Hexindo Adiperkasa Tbk in Indonesia. (Currently a consolidated subsidiary)
October 1998	Acquired management rights of Hitachi Construction Truck Manufacturing Ltd. in Canada. (Currently a consolidated subsidiary)
July 2002	Established Sumitomo Heavy Industries Construction Cranes Co., Ltd. (Former Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.) (Currently an equity-method affiliate)
December 2007	Established Hitachi Construction Machinery Financial Leasing (China) Co., Ltd. (Former Hitachi Construction Machinery Leasing (China) Co., Ltd.) in China. (Currently a consolidated subsidiary)
April 2008	Established Hitachi Construction Machinery Japan Co., Ltd. (Currently a consolidated subsidiary)
September 2008	Established P.T. HEXA FINANCE INDONESIA.
October 2008	Merged Hitachi Kenki FineTech Co., Ltd. into the Company.
July 2009	Acquired management rights of Shintohoku Metal Co., Ltd. (Currently a consolidated subsidiary)
July 2009	Acquired management rights of Wenco International Mining Systems Ltd. in Canada. (Currently a consolidated subsidiary)
March 2010	Acquired management rights of Tata Hitachi Construction Machinery Co., Pvt., Ltd. in India. (Currently a consolidated subsidiary)
October 2010	Established Hitachi Construction Machinery Africa Pty. Ltd. in South Africa. (Currently a consolidated subsidiary)
March 2011	Established Hitachi Construction Machinery Middle East Corp. FZE in UAE. (Currently a consolidated subsidiary)
April 2011	Established LLC Hitachi Construction Machinery Eurasia in Russia. (Currently a consolidated subsidiary)
December 2011	Hitachi Construction Machinery Tierra Co., Ltd. became a wholly owned subsidiary through an

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

3. Description of Business

The consolidated group (hereinafter referred to as the "Group") consists of the Company, its 80 consolidated subsidiaries and 25 affiliates. There are two reportable segments. The Construction Machinery Business Segment primarily intends to provide customers with a series of total life cycle related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large-sized hydraulic excavators, and wheel loaders, as well as the sale of parts related to these products. The Solution Business Segment primarily intends to provide development, production, distribution of parts and service solutions as part of the after-sales services for mining facilities and equipment that are not included in the Construction Machinery Business Segment.

The structure of the Group business is as follows:



Note → Main flow of products, parts and services

4. Information on Subsidiaries and Affiliates

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
[Parent Company] Hitachi, Ltd. (Note 1) (Note 3)	Chiyoda-ku, Tokyo	461,731	Manufacture, sales and service of electric machinery, equipment and various products	51.5	The Company lends and borrows money and has land lease transactions with the entity. The Company also pays brand value royalty.
[Consolidated subsidiaries] Hitachi Construction Machinery Tierra Co., Ltd. (Note 4)	Koka-city, Shiga	1,441	Construction Machinery Business	100.0	The entity manufactures and sells some of the Company's construction machinery products, and the Company purchases the products. The Company also lends and borrows money. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	400	Construction Machinery Business	100.0	The entity manufactures some of the Company's construction machinery products. The Company lends money.
Hitachi Construction Machinery Japan Co., Ltd. (Note 4) (Note 5)	Soka-city, Saitama	5,000	Construction Machinery Business	100.0	The Company sells construction machinery products to the entity. The Company also lends and borrows money and leases land.
LLC Hitachi Construction Machinery Eurasia	Tver, Russia	(Millions of Russian Ruble) 1,740	Construction Machinery Business	100.0	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in Russia-CIS region, and the Company sells products to the entity. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery (Europe) N.V. (Note 4)	Oosterhout, The Netherlands	(Thousands of Euro) 70,154	Construction Machinery Business	98.9	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in Europe, and the Company sells the construction machinery products to the entity. 1 Director of the Company concurrently holds the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Hitachi Construction Machinery (China) Co., Ltd. (Note 4)	Hefei, Anhui, China	(Thousands of RMB) 1,500,000	Construction Machinery Business	81.3	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in China, and the Company sells products to the entity. 3 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	Pioneer Walk, Singapore	(Thousands of US dollars) 39,956	Construction Machinery Business	100.0	The entity organizes sales and services of construction machinery products of the Company in Southeast Asia region, and the Company sells products to the entity. 1 Director of the Company concurrently holds the position of director or officer.
P.T. Hitachi Construction Machinery Indonesia (Note 2)	Bekasi, Indonesia	(Thousands of US dollars) 17,200	Construction Machinery Business	82.0 [33.9]	The entity manufactures and sells some of the Company's construction machinery products and parts in the ASEAN region, and the Company provides guarantees in respect of loans. 2 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	(Thousands of RMB) 66,224	Construction Machinery Business	54.4	The entity sells and provides services relating to construction machinery products of the Company in China, and the Company sells parts to the entity. The Company also borrows money. 3 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Financial Leasing (China) Co., Ltd. (Note 2) (Note 4)	Shanghai, China	(Thousands of RMB) 1,103,578	Construction Machinery Business	85.3 [24.5]	The entity leases construction machinery products of the Company in China. 1 Director of the Company concurrently holds the position of director or officer.
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Bangalore, Karnataka, India	(Millions of Indian Rupees) 1,143	Construction Machinery Business	60.0	The entity manufactures and sells construction machinery products of the Company in India. 2 Directors of the Company concurrently hold the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 29,122	Construction Machinery Business	100.0	The entity organizes sales and service of the construction machinery products of the Company in the Oceania region. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery (Australia) Pty. Ltd. (Note 5)	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 22,741	Construction Machinery Business	80.0 [80.0]	The entity sells and provides services relating to construction machinery products of the Company in Australia, and the Company sells parts to the entity. The Company also borrows money. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery Holding U.S.A. Corp. (Note 4)	Kernersville, North Carolina, U.S.A.	(Thousands of US dollars) 1,000	Construction Machinery Business	100.0	The entity sells construction machinery products and parts of the Company in the U.S.
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	-	Solution Business	100.0	The entity provides services related to mining and construction machinery of the Company. 2 Directors of the Company concurrently hold the position of director or officer.
Bradken Pty Limited (Note 4)	Newcastle, New South Wales, Australia	(Thousands of Australian Dollars) 653,215	Solution Business	100.0	The entity is engaged in a manufacturing business of metal casting parts for mining and infrastructure industries, a business for wear parts in mining, a maintenance service business, and others. 2 Directors of the Company concurrently hold the position of director or officer.
64 other consolidated subsidiaries	–	–	–	–	–
[Equity-method affiliates] Sumitomo Heavy Industries Construction Cranes Co., Ltd.	Taito-ku, Tokyo	4,000	Construction Machinery Business	34.0	The entity manufactures and sells some of the Company’s construction machinery products, and the Company sells parts to the entity.
21 other affiliates	–	–	–	–	–

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

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

2. The percentages in square brackets under “Percentage of voting rights holding [held]” represent indirect ownership out of the total percentage noted above.
3. The Company participates in the cash pooling system of the Hitachi Group which aims at centralized management of funds, and the financial arrangements are made on a daily basis. Interest rates on deposits and borrowing of funds are decided considering the market interest rates. No collateral is provided.
4. The entity is the Specified Subsidiary.
5. Revenue of the following subsidiaries (excluding revenue from intercompany transactions within the Group) exceeds 10% of the consolidated revenue.

Major financial information

Hitachi Construction Machinery Japan Co., Ltd.	(Millions of yen)
1) Revenue	199,337
2) Income before income taxes	7,797
3) Net income	6,150
4) Total equity	38,652
5) Total assets	184,060

Hitachi Construction Machinery (Australia) Pty. Ltd.	(Millions of yen)
1) Revenue	114,170
2) Income before income taxes	17,000
3) Net income	10,478
4) Total equity	59,981
5) Total assets	101,157

5. Employees

(1) Consolidated basis

(As of March 31, 2022)

Name of segment	Number of employees
Construction Machinery Business	21,668 (1,796)
Solution Business	3,319 (346)
Total	24,987 (2,142)

(Notes) 1. The number of employees is the number of full-time employees.
2. The numbers in parentheses represent the average number of temporary employees for the year, which is not included in the number of employees.

(2) The Company

(As of March 31, 2022)

Number of employees	Average age	Average length of service	Average annual salary
5,496 (453)	39.9	15.6 years	¥7,172,000

Name of segment	Number of employees
Construction Machinery Business	5,496 (453)
Total	5,496 (453)

(Notes) 1. The number of employees is the number of full-time employees.
2. Average annual salary includes bonuses and extra wages.
3. The numbers in parentheses represent the average number of temporary employees for the year, which is not included in the number of employees.

(3) Description of the labor union

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

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

II. Business Overview

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

Any forward-looking statements in this report are based on the judgment as of March 31, 2022.

(1) Management policy

The corporate vision of the Group is "To pass on a productive environment and prosperous cities to future generations. HCM Groups helps to create comfortable living spaces," and under the Group-wide value standards and codes of conduct, Kenkijin Spirit ("Challenge," "Customer," and "Communication"), all employees of the Group will continue providing reliable solutions as a "close and reliable partner" to resolve customers' issues.

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

(2) Operating environment and issues to be addressed

Change in shareholder composition

On January 14, 2022, Hitachi, Ltd. ("Hitachi"), the Parent Company of the Company, and HCJI Holdings G.K. ("JIP Consortium SPC"), which will be jointly funded by (i) a special purpose company, whose interests are wholly owned by a fund which Japan Industrial Partners, Inc. ("Japan Industrial Partners") manages, operates and provides information to and (ii) a special purpose company, whose interests are wholly owned by ITOCHU Corporation ("ITOCHU"), agreed to transfer 55,290,000 shares of common stock of the Company held by Hitachi (the ownership ratio of the voting rights attached to such shares, calculated based on the number of voting rights of total shareholders (2,125,317) as of September 30, 2021, is 26.0%) to JIP Consortium SPC.

Change in shareholder composition

1. **Japan Industrial Partners and ITOCHU set up JIP Consortium SPC*, each contributing 50% of the capital**
2. **Hitachi, Ltd. sells 26% of the Company's shares held to JIP Consortium SPC which will become the largest shareholder**
3. **Japan Industrial Partners and ITOCHU will support the growth of the Company via JIP Consortium SPC**

Relationship between the Company and the Hitachi Group

1. **The Company will continue to use the HITACHI brand, and make a contribution to enhancing the value of the HITACHI brand globally**
2. **The Company will continue to collaborate with the Hitachi Group in various R&D fields, including IoT**
3. **While maintaining parts transactions and technical collaborations with the Hitachi Group, the Company will accelerate its environmental and circular economy initiatives**

*SPC :Special Purpose Company

Japan Industrial Partners has stated that its business purpose is to cooperate with entrepreneurs and management who are willing to transform existing businesses and industries while respecting the corporate culture, and, by formulating new businesses and industries that meet the needs of the times, assist in fully drawing out potential and original strengths in the relevant businesses and industries.

The Company believes that Japan Industrial Partners, by holding the Company's shares for the mid-to-long term after the agreement, will utilize its experience, know-how, and broad network of experts to support the Company in formulating business strategies and strengthening the management foundation required to execute the business strategies, and to contribute to enhancing the efficiency of the Company's financial base. In addition, the Company believes that Japan Industrial Partners will, based on its abundant experience in the finance business, provide optimal advice in respect of the management and operation of the Company's rental assets and other related support together with ITOCHU group, which has a proven track record of collaboration with the Company in the finance business.

ITOCHU has formed various business relationships in the construction machinery business with the Company in the areas of export trade finance projects and business operations of a joint venture established with the Company. In particular, the Company has been engaging in joint projects in the areas of manufacturing, sales and finance in Indonesia for over 30 years. ITOCHU has distribution networks including land and sea transportation spanning Japan and the United States, and warehouses and logistics and materials centers in North America, and a customer network of construction machinery rental companies in the United States that has been established by a manufacturing and sales company specializing in small-sized construction machinery and an online construction machinery rental company. In addition, the

ITOCHU group own companies providing finance services in the United States. The Company will extensively consider collaboration in the finance business with ITOCHU group in North America in financing arranged for both sales agents and retailers.

In this way, through the new capital relationship with these partners, the Company will further solidify its business development in North America, which is the world's largest market. At the same time, the Company will continue to collaborate with existing business partners around the world, including those in the South America market, to accelerate its global growth strategy.

1. Collaboration in the finance business

- **A wide-ranging collaboration with the ITOCHU Group in the finance business for both sales agents and retailers is under consideration**

2. Collaboration in distribution networks and others

- **ITOCHU has networks that cover the tight market for marine transportation, and distribution networks and service locations in North America**
- **The Company will utilize these connections between Japan and the US and the distribution and material networks within North America to achieve a vertical launch of the business in North America**

3. Strengthening, etc. the management base for the medium to long term

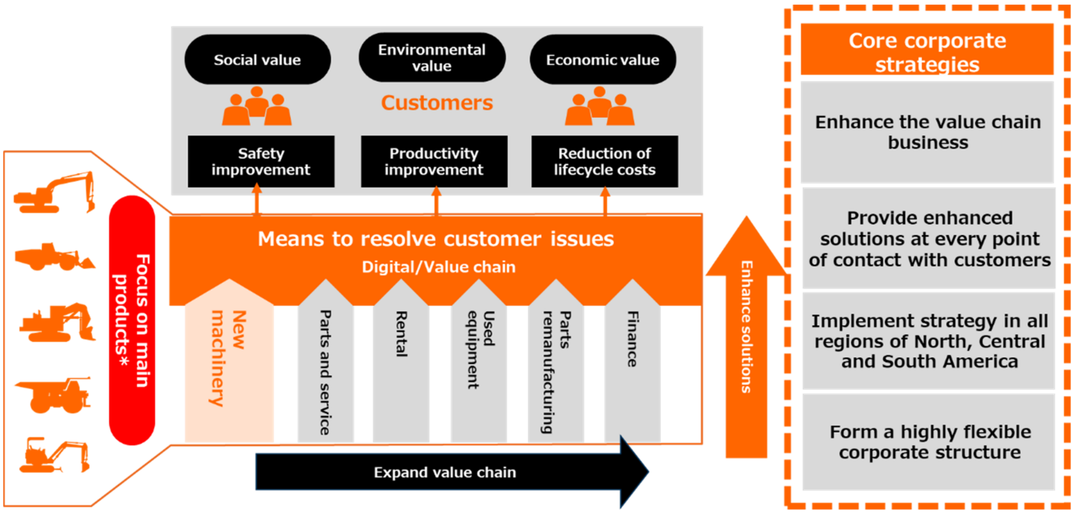
- **The Company expects Japan Industrial Partners to help strengthen the management base for the medium to long term, and to provide advice on the management of rental assets and other matters**

Core of four corporate strategies

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

In our three-year medium-term management plan "Realizing Tomorrow's Opportunities 2022," which ends in the fiscal year ending March 31, 2023, we strive for sustainable growth and improvement of corporate value based on the four core 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.

The market environment has recently been characterized by reduced levels of activity at suppliers and in the transportation industry as a result of COVID-19, surging material costs, transportation expenses, and resource prices, and concerns about the impact on operations from geopolitical risks, leading to an unclear outlook. In these conditions, based on the four core corporate strategies, we seek to utilize digital technology with the aim of resolving customer issues to continue earning the unwavering trust of our customers, thus building an unshakable position in the global market with the slogan of "Providing reliable solutions."



*Other product groups: Backhoe loader, Crawler crane, Bulldozer, Skid-steer loader

Core corporate strategies	Important measures
Enhance the value chain business Provide enhanced solutions at every point of contact with customers	● Strengthening rental and used equipment, remanufacturing business, expansion of ConSite® ● Expanding environmentally conscious products -Electric excavators, fully electric dump trucks, etc. ● Investing in advanced development areas -Improvements to functionality and safety of construction machinery (automation, autonomy, driving support)
Implement strategy in all regions of North, Central and South America	● Putting in place a supervisory structure and rebuilding the sales agent network, commencing full-fledged initiatives to achieve further market penetration ● Expanding the value chain businesses in North America through deployment of ConSite® and other measures, and providing solutions ● Strengthening the mining business in Central and South America
Form a highly flexible corporate structure	● Restructuring business locations with the aim of improving productivity

1) Enhance the value chain business

While social challenges and customers' business and needs are changing, the HCM Group offers the best solutions to customers through the whole machinery lifecycle. The Group has positioned businesses other than new machinery sales, such as the Parts and Service Business, Rental and Used Equipment Business, Finance Business, and Solution Business, as value chain businesses and works to strengthen them as activities designated as important in the corporate strategies.

2) Provide enhanced solutions at every point of contact with customers

The Company offers various solutions to resolve customers' challenges of "safety improvement," "productivity improvement," and "reduction in lifecycle costs" together with customers. Going forward, we will continue to provide solutions surpassing other companies, using a wide range of advanced technologies and open innovation technologies that merge expert technologies developed with business partners, with a sense of speed.

3) Implement strategy in all regions of North, Central and South America

In August 2021, the Company agreed with Deere & Company ("Deere") to dissolve the joint venture relationship in North, Central and South America. Following the dissolution of the joint venture relationship with Deere, we began developing our own business through Hitachi Construction Machinery Americas Inc., which is now the headquarters in the Americas, in March 2022.

By building a sales and service network in North, Central and South America for compact and construction-sized hydraulic excavators, ultra-large mining excavators, dump trucks, and wheel loaders, strengthening the parts supply structure, developing a rental and used equipment business tailored to the characteristics of the market, broadening the foundation of the mining business (including the remanufacturing business), utilizing global production sites, and putting in place a new product supply structure by increasing production capacity in North America, we aim to provide true customer satisfaction. We have also deployed ConSite® for use with hydraulic excavators bound for North, Central and South America.

4) Form a highly flexible corporate structure

We will address commitments to zero emissions, primarily in Europe, and rapid advances in digital technology, by forming a highly flexible corporate structure. We will do this by striving for a globally integrated cooperative system for marketing, technology, information, and digital initiatives. Moreover, by responding to the diverse challenges faced by customers, such as electrification and the shift to multifunctionality in developed countries, and demand for machinery with a restricted set of functions and a lower price in emerging countries, we aim to become a close and reliable partner. In addition to continuing with the restructuring of production and research locations, in April 2022 we introduced a business unit structure of compact, construction, mining, and other units. In this way we seek to facilitate rapid, connected decision-making, from development and design to manufacturing.

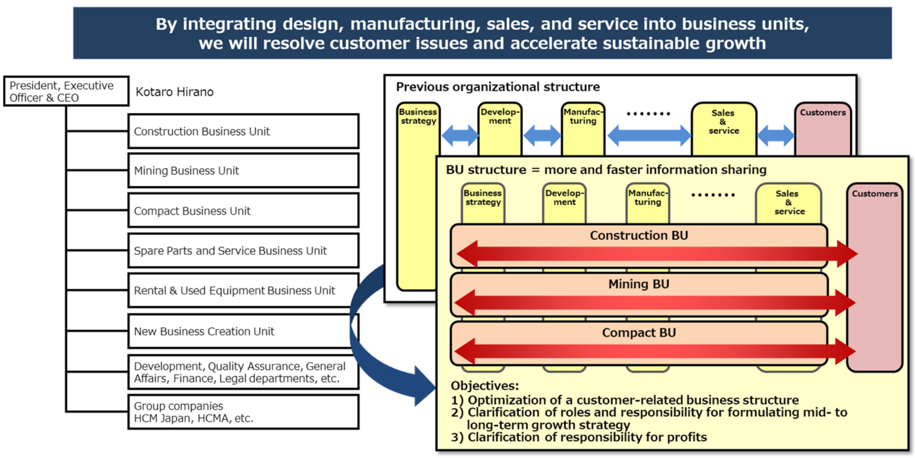
Introduction of business unit structure

In April 2022, Hitachi Construction Machinery introduced a business unit structure, consisting of 5 new business units ("BU") and one new unit. Specifically, these are the Construction BU for mid- to large-sized construction machinery used on general construction sites; the Mining BU for ultra-large construction machinery used for the extraction and transportation of resources in applications such as mining; the Compact BU for small machinery used in urban construction, forestry and agriculture; the Parts & Services BU for enabling the expansion of value chain businesses; the Rental & Used Equipment BU; and the New Business Creation Unit as an organization for generating and growing new businesses.

Previously the divisions had been segmented by function, but this move has enabled individual business units to control their operations, and to take responsibility for promoting and explaining the business. In this business unit structure, we will reduce the barriers between them, and speed up business plan decision-making while simultaneously clarifying responsibility for performance. The objectives are (1) optimization of a customer-oriented business structure (rectifying the structure and optimizing management resources), (2) clarifying roles and responsibility for formulating mid- to long-term growth strategy, (3) clarifying responsibility for profits.

We plan to shape into a Group that is capable of providing quick responses to the great transformations occurring in the world for solutions to our customers' problems, response to environment, strategies for the US business, the digital transformation (DX) and more as we invest in startup businesses, identify the solution oriented functions and products that we envision for our business in ten years, and formulate the necessary strategies, etc. In addition, we will provide the underlying support for the entire Group with corporate divisions such as a development headquarters to take global command of functions, a headquarters to take command of quality assurance, production and procurement, as well as headquarters for finance, legal affairs and human resources. We will accomplish the current medium-term management plan under this new organizational structure, and begin working on the creation of the next medium-term management plan, which begins in FY2023.

Introduction of business unit structure



Circular economy initiatives

Through its business, the Company aggressively promotes activities that contribute to ESG and the SDGs.

In the Remanufacturing Business, we are building a new business model that involves not only remanufacturing parts but also entire machines. In Japan we are remanufacturing hydraulic excavators for sale. Reductions in the volume of scrap and CO2 emissions achieved by remanufacturing enormous mining machines will be even larger. Not only do we return the machinery to a like-new condition, but we are also able to respond in a way that only the manufacturer can attempt, such as by implementing minor changes in the product, and we help the customer by transforming it into a highly valuable product.

Going forward, the Company will continue to contribute to solving customer, social, and environmental issues, while simultaneously establishing and promoting a sustainable recycling-oriented business model.

Aim to enhance corporate value by opening the way to growth through businesses that contribute to achieving a sustainable society

Management indicators		Previous medium-term management plan	Current medium-term management plan			
		FY2019	FY2020	FY2021	FY2022	
		Results			Medium-term management plan targets	Outlook
ESG *Compared to FY2010	･ConSite® adoption rate ･Parts remanufacturing sales ･Product CO_2	73% 296%* (15.9%)*	75% 308%* (16.5%)*	72% 402%* (21.4%)*	90% 420%* (20%)*	90% 420%* (20%)*

Develop the machine remanufacturing business globally, contributing to further reductions in environmental impacts

･Remanufacturing of ultra-large hydraulic excavator (EX1200) by HCM Zambia

Resolution of challenges, value creation and sustainable development goals (SDGs) in the entire value chain

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

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

10 SDGs focused on by the HCM Group

We have organized the business activities of the HCM Group based on the relationship with the 17 SDGs, and set 10 priority goals to particularly focus on.

SDGs	Initiatives	Expected outcomes
4 QUALITY EDUCATION	[Activities for education] • Support for acquisition of qualification at training schools • Overseas intern program/self-reliance support [Provide opportunities for employees to acquire technical skills/education] • Succession plan (planning for the development of successors)	• Develop leaders • Raising the level of everybody, and raising the technical level both in Japan and overseas, contribute to sustainable growth
5 GENDER EQUALITY	[Empower women in the workplace] • Build a foundation for the empowerment of women, and support continuing employment, return to work, and career formation • Developing female instructors at training centers	Promote gender equality by putting in place an environment in which women are highly motivated to work
6 CLEAN WATER AND SANITATION	[Reduce emissions and prevent pollution] • Identify regions with a high water stress level • Reduce water usage in business activities • Management of chemical substances (reduce water risk)	In addition to ensuring sustainable management of water resources, support local communities through water-saving activities in regions with a high water risk
7 AFFORDABLE AND CLEAN ENERGY	[Reduce environmental impact for manufacturing processes] • Introduce systems to monitor electric power	Adopt own technology for production sites to achieve efficient energy usage
	[Utilize renewable energy] • Install solar panels	Ensure access to sustainable and modern energy
8 DECENT WORK AND ECONOMIC GROWTH	[Expand new businesses globally] • Parts remanufacturing business	By employing local human resources, we contribute to local employment creation and economic growth
	[Business structure reforms] • Restructuring of domestic research and manufacturing locations	Create safe and efficient manufacturing lines and provide decent work
	[Work Style Reform] • Strengthening health and safety/promoting diversity	Promoting decent work to facilitate sustainable economic growth and full and productive employment
	[Promote a safe and secure work environment] • Corporate governance/compliance • Human rights initiatives	Through governance initiatives the organization is strengthened, corporate value is enhanced, and economic productivity rises
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	[Develop products and solutions using ICT and the IoT] • Expand Solution Linkage® • Develop labor-saving machinery that is unmanned/uses robotics	By developing innovative technology that creates new value, support economic growth and the welfare of people, and achieve a safe and productive working environment
	[Enhance services globally] • Establish regional sales companies	By expanding sales channels, contribute to the development of local infrastructure and economic growth
	[Risk management] • Formulate a business continuity plan (BCP) • Enhance the Business Continuity Management (BCM) structure	By addressing the risks that face a company, such as natural disasters and man-made disasters (terrorism, violence), we will put in place resilient infrastructure and promote sustainable industrialization
11 SUSTAINABLE CITIES AND COMMUNITIES	[Supply of and support for construction machinery] • Develop infrastructure in each country • Supply rental equipment to local governments	Realize sustainable cities and human settlements that are resilient to disasters

SDGs	Initiatives	Expected outcomes
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	[Enhance value chain business] • Expand rental business globally	Enhance the lifecycle value of products and ensure sustainable consumption and production patterns
	[Reuse and recycling of products] • Initiatives of the parts remanufacturing business	Contribute to reductions in waste
	[Provide accurate information on products and services] • Prompt disclosure of recall information • Prevent risk in the supply chain	Ensure sustainable consumption and production patterns
	[Improve the quality of our products] • Realize the vision of "Made by Hitachi": uniform worldwide quality • Increase used equipment distribution • Develop technologies for competitive differentiation	Ensure sustainable consumption and production patterns by guaranteeing safety and quality, and minimize the impact of the product on the environment through its lifecycle
13 CLIMATE ACTION	[Development of clean technologies and environmentally conscious technologies] • Differentiation through expanded development of decarbonization technologies such as electrification and hydrogen engines • High-efficiency mining operation management systems	By developing and commercializing products equipped with low-carbon technologies, we help mitigate climate risk
	[Address risks of climate change] • Introduce solar power generation • Introduce internal carbon pricing	By using renewable energy and installing energy-saving facilities, we help resolve global environmental problems
17 PARTNERSHIPS FOR THE GOALS	[Development support in local communities through cooperation with outside organizations] • Desert afforestation activities in the Horqin Desert in China • Program to Transfer Manufacturing Technology in India	Contribute by revitalizing innovation through the Global Partnership
	[Promote CSR throughout the entire value chain] • Promote fair procurement among suppliers • Pass down and transfer technologies globally	Revitalize the Global Partnership

2030 social value

Provide solutions that offer **safety, productivity, and life cycle cost reductions** to the global infrastructure development

Safety improvement	Productivity improvement	Reduction of lifecycle costs
Contribute to zero deaths due to falls or contact accidents	Standardize automation and labor-saving construction machinery	Aim for zero downtime

2030 environmental value

Provide low-carbon technology to the global infrastructure development

Preventing global warming

Product lifecycle CO_2 reductions
Aim for -33% for products and -45% in production

2022 management goals (social value)

Safety improvement	Productivity improvement	Reduction of lifecycle costs
Achieve contact prevention technology **Commercialize human-machine cooperative control technology**	**Promote ICT machinery 2800 units*** *Applicable worksites: Over 5,000 sites	**Operating status management system dissemination rate: 90%** Applicable units: 200,000 units

(Environmental value)

Preventing global warming

Reduce CO_2 emissions
Products CO_2: -20%
Production CO_2: -25%
Applicable units: 500,000 units

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

2. Business Risks

The Group operates in a wide range of business fields, including production, sales, and finance, and conducts business activities worldwide. As a result, the business activities of the Group are affected by a wide range of factors, including market conditions, exchange rates, and finance.

Major business risks that are anticipated to be incurred to the extent foreseeable as of March 31, 2022 are as follows.

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

	Item	Risks	Countermeasures
5	Credit management	Construction machinery, which is the main product of the Group, is engaged in sales finance, such as installment sales and finance leases. There is a risk that the deterioration of the customer's financial position may cause a loan loss, which may affect earnings.	We manage receivables by establishing a specialized department and thoroughly ensure credit management and management of receivables in arrears to avoid extreme concentration of receivables.
6	Public laws and tax practices	The Group's business activities are affected by policy trends, a number of public regulations, tax laws, and other factors. Specifically, in the countries in which we operate, laws and regulations relating to intellectual property rights, consumers, the environment and recycling, labor conditions, taxes, etc. as well as business and investment licenses, import and export restrictions and regulations are applied. Strengthening or changing these regulations may have an impact on earnings due to increased costs and taxes paid.	The legal department researches each country's laws and regulations and effects on the Group's business and products in cooperation with each department for intellectual property, environment, etc. and each group company's legal department. The Group has in place the system where if any effect is detected, the information is provided to necessary departments to take measures.
7	Environmental regulations and climate changes	Construction machinery handled by the Group is subject to environmental regulations as it is required to deal with such social issues as climate change (reducing CO2, etc.) and environmental impact (emissions, noise, etc.). In order to meet these requirements, it is necessary to invest in the development, and the construction of systems for service, sales, production and procurement. There is a risk that this will have a financial impact on management.	Recognizing that environmentally friendly business management is a challenge to be addressed by the Group proactively, the Group strives to equalize financial impact by formulating a medium- to long-term plan for securing up-front research and resources (securing human resources, introducing facilities, etc.) to develop more advanced environmental technologies as well as introducing TCFD risk assessment and management process.
8	Product liability	In the unlikely event of an unexpected defect in a product, the Group may face product liability or other obligations, and there is a risk of reducing profits.	The Group strives to maintain and improve quality and reliability in its businesses and products based on strict internal standards. In case of an accident, sufficient insurance has been taken to mitigate financial impact caused by expenses incurred and exposure to liability.
9	Alliances and collaborative relationships	In order to strengthen its international competitiveness, the Group works with distributors, suppliers, companies in same business area, and other companies to develop, produce, and sell and service products. If the expected effects of these alliances and cooperation cannot be obtained, or if the alliances and cooperation are terminated as a result of conflict, dispute, etc., there is a risk of impacting the Group's business results.	The Group has in place the system and standards to make decisions thoroughly after prior research and detailed checking of contract conditions, etc. in building a partnership or cooperative relationship. The Group has in place the system where if a problem or the need for dissolution, etc. arises in a partnership or cooperative relationship, the legal department and relevant departments cooperate to take measures to diminish effects on operating results as much as possible.

	Item	Risks	Countermeasures
10	International trade regulations	Security trade control laws and ordinances as well as international regulations apply to domestic and overseas transactions. Changes in laws and ordinances and international regulations applicable to the products, customers, applications, etc., of the Group could result in the inability to continue transactions and could have an impact on the Group's business performance.	For domestic and overseas transactions, the Group carefully assesses laws and ordinances as well as international regulations applicable to the products, customers, applications, etc., of the Group. The Group has established a system for ensuring legal compliance and risk management by constantly collecting information on changes in laws, ordinances, and international regulations and communicating information to the Group.
11	Information security	The Group is exposed to customer information and personal information in its business activities, and possesses confidential business and technical information. In the unlikely event of an accident, such as a leak of information, there is a risk that it will adversely affect reputation and credibility. In addition, the Group has established bases in many countries for development, production, sales, etc., and is developing its business globally through these bases and networks. There is a risk of damage, etc., from cyberattacks, which have been on the rise in recent years.	We have established a management system and rules for handling and confidentiality of such information, and have taken appropriate safety measures such as implementing reasonable technical measures to protect such information from unauthorized access, tampering, destruction, leakage, and loss. In addition, in order to improve resilience to cyberattacks, the Group has been promoting the robustness of servers and has put in place measures to segregate factory networks, as well as formulating a business continuity plan for information security (IT-BCP).
12	Intellectual property	If a product or service offered by the Group violates a third party's intellectual property right (such as patent) there is a risk of the third party instituting legal action against the Group. In addition, if a third party's technical information is obtained or used illegally, there is a risk of the third party instituting legal action against the Group.	Under the policy of respecting intellectual property rights of third parties, the Group has set up a department specialized in intellectual property, monitors third parties' intellectual property rights, and take measures not to infringe intellectual property rights of third parties. Furthermore, the Group has in place the system where in obtaining and using technical information of third parties, prior examination and appropriate management after the acquisition are carried out thoroughly.
13	Natural and man-made disasters	The Group operates its business globally by establishing development, production, and sales bases in many countries. There is a risk of natural disasters such as earthquakes and floods, the outbreak of infectious diseases, wars, terrorism, accidents, and other criticism and hindrance by third parties occurring at these bases. Uncertainty over the impact on economic activities of the current situation in Russia and Ukraine may pose a risk of affecting the Company's business activities.	The Group has in place the system where if any possibility that procurement of materials and parts, production activities, and sales and service activities may be affected by a disaster, etc. is detected in advance, delay and interruption are minimized in cooperation with each group company and business partners. Regarding the situation in Russia and Ukraine, the Group constantly obtains the latest information and takes measures to ensure the safety of its employees as a top priority while taking steps to ensure the smooth continuation of the business activities of the Company in other regions.

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

1. Summary of Results of Operations

(1) Business results

1) Revenue

Revenue for the fiscal year under review amounted to ¥1,024,961 million, a 26.0% increase from the previous fiscal year.

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

Cost of sales for the fiscal year under review was ¥744,973 million, an 20.2% increase from the previous fiscal year. The ratio of cost of sales to revenue decreased by 3.5 percentage points to 72.7%.

Selling, general and administrative expenses were ¥186,470 million, a 16.1% increase from the previous fiscal year.

3) Operating income

Operating income increased by 277.5% from the previous fiscal year to ¥106,590 million. The ratio of operating income to revenue increased by 6.9 percentage points to 10.4%.

4) Financial income and expenses

Financial income and expenses were a net loss of ¥1,945 million for the fiscal year under review, a decrease in loss of ¥2,140 million from the net loss of ¥4,085 million recorded in the previous fiscal year. This was mainly because other finance costs decreased by ¥1,257 million, from ¥1,365 million in the previous fiscal year to ¥108 million in the fiscal year under review.

5) Income before income taxes

Income before income taxes was ¥110,869 million, a 333.5% increase from the previous fiscal year.

6) Income tax expense

Income tax expense for the current fiscal year amounted to ¥31,005 million, a 183.1% increase from the previous fiscal year.

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥94,257 million, an increase of ¥13,927 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

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

Net cash provided by operating activities for the fiscal year based on ¥79,864 million in net income and ¥48,164 million in depreciation and included a ¥15,092 million increase in trade payables, a ¥50,316 million increase in trade receivables and contract assets, a ¥48,167 million increase in inventories, and a ¥18,842 million income tax paid as cash outflow. As a result, net cash provided by operating activities for the fiscal year totaled to an inflow of ¥39,317 million, a decrease inflow of ¥52,022 million year on year.

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

Net cash used in investing activities for the fiscal year amounted to ¥ 6,854 million, a decrease of ¥ 25,427 million year on year. This was mainly due to the proceeds from sales of ¥ 22,592 million for our holding shares of Deere-Hitachi Construction Machinery Corp. and Deere-Hitachi Maquinas de Construcao do Brasil S.A. as our equity-method affiliates and so forth although there was an outlay of ¥ 27,924 million for capital expenditure, ¥ 6,616 million for intangible assets.

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

Net cash used in financing activities for the fiscal year amounted to ¥25,615 million. This was due mainly to a decrease of ¥13,673 million in long-term debt and bond and ¥20,552 million dividends paid (including dividends paid to non-controlling interests) as cash outflow, despite a ¥21,314 million increase in short-term debt, net. As a result, cash for financing activities for the fiscal year produced a decreased outflow of ¥20,396 million year on year.

(3) Production, orders received and sales

1) Production results

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

Segment name	Production output (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	993,654	139
Solution Business	–	–
Total	993,654	139

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

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

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

2) Orders received

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

3) Sales results

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

Segment name	Sales (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	933,857	126
Solution Business	91,104	115
Total	1,024,961	126

(Note) 1. There are no customers with sales exceeding 10% of the total sales.

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

(1) Significant accounting policies and estimates

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

Any forward-looking statements in this report are based on the judgment as of March 31, 2022.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2022. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

1) Inventories

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

2) Property, plant and equipment and intangible assets

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

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

3) Trade receivables and other financial assets

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

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

4) Deferred tax assets

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

5) Retirement and severance benefit

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

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

Impact of the novel coronavirus disease (COVID-19)

Significant accounting estimates based on future earnings forecasts in the fiscal year ended March 31, 2022 are based on the assumption that the impact of COVID-19 on the Group's business results will be limited, although the Group conducts its business activities globally and circumstances are different depending on regions. Therefore, COVID-19 posed no significant impact on the Group's accounting estimates or judgment involving estimates in the fiscal year under review.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2022. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

Impact of the Russia-Ukraine conflict

The consolidated statement of financial position as of March 31, 2022 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 ¥20,087 million and inventories of ¥10,823 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, the evaluation is based on an assumption that the inventories will be sold according to the plan as they are primarily held to fulfill the outstanding orders received.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2022. However, the impact of the Russia-Ukraine conflict on economic activities contains uncertainties. If the actual progress of economic activities and other developments differ from the estimates, accounting estimates in and after the next fiscal year may be affected, posing a risk of significant changes to the evaluations on allowance for doubtful receivables and inventories.

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

Any forward-looking statements in this report are based on the judgment as of March 31, 2022.

In order to further strengthen our value chain business, which we have been focusing on since FY2017, the Group has been working to use cutting-edge digital technologies at every point of contact with customers under "Realizing Tomorrow's Opportunities 2022," the current medium-term management plan from FY2020. In this way, we are providing deepened solutions and working to transform ourselves into a corporate structure that is resilient to changes.

In addition, with the dissolution of the joint venture with Deere & Company ("Deere"), we started full-scale independent business in North, and central and South America in March 2022. We are aiming to further improve our enterprise value by providing the value chain business and deepened solutions that we have been focusing on throughout the world's largest North, Central and South American markets, and by establishing a system to proactively develop our business globally.

During the fiscal year under review (April 1, 2021 to March 31, 2022), although there were effects such as behavioral constraints caused by the spread of the new variant of the coronavirus in some regions, the market environment remained strong in major regions other than China. Revenue increased to ¥1,024,961 million (an increase of 26.0% year on year) due to an increase in the value chain business centered on parts and services in addition to new machinery sales for construction and mining, the addition of the impact of foreign exchange rates, and other factors.

As for consolidated income items, adjusted operating income was ¥93,518 million (an increase of 185.9% year on year) due to an increase in revenue against the backdrop of a favorable market environment, an adjustment amount due to sales price determination for the Americas recorded in the second quarter, an improvement in profitability due to enhances production capacity utilization rates, and the impact of foreign exchange rates, despite the impact of an increase in costs, mainly steel prices. Net income attributable to owners of the parent company improved significantly to ¥75,826 million (an increase of 633.3% year on year) due to an increase in adjusted operating income, gain on transfer of equity-method affiliates (Deere-Hitachi Construction Machinery Corporation and Deere-Hitachi Máquinas de Construção do Brasil S.A.) due to the dissolution of the joint venture with Deere, and an increase in equity in earnings of affiliates of overseas bases, as well as gains on the sale of land adjacent to the Hitachinaka works in the fourth quarter.

1) Construction Machinery Business

During the fiscal year under review (April 1, 2021 to March 31, 2022), demand for hydraulic excavators in China declined significantly year on year, while demand in major regions other than China remained strong. As a result, overall demand increased year on year.

In mining machinery, demand for both new machinery sales and parts and services remained strong. This was due to the operation of the mines, which was affected by COVID-19, returning to almost normal, the recovery of investment motivation of customers with the tailwind of strong resource prices, and the demand for overhaul of suspended machines as mines restart.

Consequently, revenue in the fiscal year under review (April 1, 2021 to March 31, 2022) grew in the sales of new machinery (construction and mining) and the value chain business centered on parts and services. In addition to the above, affected by exchange rates and other factors, revenue was ¥933,864 million (an increase of 27.2% year on year).

Adjusted operating income increased significantly to ¥85,941 million (an increase of 233.1% year on year), due to an increase in revenue, an adjustment amount due to sales price determination for the Americas recorded in the second quarter, an improvement in profitability due to an improvement in production capacity utilization rates, and the impact of foreign exchange rates.

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, 2021 to March 31, 2022), revenue was ¥94,822 million (an increase of 15.0% year on year), due to the favorable conditions of the mining market environment and the effects of exchange rates. Adjusted operating income was ¥7,577 million (an increase of 9.6% year on year), mainly due to an increase in revenue and the impact of foreign exchange rates, despite the impact of an increase in costs, mainly in steel prices.

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

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

Indicators	Targets for the fiscal year ending March 31, 2023	Results for the fiscal year ended March 31, 2022	Year-on-year change
Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 10%	9.1%	Up 5.1% pts
Efficiency	Aim to achieve ROE of over 10%	13.5%	Up 11.4% pts
Net D/E ratio	Aim to achieve 0.5 or less	0.42	Down 0.06
Shareholder return	Aim to achieve consolidated dividend payout ratio of 30% or more	30.9%	Down 10.2% pts

(Note) The assumed foreign exchange rates for the targets of the fiscal year ending March 31, 2023 are ¥120 for one US dollar, ¥130 for one euro, ¥19 for one Chinese yuan, and ¥80 for one Australian dollar.
The Group will continue to strive so that each numerical target can be achieved even based on the market condition and exchange level assumed at the time of development of the medium-term management plan.

(3) Factors that have material effects on operating results

Please refer to 2. "Business Risks" for factors that have material effects on the operating results of the Group as well as effects of changes in political and economic environments in Japan and abroad and changes in demands.

(4) Analysis of financial condition

[Assets]

Current assets at the end of the fiscal year amounted to ¥764,355 million, an increase of 23.8%, or ¥147,162 million, from the previous fiscal year-end. This was due mainly to an increase of ¥55,077 million in trade receivables and ¥70,501 million in inventories.

Non-current assets amounted to ¥645,205 million, an increase of 7.1%, or ¥42,516 million, from the previous fiscal year-end. This was due mainly to an increase of ¥38,317 million in property, plant and equipment.

As a result, total assets increased by 15.5%, or ¥189,678 million, from the previous fiscal year-end to ¥1,409,560 million.

[Liabilities]

Current liabilities amounted to ¥455,305 million, an increase of 22.2%, or ¥82,851 million, from the previous fiscal year-end. This was mainly due to increases of ¥42,168 million in trade and other payables and ¥24,075 million in bonds and borrowings.

Non-current liabilities amounted to ¥286,324 million, an increase of 2.7%, or ¥7,452 million, from the previous fiscal year-end. This was due mainly to an increase of ¥7,303 million in contract liabilities.

As a result, total liabilities increased by ¥90,303 million, from the previous fiscal year-end to ¥741,629 million.

[Equity]

Total equity increased by 17.5%, or ¥99,375 million, from the previous fiscal year-end to ¥667,931 million.

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

1) Cash flows

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

2) Capital resources and liquidity

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

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

4. Important Business Contracts, etc.

(1) Business alliance contracts

Name of contracting party	Name of counterparty	Country	Items under contract	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	KUBOTA Corporation	Japan	Mini excavator	OEM purchase	From April 19, 1995 to May 16, 2005 and it is automatically renewed for next 2 years
Hitachi Construction Machinery Co., Ltd.	Bell Equipment Limited	South Africa	Articulated dump truck sugarcane forest trimmer	OEM purchase	5 years from September 5, 2000 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	Deere & Company	The United States	Hydraulic excavators and associated parts	OEM supply	Five years from March 1, 2022, extendable upon request of the counterparty

(Notes) 1. The former OEM agreement with Deere & Company for hydraulic excavators, which was effective since February 10, 1983, was terminated on February 28, 2022, following a termination agreement with Deere & Company effective August 19, 2021.

2. The OEM agreement with Deere Hitachi Construction Machinery Brasil S.A. for hydraulic excavators, which was effective from September 30, 2011, was terminated on February 28, 2022, based on a termination agreement with Deere & Company dated August 19, 2021.

(2) Technical collaboration contracts

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

(Note) The technology licensing agreement for hydraulic excavators with Deere-Hitachi Maquinas de Construcao do was terminated in the second quarter of the current consolidated fiscal year due to the expiration of the contract period.

(3) Other contract

Name of contracting party	Name of counterparty	Country	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	Hitachi, Ltd. [Parent Company]	Japan	Licensing on the use of Hitachi brand	5 years from April 1, 2015 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	HCJI Holdings G.K.	Japan	Capital alliance agreement	Indefinite periods from January 14, 2022

(Note) Hitachi, Ltd., which holds shares in the Company, plans to transfer the equivalent of 26% of its shares to HCJI Holdings G.K., as announced on January 14, 2022, and has accordingly entered into a capital alliance agreement with HCJI Holdings G.K.

5. Research and Development Activities

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

Research and development expenditures for the fiscal year under review totaled ¥25,462 million.

Research and development activities by segment are as follows:

(1) Construction Machinery Business

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

In April 2021, the Company developed the ZC120S-6 earthmoving vibratory roller that complies with the 2014 standards of the “Law Concerning Emission Control of Specified Special Motor Vehicles (Off Road Law)” and started its rental in Japan in April 2021. This product is expected to be used for compaction of roadbeds, which are the foundation of roads and pavements, and for large-scale infrastructure development such as dams, airports, harbors, and residential land development, as well as for disaster prevention and disaster mitigation in efforts to strengthen the land around the country.

In July 2021, the Company launched the ZX40U-5B mini excavator with PAT blade 3D machine control specifications for small-scale pavement preparation work in Japan. PAT blade is an abbreviation for Power Angle Tilt blade, a blade (soil removal plate) that enables tilt and angle movements like a bulldozer, in addition to the usual up-and-down movements. The product inherits the functions of the “PAT blade 3D machine control version of the ZX35U-5B mini-excavator,” which was launched for sale and rent in 2018, while greatly improving ease of use by enabling full 360-degree swivel operation at all times.

In October 2021, the new ICT hydraulic excavators ZX200X-7 and ZX330X-7, which meet the 2014 standards of the “Law Concerning Emission Controls for Non-road Special Motor Vehicles,” were launched in Japan. Both models are equipped with the Solution Linkage® Assist ICT hydraulic excavator, which is at the core of Hitachi Construction Machinery’s ICT construction solutions, and feature unique machine control functions that further improve control accuracy, thus making them compatible with i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, as well as supporting ICT construction at various sites, including building foundation and civil engineering work. In addition, the newly adopted “area control” function allows the operator to set the restricted area of the hydraulic excavator’s vertical and horizontal movements on a monitor, contributing to improved safety at sites with narrow spaces or obstructions. Furthermore, the Company adopted the Solution Linkage® Work Viewer, a new solution developed as part of Hitachi Construction Machinery’s Solution Linkage® ICT and IoT solution. Footage of current and past operating conditions can be viewed on a smartphone, supporting construction progress management, from both the operator’s and manager’s perspectives.

In October 2021, the Company remodeled the EX1900-6 ultra-large hydraulic excavator and launched the EX2000-7, which reduces fuel consumption by up to 19% while maintaining the same work capacity. The EX2000-7, in addition to the improved durability of structures realized by the EX-7 series currently on the market and support functions in repair and inspection through the use of ICT and IoT, also delivers high fuel efficiency through innovations in hydraulic circuits and the addition of a work mode selection function. Significant reduction in fuel consumption contributing to lower environmental impact and life-cycle costs.

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

For the Construction Machinery Business, research and development expenditures for the fiscal year under review totaled ¥24,040 million.

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

ZC120S-6 Earthmoving Vibratory Roller

ZX40U-5B Mini Excavator with PAT Blade 3D Machine Control

ICT Hydraulic Excavators ZX200X-7 and ZX330X-7

Ultra-large-sized hydraulic excavator EX2000-7

(2) Solution Business

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

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

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

For the Solution Business, research and development expenditures for the fiscal year under review totaled ¥1,422 million.

III. Property, Plant and Equipment

1. Overview of Capital Investment

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

Consequently, total capital investment for the fiscal year under review amounted to ¥89,585 million.

2. Major Property, Plant and Equipment

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

The figures below do not include construction in progress.

(1) Construction Machinery Business

1) The Company

(As of March 31, 2022)

Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
Tsuchiura Works/ Kasumigaura Works (Tsuchiura-city, Ibaraki and other) Note 1	Construction machinery manufacturing facility, etc. of hydraulic excavators, etc.	12,117	8,919	5,629 (4,963)	5,809	1,863	34,338	3,348
Hitachinaka Works (Hitachinaka-city, Ibaraki)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	5,132	5,448	1,980 (66)	1	489	13,050	359
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	11,473	4,115	9,043 (259)	–	275	24,906	526
Ryugasaki Works (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loaders, etc.	1,424	1,236	2,202 (270)	–	115	4,978	339
Banshu Works (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loaders, etc.	1,095	1,896	547 (130)	–	375	3,913	357
Headquarter (Taito-ku, Tokyo and other) Note 1	Facilities, etc. in the registered office of the Company	1,109	183	17,615 (642)	1,468	165	20,540	521

2) Domestic subsidiaries

(As of March 31, 2022)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
Tada Kiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,525	793	2,292 [45]	–	34	4,644	258
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini excavator	4,639	3,923	934 [172]	168	254	9,918	686

3) Overseas subsidiaries

(As of March 31, 2022)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Right-of-use assets	Other	Total	
P.T. Hitachi Construction Machinery Indonesia	Factory (Cibitung, Indonesia)	Assembly plant of construction machinery	3,772	1,275	0 (0)	1,296	475	6,818	1,186
Hitachi Construction Machinery (China) Co., Ltd.	Headquarter/ Factory (Hefei, Anhui, China)	Assembly plant of construction machinery	2,402	2,307	0 (0)	594	26	5,329	2,106
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Factory (Kharagpur, India)	Assembly plant of construction machinery	5,364	4,504	0 (0)	852	51	10,771	899
LLC Hitachi Construction Machinery Eurasia	Factory (Tver, Russia)	Assembly plant of construction machinery	1,857	668	3 (400)	39	121	2,688	456

(Note) 1. Land of Tsuchiura Works is presented including the land of the product durability testing facilities of 4,277 thousand m^2 costing ¥522 million located in Tokachi district, Urahoro, Hokkaido. The land of the headquarter is presented including the land with an area of 544 thousand m^2 costing ¥16,655 million which is leased to Hitachi Construction Machinery Japan Co., Ltd. (for its headquarter, Kansai and Shikoku branch office and other bases).

(2) Solution Business

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

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

(1) Significant capital investment, etc.

Not applicable.

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

Not applicable.

IV. Information on the Company

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

(1) Total number of shares, etc.

1) Total number of shares

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

2) Issued shares

Type	Number of shares issued as of March 31, 2022 (Shares)	Number of shares issued as of June 28, 2022 (Filing Date) (Shares)	Stock exchange on which the Company is listed	Description
Common stock	215,115,038	215,115,038	First Section of the Tokyo Stock Exchange (As of the end of the fiscal year) Prime Market (As of the filing date)	Standard stock of the Company with full voting rights and no restrictions on rights. The number of shares per one unit is 100 shares.
Total	215,115,038	215,115,038	–	–

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

1) Details of stock option plans

Not applicable.

2) Information on shareholder right plans

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

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

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

(5) Composition of shareholders

(As of March 31, 2022)

Category	Stock condition (Number of shares of 1 unit 100 shares)								Number of shares less than one unit (Shares)
	Government and municipality	Financial institution	Financial instruments business operator	Other institution	Foreign corporations, etc.		Individual and others	Total	
					Other than individual	Individual			
Number of shareholders	–	41	44	350	550	12	19,836	20,833	–
Share ownership (units)	–	506,284	43,746	1,122,902	338,576	113	138,326	2,149,947	120,338
Ownership percentage of shares (%)	–	23.6	2.0	52.2	15.8	0.0	6.4	100.0	–

(Notes) 1. Of treasury stock of 2,464,315 shares, 24,643 units are included in the total units held by "Individual and others" and 15 shares are included in the "Number of shares less than one unit."

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

(6) Major shareholders

(As of March 31, 2022)

Name	Address	Share ownership (Thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury stock) (%)
Hitachi, Ltd.	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	109,352	51.42
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	35,214	16.56
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	10,348	4.87
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	2,690	1.26
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,989	0.94
The Bank of New York Mellon (International) Limited 131800 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	2-4, RUE EUGENE RUPPERT, L-2453 LUXEMBOURG, GRAND DUCHY OF LUXEMBOURG (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,635	0.77
JP MORGAN CHASE BANK 385781 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,356	0.64
HSBC HONG KONG – TREASURY SERVICES A/C ASIAN EQUITIES DERIVATIVES (Standing Proxy: HSBC, Tokyo Branch, Custody Business Department)	1 QUEEN’S ROAD CENTRAL, HONG KONG (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,323	0.62
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD (Standing Proxy: MUFG Bank, Ltd., Transaction Services Division)	ONE CHURCHILL PLACE, LONDON, E14 5HP UNITED KINGDOM (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	1,076	0.51
Goldman Sachs Japan Co., Ltd. BNYM (Standing Proxy: MUFG Bank, Ltd., Transaction Services Division)	10-1, Roppongi 6-chome, Minato-ku, Tokyo (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	971	0.46
Total	—	165,952	78.05

(Notes) 1. The 2,464 thousand shares of treasury stock held by the Company are excluded from the number of shares held by the major shareholders above.

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

The Master Trust Bank of Japan, Ltd. (Trust Account)	35,214 thousand shares
Custody Bank of Japan, Ltd. (Trust Account)	10,348 thousand shares
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	2,690 thousand shares

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

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

4. A report of possession of large volume below was provided for public inspection on January 21, 2022. However, the information in the report is not included in the above major shareholders since the shares had not been transferred before March 31, 2022.
   The content of the report is as follows:

Holders	HCJI Holdings G.K.
Date on which the duty to file report arose	January 14, 2022
Number of shares, etc. held	55,290,000 shares
Ownership ratio	25.70%

(7) Information on voting rights

1) Issued shares

(As of March 31, 2022)

Category	Number of shares (Shares)	Number of voting rights	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury stock, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 2,464,300	–	–
Shares with full voting rights (others)	Common stock 212,530,400	2,125,304	–
Shares less than one unit	Common stock 120,338	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,304	–

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

2. The “Shares less than one unit” includes 15 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of March 31, 2022)

Name of shareholder	Address	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	Ownership percentage to the total number of issued shares (%)
(Treasury stock) Hitachi Construction Machinery Co., Ltd.	2-16-1, Higashiueno, Taito-ku, Tokyo	2,464,300	–	2,464,300	1.15
Total	–	2,464,300	–	2,464,300	1.15

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

Class of shares, etc.

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

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

Not applicable.

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

Not applicable.

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

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

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury stock acquired during the fiscal year ended March 31, 2021	1,298	4,330,536
Treasury stock acquired during the period after the reporting period to the filing date of this annual securities report (Note)	91	267,715

(Note) The number of shares of treasury stock acquired during the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased during the period from June 1, 2022 to the filing date of this annual securities report.

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

Classification	Fiscal Year ended March 31, 2021		Period after the reporting period to the filing date of this annual securities report	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Acquired treasury stock which was offered to subscribers	–	–	–	–
Acquired treasury stock which was cancelled	–	–	–	–
Acquired treasury stock which was transferred due to merger, share exchange, share issuance and company split	–	–	–	–
Others (sale of shares less than one unit due to request for additional purchase of shares less than one unit) (Note)	30	99,750	–	
Total number of shares of treasury stock held	2,464,315	–	2,464,406	–

(Note) The "Total number of shares of treasury stock held" for the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased or sold during the period from June 1, 2022 to the filing date of this annual securities report.

3. Dividend Policy

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

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

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

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

Date of resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)
Resolution of the Board of Directors meeting held on October 26, 2021	9,569	45
Resolution of the Board of Directors meeting held on May 23, 2022	13,822	65

4. Corporate Governance, etc.

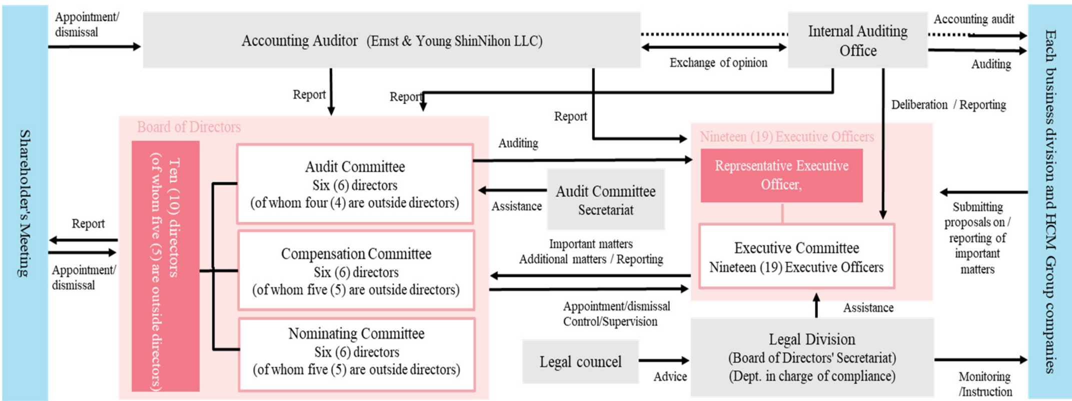
(1) Corporate governance

1) Basic concept on corporate governance

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

To this end, the Company has established an executive structure that allows for robust and agile development of its management strategies. In addition, the Company has adopted an organizational structure of a company with nominating committee, etc. as stipulated in Article 2, Item 12 of the Companies Act, with the aim of strengthening corporate governance by separating management oversight functions from business execution functions to achieve fair and highly transparent management. In addition, the Group's own corporate codes of conduct, based on that of the Hitachi Group, guide our basic policy for corporate governance and serve as the foundation for the Hitachi brand and our sustainability promotion activities. We will foster the Hitachi Group's common values and share the same understanding of our corporate social responsibilities.

Corporate governance system (as of the filing date)



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

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

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

The Company has the following corporate governance structure:

a. Board of Directors (16 meetings were held in the fiscal year ended March 31, 2022)

The Board of Directors determines the basic management policy, and oversees business operations conducted by Executive Officers. Also, the decision-making authority on business matters based on such basic policy is significantly delegated to Executive Officers. As of the filing date of this annual securities report, the Board of Directors comprises 10 persons in total: Executive Officer Kotaro Hirano, who is the chair, 5 Outside Directors made up of Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi, Haruyuki Toyama, and Hidemi Moue, 2 Directors concurrently serving as Executive Officers made up of Keiichiro Shiojima and Michifumi Tabuchi, and 2 Directors made up of Tetsuo Katsurayama and Yoshinori Hosoya.

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

b. Committees

(i) Nominating Committee (6 meetings were held in the fiscal year ended March 31, 2022)

The Nominating Committee has the authority, etc. to determine proposals to be submitted to the shareholder's meetings for the election and dismissal of the Directors. As of the filing date, the Nominating Committee comprises 6 persons in total: Outside Director Kazushige Okuhara, who is the chair, 4 Outside Directors made up of Toshiko Oka, Maoko Kikuchi, Haruyuki Toyama and Hidemi Moue, and President and Executive Officer Kotaro Hirano.

(ii) Audit Committee (22 meetings were held in the fiscal year ended March 31, 2022)

The Audit Committee has the authority to audit the execution of duties by Directors and Executive Officers and to determine proposals to be submitted to the shareholder's meeting for the election and dismissal, etc. of accounting auditors. As of the filing date, the Audit Committee comprises 6 persons in total: Director Tetsuo Katsurayama, who is the chair, 4 Outside Directors made up of Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi and Haruyuki Toyama, and Director Yoshinori Hosoya.

(iii) Compensation Committee (5 meetings were held in the fiscal year ended March 31, 2022)

The Compensation Committee has the authority, etc. to determine compensation for individual Directors and Executive Officers. As of the filing date, the Compensation Committee comprises 6 persons in total: Outside Director Kazushige Okuhara, who is the chair, 4 Outside Directors made up of Toshiko Oka, Maoko Kikuchi, Haruyuki Toyama and Hidemi Moue, and President and Executive Officer Kotaro Hirano.

c. Executive Officer and Executive Committee

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

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

3) Internal control system and risk management system

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

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

The Audit Committee Bureau has been provided as an organization to assist in the duties of the Audit Committee, and one personnel member who works exclusively for the Bureau and is not subject to orders and instructions of Executive Officers and one personnel member who also serves for the Internal Auditing Office in the internal audit department have been assigned to the Bureau from the perspective of BCP. The internal audit department and legal / general affairs department also assist the Audit Committee in addition to the personnel of the Audit Committee Bureau. There are no Directors with the explicit duty of assisting the duties of the Audit Committee.

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

The Audit Committee Bureau is staffed with personnel who work exclusively for the Audit Committee Bureau and are not subject to orders and instructions of Executive Officers. The Audit Committee shall be informed in advance of planned transfers of personnel, and may request a change to the Executive Officer in charge of human resources as necessary, by providing reasons therefor.

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

- Executive Officers shall report to the Audit Committee without delay matters related to the Company and its subsidiaries that were brought up to or reported to the Executive Committee.
- Results of internal audits of the Company and its subsidiaries performed by the internal audit department shall be reported to the Audit Committee without delay.
- When Executive Officers become aware of facts that may have adverse effects on the Company, they shall immediately report such facts to the Audit Committee.
- The compliance department, which is the secretariat of the "Compliance Reporting System," shall report to the Audit Committee the status of reporting through the Compliance Reporting System available for employees of the Company and its subsidiaries. Also, the Company stipulates in its regulations that a whistleblower shall not be treated disadvantageously due to such reporting, and the compliance department thoroughly ensures its implementation of such regulations.
- Reports from Executive Officers and employees of the Company as well as directors, corporate auditors and employees of the subsidiaries shall be directed to the full-time member of the Audit Committee. The Audit

Committee, by way of a resolution, shall appoint a member of the Committee to receive such reports.

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

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

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

The Audit Committee appoints a full-time member and effectively audits the following matters based on annual audit policies and audit plans.

- The Audit Committee members attend important meetings, make inquiries to Executive Officers and employees regarding the status of the execution of their duties, and review approval documents, etc. on significant matters.
- The Audit Committee members observe operations and inspect the assets of the Company's headquarters, major offices and subsidiaries, and make inquiries as necessary.

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

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

- Same as j. "System for ensuring that execution of duties by employees of the Company and directors and employees of the subsidiaries is in compliance with laws and regulations and the Articles of Incorporation" below.
- In addition to the above, for ensuring that the execution of duties by Executive Officers is in compliance with laws and regulations and the Articles of Incorporation, the Company has implemented a system which enables employees of the Company to report issues through an external agency.

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

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

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

- A system shall be established in which each relevant department shall establish rules and guidelines as necessary, conduct training, and prepare and distribute manuals, etc. with respect to risks related to compliance, information security, the environment, disasters, quality assurance, export control and others. Subsidiaries of the Company shall establish the same system depending on the size, etc. of the respective subsidiaries.
- Efforts shall be made to identify possible new risks through periodic reports, etc. from Executive Officers on the status of business operations of the Company and its subsidiaries. Should it become necessary to take measures for a new risk, the President and Executive Officer instructs each relevant department and promptly appoints an Executive Officer responsible for taking measures therefor.

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

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

- For any important matters that may affect the Company or the Group, Executive Committee regulations, etc. require such matters to be deliberated from various points of view by the Executive Committee and at management meetings, etc. before a decision is made by an Executive Officer in charge.
- Performance of the Company and its subsidiaries is managed using a matrix framework, i.e., by each component unit responsible for its financial performance and by each component unit responsible for its managerial performance.
- Rules for internal audit shall be established and a system shall be implemented to audit each department in the Company and its subsidiaries regularly in order to understand the status of and improve business operations of the Company and its subsidiaries. The Audit Committee oversees the accounting auditors. Also, for ensuring the independence of accounting auditors from Executive Officers, the duties of the Audit Committee include receiving reports in advance about audit plans of accounting auditors and prior approval of the fees to be paid to the accounting auditors.
- A documented business process for matters to be reflected in financial reports shall be executed and examined by internal auditors, or external auditors when necessary, within the Company and its subsidiaries.

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

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

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

- Internal audits by the Internal Auditing Office, other relevant departments of the Company and its subsidiaries are conducted to ensure compliance and to deter violations of laws and regulations. In addition, various committees may be established in accordance with regulations of the Company or a decision by relevant departments in order to achieve cross-functional management regarding compliance.
- The Company has implemented a “Compliance Reporting System” that enables employees of the Company and its subsidiaries to internally report any illegal activities, etc. to the relevant departments of the Company. Further, the compliance department, which is in charge of this system, carries out necessary investigations, etc., replies to the whistleblower, and also ensures that the whistleblower is not treated disadvantageously.
- As compliance education, the Company and its subsidiaries conduct training using educational materials such as handbooks, for the applicable laws and regulations related to their business activities.
- To ensure implementation and effectiveness of the overall internal control systems, Executive Officers, as their duties, establish various policies and company regulations with primary focus on compliance with laws and regulations applicable to operations of the Group, including information security, environmental matters, quality control, export control, and prohibition of anti-social transactions. Establishment, amendment or abolishment of regulations that stipulate matters relating to internal controls shall be approved by the Board of Directors. An Executive Officer shall be appointed to approve establishment and abolishment of other company regulations depending on their materiality.
- Policies and regulations, etc. that should be formulated as common across the Group are informed to the subsidiaries, and subsidiaries shall establish their own rules that are in conformity with such policies and regulations, etc.

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

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

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

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

4) Agreements to limit liability

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

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

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

5) Directors and officers liability insurance policy

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

6) Number of Directors

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

7) Resolution requirements for appointment of Directors

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

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

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

a. Exemption from liability of Directors and Executive Officers

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

b. Decision for dividends of surplus

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

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

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

10) Basic policy on control of the Company

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

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

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

11) The Company's various policies and governance based on the scheduled capital transfer

As announced on January 14, 2022, Hitachi, Ltd., which owns the shares of the Company, plans to sell 26% of the shares. As a result, Hitachi, Ltd. will no longer be the parent company of the Company, and the Company will review various related policies. In addition, Mr. Yoshinori Hosoya will meet the requirements for Outside Directors stipulated in the Regulations for Enforcement of the Companies Act when there is a change in the leading shareholder and Hitachi, Ltd. comes to no longer constitute the parent company of the Company.

(2) Directors and Executive Officers

1) Lists of Directors and Executive Officers

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

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

a. Directors

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

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Maoko Kikuchi	July 14, 1965	4/1992 8/1997 3/1999 4/2004 4/2014 6/2016 6/2020 7/2020	Joined the Ministry of Justice Public Prosecutors Office as a Public Prosecutor Joined Paul Hastings, LLP, Los Angeles Office Joined Nagashima Ohno & Tsunematsu Joined the General Secretariat of the Japan Fair Trade Commission Executive Officer, in charge of Legal and Policy Planning Supervision, Microsoft Japan Co., Ltd. Standing Outside Audit & Supervisory Board Member, MITSUI-SOKO HOLDINGS Co., Ltd., Corporate Auditor of MITSUI-SOKO Co., Ltd., and Audit & Supervisory Board Member of MITSUI-SOKO Supply Chain Solutions, Inc. Outside Director, MITSUI-SOKO HOLDINGS Co., Ltd. (to present) Outside Audit and Supervisory Board Member, KADOKAWA CORPORATION Outside Director, the Company (to present)	(Note 1)	–
Outside Director Nominating Committee Member Audit Committee Member Compensation Committee Member	Haruyuki Toyama	March 23, 1959	4/1982 1/2000 3/2009 5/2011 11/2012 8/2014 3/2015 6/2015 1/2019 3/2021	Joined the Bank of Japan Alternate Executive Director for Japan, International Monetary Fund Director General, Financial Markets Dept. General Manager for the Americas Director General, International Dept. Retired from the Bank of Japan Registered as an attorney-at-law admitted in Japan Outside Director, the Company (to present) Special Counsel, IWATA GODO (to present) Outside Director, HORIBA, Ltd. (to present)	(Note 1)	5
Outside Director Nominating Committee Member Compensation Committee Member	Hidemi Moue	October 1, 1955	4/1979 6/1996 2/1998 10/2000 11/2002 6/2010 6/2022	Joined The Industrial Bank of Japan, Limited General Manager, Capital Markets Group 2, IBJ Securities Co., Ltd. General Manager, Business Development, Capital Markets Group, IBJ Securities Co., Ltd. General Manager, Corporate Finance Dept., Capital Markets Group, Mizuho Securities Co., Ltd. CEO, Japan Industrial Partners, Inc. (to present) Auditor, Mobile Internet Capital, Inc. (to present) Director, the Company (to present)	(Note 1)	–

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Director Audit Committee (Chair)	Tetsuo Katsurayama	April 10, 1956	4/1981 4/2012 4/2013 4/2015 6/2015 4/2017 4/2018 4/2020	Joined the Company Deputy General Manager, Finance Div., General Manager, Finance Dept., and General Manager, Foreign Exchange Center Executive Officer Vice President and Executive Officer Vice President and Executive Officer, Director General Manager, Finance Div. Senior Vice President and Executive Officer, Director Director (to present)	(Note 1)	4
Director	Keiichiro Shiojima	November 24, 1965	4/1988 4/2011 4/2014 4/2016 4/2019 4/2020 6/2021 4/2022	Joined the Company General Manager, Credit Management Dept., Finance Div. Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. General Manager, Finance Dept., Finance Div., Corporate Management Group Deputy General Manager, Finance Div., Corporate Management Group Executive Officer, General Manager, Financial Strategy Group (to present) Director (to present) Vice President and Executive Officer (to present)	(Note 1)	4
Director	Michifumi Tabuchi	November 16, 1958	4/1984 4/2004 4/2012 4/2015 4/2016 4/2017 4/2020 7/2020 10/2021	Joined the Company General Manager, Manufacturing Dept., Component Div., Tsuchiura Works President and Director, Hitachi Construction Machinery (China) Co., Ltd. Executive Officer, the Company Vice President and Executive Officer Senior Vice President and Executive Officer Representative Executive Officer and Executive Vice President (to present) Officer responsible for “MONOZUKURI” (manufacturing), General Manager of Production & Procurement Group and General Manager of Corporate Export Regulation Group Director (to present) Officer responsible for “MONOZUKURI” (manufacturing), Officer responsible for Export Regulation and General Manager of Production & Procurement Group (to present)	(Note 1)	10

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Director Nominating Committee Member Compensation Committee Member	Kotaro Hirano	June 4, 1958	4/1981 4/2013 4/2014 4/2016 4/2017 6/2017	Joined the Company Deputy General Manager, Production & Procurement Div. Executive Officer Vice President and Executive Officer Representative Executive Officer, President and Executive Officer (to present) Director (to present)	(Note 1)	14
Director Audit Committee Member	Yoshinori Hosoya	February 5, 1965	4/1988 4/2013 10/2014 4/2017 4/2018 4/2021 6/2021	Joined Hitachi, Ltd. General Manager, Public Solutions Div. No. 2, Government & Public Corporation Information Systems Div., Information & Telecommunication Systems Company Supervisory Officer, Government & Public Corporation Information Systems Div., System Solutions Div., Information & Telecommunication Systems Company General Manager, Government & Public Corporation Information Systems Div., Public Corporation & Social Infrastructure Business Unit General Manager, Government & Public Corporation Information Systems Div., Social Infrastructure Systems Business Unit COO, Social Infrastructure Systems Business Unit (to present) Director, the Company (to present)	(Note 1)	–
			Total			43

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder’s Meeting for the fiscal year ended March 31, 2022 to the conclusion of the Annual Shareholder’s Meeting for the fiscal year ending March 31, 2023.

2. Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi, Haruyuki Toyama and Hidemi Moue are Outside Directors.

b. Executive Officers

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Representative Executive Officer, President, and Executive Officer CEO	Kotaro Hirano	June 4, 1958	See (1)		(Notes)	14
Representative Executive Officer, Executive Vice President and Executive Officer Officer responsible for "MONOZUKURI" (manufacturing), Officer responsible for Export Regulation General Manager, Production & Procurement Group	Michifumi Tabuchi	November 16, 1958	See (1)		(Note)	10
Executive Vice President and Executive Officer CSO	Naoyoshi Yamada	January 21, 1958	4/1982 4/2012 6/2013 10/2013 4/2016 4/2017 4/2019 4/2020 4/2022	Joined the Ministry of International Trade and Industry Director-General, Tohoku Bureau of Economy, Trade and Industry Retired from Ministry of Economy, Trade and Industry Joined the Company Executive Officer Vice President and Executive Officer Senior Vice President and Executive Officer, General Manager, Corporate Strategy Group General Manager, Operations Management Group Executive Vice President and Executive Officer (to present)	(Notes)	2
Senior Vice President and Executive Officer President, Mining Business Unit General Manager, America Business Div.	Sonosuke Ishii	December 22, 1958	4/1982 8/2010 4/2011 4/2015 4/2017 4/2018 4/2019 4/2020 10/2021 4/2022	Joined the Company President and Director, Hitachi Construction Machinery Eurasia Sales LLC Deputy General Manager, Europe and Russia Business Div., the Company General Manager, Russia and CIS Business Div. Executive Officer President, Mining Group Vice President and Executive Officer Senior Vice President and Executive Officer (to present) General Manager, America Business Div. (to present) Chairman, Hitachi Construction Machinery Americas Inc. (to present) President, Mining Business Unit of the Company (to present)	(Notes)	1

Position and responsibility	Name	Date of birth	Business experience	Term of office	Share ownership (Thousands of shares)
Senior Vice President and Executive Officer COO General Manager, Corporate Strategy Group	Masafumi Senzaki	July 16, 1965	4/1991 Joined the Company 4/2012 President and Director, Hitachi Construction Machinery Eurasia Manufacturing LLC 4/2017 General Manager, Russia and CIS Business Div. of the Company President and Director, LLC Hitachi Construction Machinery Eurasia 4/2018 Executive Officer, the Company General Manager, Marketing Div. 4/2021 Vice President and Executive Officer General Manager, Corporate Strategy Group, and General Manager, Operations Management Group 4/2022 Senior Vice President and Executive Officer (to present) General Manager, Corporate Strategy Group (to present)	(Notes)	3
Vice President and Executive Officer President, Construction Business Unit	Yusuke Kajita	October 7, 1961	4/1987 Joined the Company 4/2013 General Manager, Application, New Product & Construction Equipment Div. 4/2016 Deputy General Manager, China Business Div. President and Director, Hitachi Construction Machinery (China) Co., Ltd. 4/2017 Executive Officer, the Company 4/2018 General Manager, China Business Div. 4/2021 Vice President and Executive Officer (to present) General Manager, Research & Development Group 4/2022 President, Construction Business Unit (to present)	(Notes)	7
Vice President and Executive Officer CFO General Manager, Finance Div.	Keiichiro Shiojima	November 24, 1965	See (1)	(Notes)	4

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Vice President and Executive Officer CHRO General Manager, Human Capital Group	Seishi Toyoshima	August 30, 1960	4/1984 10/2011 4/2012 4/2016 4/2017 4/2018 4/2019 6/2019	Joined Hitachi, Ltd. General Manager of Corporate Administration Div., Corporate Sales & Marketing Div. General Manager of Human Resources and Corporate Administration Div., Information & Telecommunication Systems Company CHRO, General Manager of Human Resources and Corporate Administration Div., ICT Business Group Director, General Manager of General Affairs Div., Hitachi Appliances, Inc. Director, Hitachi Consumer Marketing, Inc. Executive Managing Director, General Manager of General Affairs Div., CHRO and CRO, Hitachi Appliances, Inc. Director, CHRO and CRO, Hitachi Consumer Marketing, Inc. Vice President and Executive Officer, the Company (to present), General Manager of Human Capital Group (to present), and in charge of Legal Div., General Manager of Compliance & Risk Management Group, the Company Director	(Notes)	2
Vice President and Executive Officer CTO General Manager, Research & Development Group General Manager, Development Strategy Office General Manager, Power & Information Control Platform Div.	Kazunori Nakamura	February 19, 1963	4/1987 4/2016 4/2018 4/2019 4/2022	Joined the Company General Manager, Application, New Product & Construction Equipment Div., Development & Production Group President and Director, Hitachi Construction Machinery Tierra Co., Ltd. Executive Officer, the Company Vice President and Executive Officer (to present) General Manager, Research & Development Group, General Manager, Development Strategy Office and General Manager, Power & Information Control Platform Div. (to present)	(Notes)	6

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Vice President and Executive Officer President, New Business Creation Unit	Hideshi Fukumoto	September 24, 1957	4/1982 4/2005 4/2011 4/2012 4/2014 4/2017 4/2019 4/2020 4/2022	Joined Hitachi, Ltd. Director, Machinery Research Institute Director, Technology Strategy Office, Research and Development Div. Joined the Company Executive Officer Vice President and Executive Officer (to present) Vice President, Development & Production Group General Manager, Research & Development Group, and General Manager, Client Solutions Group President, New Business Creation Unit (to present)	(Notes)	4
Executive Officer General Manager, Mining Development & Production Div., Mining Business Unit	Hiroshi Kanezawa	May 16, 1966	4/1989 4/2020 4/2022	Joined the Company General Manager, Mining Development & Production Div., Mining Group Executive Officer (to present) General Manager, Mining Development & Production Div., Mining Business Unit (to present)	(Notes)	–
Executive Officer Vice President, Mining Business Unit	Toru Sugiyama	September 16, 1961	4/1984 4/2018 4/2022	Joined the Company General Manager, Corporate Quality Assurance Div., Development & Production Group Executive Officer (to present) Vice President, Mining Business Unit (to present)	(Notes)	–
Executive Officer CDIO President, DX Promotion Group	Seimei Toonishi	February 5, 1962	3/1980 4/2019 4/2020 4/2021	Joined the Company General Manager, IT Promotion Div., Corporate Management Group General Manager, DX Promotion Group (to present) Executive Officer (to present)	(Notes)	–
Executive Officer CPO Deputy General Manager, Production & Procurement Div.	Yoshihiro Narukawa	February 23, 1967	4/1990 7/2020 4/2022	Joined the Company General Manager, Production & Procurement Div. Executive Officer (to present) Deputy General Manager, Production & Procurement Div. (to present)	(Notes)	–

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, Japan Business Div.	Masaaki Hirose	July 30, 1959	10/1990 4/2008 4/2013 4/2017 4/2018 4/2019 4/2020 4/2022	Joined the Company Executive Vice President and Director, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd CEO and Director, PT Hexindo Adiperkasa Tbk President and Director, Hitachi Construction Machinery Loaders America Inc. Executive Officer, the Company (to present) Chairman and Director, Hitachi Construction Machinery Loaders America Inc. Associate General Manager, America Business Div., the Company General Manager, Japan Business Div. (to present) President and Director, Hitachi Construction Machinery Japan Co., Ltd. (to present)	(Notes)	1
Executive Officer President, Spare Parts and Service Business Unit	Eiji Fukunishi	December 21, 1961	10/1982 4/2016 4/2017 4/2021 4/2022	Joined the Company General Manager, Sales Promotion Dept., Customer Support Div., Life Cycle Support Operations Div., Marketing Group Director and CEO, PT Hexindo Adiperkasa Tbk Executive Officer, the Company (to present) General Manager, Life Cycle Support Operations Div. President, Spare Parts and Service Business Unit (to present)	(Notes)	–
Executive Officer CMO President, Global Marketing Group President, Rental & Used Machine Business Unit	Hidehiko Matsui	April 19, 1961	4/1986 4/2016 4/2018 4/2019 4/2020 4/2021 4/2022	Joined the Company Deputy General Manager, Marketing Div., Marketing Group General Manager, Asia Business Div., Marketing Div., Marketing Group Chairman and President and Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd. Executive Officer, the Company (to present) General Manager, Asia Business Div. General Manager, Marketing Div. President, Global Marketing Group, President, Rental & Used Machine Business Unit (to present)	(Notes)	5

Position and responsibility	Name	Date of birth	Business experience		Term of office	Share ownership (Thousands of shares)
Executive Officer General Manager, China Business Div.	Satoshi Yamanobe	April 4, 1963	4/1987 4/2010 4/2014 4/2018 4/2020 7/2020 1/2021 4/2021	Joined Hitachi, Ltd. Joined the Company General Manager, Production Management Center, Production & Procurement Div. Deputy General Manager, Production & Procurement Div., Development & Production Div. Executive Officer (to present) General Manager, Production & Procurement Div. Deputy General Manager, China Business Div. Executive Vice President, Hitachi Construction Machinery (China) Co., Ltd. Director, Hitachi Construction Machinery (China) Co., Ltd. General Manager, China Business Div. of the Company (to present) President and Director, Hitachi Construction Machinery (China) Co., Ltd. (to present)	(Notes)	–
Executive Officer General Manager, India Business Div.	Sandeep Singh	January 21, 1961	1/2003 7/2008 4/2012 4/2014 8/2015 4/2020	Joined J.C. Bamford Excavators Limited Executive Vice President Joined Toyota Kirloskar Motors Deputy Managing Director Chief Operating Officer Joined Toyota Motor Asia Pacific Engineering and Manufacturing Company Executive Managing Coordinator Joined Tata Hitachi Construction Machinery Co., Pvt., Ltd. President and Director (to present) Executive Officer, the Company (to present) General Manager, India Business Div. (to present)	(Notes)	–
			Total			53

(Note) The term of Executive Officers is from April 1, 2022 to March 31, 2023.

2) Status of Outside Directors

There are 5 Outside Directors of the Company. As described in “1) Lists of Directors and Executive Officers, a. Directors,” Kazushige Okuhara and Haruyuki Toyama hold shares of the Company. Besides this, the Company has no personal, capital or business relationship and no particular conflict of interest with Outside Directors.

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

The Company separates management oversight from business operations and achieves prompt management with clear responsibilities, along with further strengthening the oversight functions of the Board of Directors by putting in place 3 committees, namely the Nominating Committee, Audit Committee, and Compensation Committee, each of which consists of Directors of which the majority are Outside Directors, and has been formed as a company with a nominating committee, etc., for realizing highly objective and transparent management. By appointing Outside Directors who are not from Hitachi, Ltd. and its group companies, and not from major trading partners of the

Company, the Company believes that oversight of the executive operations of the Executive Officers can be further strengthened.

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

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

- his or her immediate family member within the second degree of kinship is, or has been within the last 3 years, a Director or an Executive Officer of the Company or any of its subsidiaries;
- he or she is currently an Executive Director, an Executive Officer or an employee of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last 3 fiscal years, exceeded 2% of any of the companies' consolidated gross revenues;
- he or she has received during any of the last 3 fiscal years more than ¥10 million in direct compensation from the Company for his or her service as a specialist in law, accounting or tax, or as a consultant, other than director compensation of the Company; or
- he or she serves as an Executive Officer or Director of a not-for-profit organization, and the Company's discretionary charitable contributions to the organization in any of the last 3 fiscal years were more than ¥10 million and 2% of that organization's annual gross revenues.

Also, Toshiko Oka, Kazushige Okuhara, Maoko Kikuchi and Haruyuki Toyama are registered as independent directors under the rules of the Tokyo Stock Exchange.

5) Election of and qualification for Outside Directors

The Company has appointed 5 Outside Directors in accordance with the requirement for independence from the Company in appointing an Outside Director as described in 4) above. The Company believes that the further strengthening of the Board of Directors shall be achieved by utilizing Toshiko Oka's knowledge and deep insight on M&A based on her abundant experience as a top executive of consulting firms, Kazushige Okuhara's knowledge and deep insight on personnel and labor policy based on abundant experience as the business manager of an international company, Maoko Kikuchi's extensive experience and knowledge in the field of law and her experience and deep insight as a corporate manager and corporate auditor, Haruyuki Toyama's abundant experience and knowledge in the financial field to supervise the execution of duties by Executive Officers from an independent standpoint, and Hidemi Moue's abundant experience as a corporate manager of a fund management company and knowledge and deep insight into finance and M&A areas.

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

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

(3) Status of audit

1) The audit by the Audit Committee and internal audit

a. Audit by the Audit Committee

As an internal organization of the Board of Directors, the Audit Committee audits whether the execution of duties by Directors and Executive Officers is in compliance with laws and regulations, Articles of Incorporation, and the basic management policies, and whether it is being carried out effectively. Specifically, in addition to deliberations at committee meetings, the Audit Committee usually makes an on-site inspection of domestic and overseas sites and group companies every fiscal year, monitoring financial and accounting conditions and the status of improvement and operation of the internal control system, to audit execution of business operations and management appropriateness of subsidiaries.
As of the filing date, the Audit Committee consists of 6 Directors, including 4 Independent Outside Directors appointed by a resolution of the Board of Directors. For the Audit Committee Bureau, one personnel member who assists exclusively with the duties of the Audit Committee and one personnel member who also serves for the Internal Auditing Office in the internal audit department have been assigned from the perspective of BCP. This Audit Committee Bureau is not under the supervision of any Executive Officer, and reports to the Audit Committee.
In the fiscal year under review, to carry out audits in line with the impact of COVID-19, the Audit Committee made inquiries appropriately, etc. by proactively making use of online tools.
In addition to making inquiries from the internal audit department and the financial and accounting department, or each department such as the department managing product quality, sustainability, and ESG, the committee made inquiries on the status of execution of duties to all 19 Executive Officers, including exchange of opinions with Representative Executive Officer, and discussed and examined the appropriateness of the execution of business operations.
Beyond legal responsibility for consideration, the committee has closely worked with the accounting auditors on reporting of quarterly review, reporting of an annual accounting audit, and inquiries on audit findings, as well as holding of the three-way audit committee meeting, which the internal audit department also attended, and others.
Meetings of the Audit Committee were held 22 times in the fiscal year ended March 31, 2022. The number of meetings decreased because a change was made to have the Audit Committee Members conduct the handling procedure of reporting on the business and business operations of overseas group companies, which the Audit Committee had conducted in the previous fiscal year.

The individual attendance was as follows:

Category	Name	Number of meetings attended/Number of meetings held (Note 1)	Attendance rate (Note 1)
Outside Director	Toshiko Oka (Note 3)	13/15	87%
Outside Director	Kazushige Okuhara	22/22	100%
Director (full-time)	Tetsuo Katsurayama	22/22	100%
Outside Director	Maoko Kikuchi	22/22	100%
Outside Director	Haruyuki Toyama	22/22	100%
Outside Director	Junko Hirakawa (Note 2)	7/7	100%
Director	Yoshinori Hosoya (Note 3)	15/15	100%
Director	Kuniaki Minami (Notes 2)	6/7	86%

(Notes) 1. These number are based on the number of meetings held during each member’s term of office.
2. They retired due to the expiration of their term of office as of the conclusion of the 57th Annual Shareholder’s Meeting held on June 28, 2021.
3. They were newly elected as Directors and assumed their positions at the 57th Annual Shareholder’s Meeting held on June 28, 2021.

- Monitoring status of group companies

In place of on-site inspection of domestic and overseas sites and group companies which were usually made every fiscal year, in the fiscal year ended March 31, 2022, the Audit Committee made sufficient inquiries and held question-and-answer sessions on the management status of five overseas group companies, and exchanged opinions with full-time auditors of two domestic group companies equivalent to large companies under the Companies Act, with a report on one domestic company and four overseas companies where the executive officer also serves as a representative made using online tools, which allowed the Company to understand the management conditions of domestic and overseas group companies and conduct appropriate monitoring where necessary.

- Major matters to be examined by the Audit Committee

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

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

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

Mr. Tetsuo Katsurayama, a full-time Audit Committee Member, has demonstrated specific knowledge of circumstances, etc. unique to each company, such as the actual conditions of business operations, and strived to increase the effectiveness of the Audit Committee by monitoring and verifying the establishment of the audit environment for three bodies, namely, the Audit Committee, accounting auditors, and Internal audit department, as well as the system for ensuring the appropriateness of business operations, and its operational status, drawing upon his ample experience in business operations such as accounting and financial, etc. in the Company and the Group, and in business management.

b. Internal audit

The Company has established the Internal Auditing Office under the supervision of President as a department in charge of internal audit. The Internal Auditing Office consists of a general manager, nine full-time staff, and one person who also serves for the Auditing Committee Bureau. The Internal Auditing Office chooses subjects to be audited based on the risk-based approach, and audits whether the operations of each department and group companies are being carried out accurately, legitimately and reasonably.

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

- Internal audit system

The Company has established the Internal Auditing Office directly under the supervision of President as a department in charge of internal audit. As of the filing date, the Internal Auditing Office consists of a general manager, 12 full-time staff, and one person who also serves as the Audit Committee Bureau. The Internal Auditing Office chooses subjects to be audited with priority before risk evaluation of 10 items based on the risk-based approach and audits whether the operations of each department and group company are being carried out and processed 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, etc., to the Audit Committee.

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

- Status of conducting internal audit

In the fiscal year under review as well, although on-site inspection activities for overseas group companies were limited amid the COVID-19 pandemic, which commenced in the previous fiscal year, the Company performed audits by getting remote audits off the ground using online tools. The internal audit for 16 companies, including two domestic companies and 14 overseas companies, was conducted by commissioning audits to firms specialized in internal audits in partnership with the Company for certain overseas group companies.

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

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

- Status of utilizing internal audit results

The importance ranking of audit issues is determined based on the level of risk and frequency of occurrence, and the priority for responding to internal audit issues is clearly indicated to the audit subjects to promote business improvement.
In addition, the Internal Auditing Office follows up on the progress of improvements with the Group companies every six months for matters pointed out by the audit and systematically supports improvement measures.
The audit results are reported separately to the Company's CFO, CEO, and Audit Committee Chair, as well as the audit subjects concerned, along with a report on the status of improvement every six months to Executive Committee and Audit Committee for matters pointed out through the audit by the Audit Committee to undertake initiatives for rectifying such matters.

c. Cooperation between Audit Committee and accounting auditors

Along with receiving the annual audit plan and emphasized audit items from the accounting auditors, the Audit Committee thoroughly deliberates and is also informed of the results of the audits in a timely manner to exchange questions and answers actively. A report is also received on the status of the effectiveness of the internal control system, as understood by the accounting auditors through an audit; risk assessment; emphasized audit items; Key Audit Matters (KAM), etc., for discussion and examination.
The Audit Committee inspection activities continue to be restricted due to the effects of COVID-19, but the accounting auditor reports to the Committee on the status of accounting and internal control audits of overseas group companies with the use of its network of accounting auditors as a global firm. The Audit Committee and the accounting auditors worked together to grasp the status of overseas group companies, such as receiving reports from accounting auditors and confirming the matters pointed out by the audit.
In the fiscal year under review, the accounting auditors attended meetings of the Audit Committee seven times, and discussed the audit status of each audit committee among three bodies, including the Audit Committee Members and the Internal Auditing Office, exchanging opinions on sustainability and LTV (long-term value.)

d. Cooperation between Audit Committee and internal audit department

The Audit Committee receives the audit policy and audit plan for the fiscal year from the Internal Auditing Office, which is the internal audit department, and is timely informed of the results of the internal audits. It also exchanges opinions about the status of the effectiveness of the internal control system, as understood through internal audit; risk assessment; and audit items pointed out, to maintain and improve the audit accuracy.
In addition, the Audit Committee may instruct the Internal Auditing Office whenever necessary about specific offices to be audited and emphasized audit items, etc.
In the fiscal year under review, the Internal Auditing Office reported and provided explanations to the Audit Committee nine times, and exchanged information and opinions closely with the full-time Audit Committee Members.

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

The Internal Auditing Office, which is the internal audit department, shares and exchanges opinions with the accounting auditors on matters pointed out through internal audit in each division of the Company and each group company at a frequency of at least once a quarter. Additionally, the accounting auditors share with the Internal Auditing Office matters identified through on-site inspection and proposals to improve governance and internal controls, etc. (management letter) communicated to internal and external group companies based on the audit of accounting and internal control, with the aim of grasping and mitigating the risks in accounting and operation management through cooperation between the Internal Auditing Office and accounting auditors.
During the fiscal year under review, the Internal Auditing Office and the accounting auditors had 10 opportunities for consultation.

f. Internal control department

At the Company, the Internal Auditing Office, which is responsible for internal control, compiles the status of the operation and evaluation of the internal control system of the entire Group, and provides instructions on the promotion of improvements. Each group company has an internal control committee and persons who are in charge of internal control and promotes the development, operation, evaluation, and improvement of each company's internal control system.
Furthermore, the Company has established the J-SOX Committee as an organization that oversees internal control concerning financial reporting, with CFO serving as the chair. The committee consists of the head of each department in charge of DX (IT system information management), legal, accounting, and internal audit, and full-time Audit Committee Members attend the meetings of the committee as observers.
The J-SOX Committee is a deliberation body for determining management policies and evaluating the effectiveness of internal control concerning financial reporting of the Company and group companies. It met four times in the fiscal year under review, and the content and results of the deliberations are determined by the Executive Committee and the Audit Committee of the Company.

g. Relationship between internal control department and accounting auditors

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

h. Relationship between internal control department and Audit Committee

The Audit Committee receives reports from the Internal Auditing Office, which is an internal control department, with explanations of the content and results of deliberations by the J-SOX Committee as part of an evaluation report on the status of internal control development and operation in a timely manner, and works to maintain and improve the internal control systems through the exchange of opinion.

i. Relationship between internal control department and internal audit department

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

2) Status of accounting audit

a. Name of audit corporation

Ernst & Young ShinNihon LLC

b. Continuous auditing period

46 years

c. Certified Public Accountant who executed accounting audit

Kazuhiro Ishiguro
Takuto Miki
Kaori Onuma

d. Composition of assistants involved in the auditing work

13 Certified Public Accountants and 56 other people are involved in the auditing work of the Company.

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

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

f. Evaluation of the audit corporation by the Audit Committee

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

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

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

3) Audit fees, etc.

a. Fees of Certified Public Accountants, etc.

Category	Fiscal Year ended March 31, 2020		Fiscal Year ended March 31, 2021	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	123	2	125	–
Consolidated subsidiaries	39	–	37	–
Total	162	2	162	–

Description of non-audit services

In the fiscal year ended March 31, 2021, the Company paid fees to Certified Public Accountants, etc. for services related to preparation of comfort letter, which are not the services stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act.

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

(Fiscal year ended March 31, 2021)

Fees paid by the Company and its consolidated subsidiaries to the Company's accounting auditor, Ernst & Young ShinNihon LLC Group (including Ernst & Young and its group firms which belong to the same network as Ernst & Young ShinNihon LLC), were ¥505 million (of which ¥505 million was paid by consolidated subsidiaries) for audit services and ¥114 million (of which ¥28 million was paid by the Company and ¥86 million by consolidated subsidiaries) for non-audit services.

(Fiscal year ended March 31, 2022)

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

Description of non-audit services

In the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022, non-audit services rendered for the Company and its consolidated subsidiaries were mainly tax related services.

c. Description of other fees for important audit services

Not applicable for both the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022.

d. Policy for determining audit fees

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

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

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

(4) Compensation to Directors and Executive Officers

1) Method of determination of policies

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

2) Overview of the policy

a. Matters relating to both Directors and Executive Officers

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

b. Matters relating to Directors

Compensation for Directors consists of a monthly salary and fiscal year-end allowance.

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

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

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

c. Matters relating to Executive Officers

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

• Standard yearly compensation is set in accordance with societal standards of 50%ile by taking into account the scope and range of the Company’s business, the abilities required of, and the responsibilities and risks to be borne by the Company’s Executive Officers.

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

• The standard amount for performance-linked compensation is roughly 40% of the standard yearly compensation for the President. For other Executive Officers, it is roughly 30% of standard yearly compensation. It varies within the range of 0 to 200% depending on the degree of achievement of standard performance targets and achievement of individual roles. As a general rule, the evaluation method is carried out according to the following ratio.

Category	Company-wide performance	Departmental performance	Individual 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="3">1) Company-wide performance</td><td>Adjusted operating profit margin</td><td>40%</td><td rowspan="3">80%</td><td>25%</td><td rowspan="3">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>24%</td><td>15%</td></tr>
<tr><td colspan="2">2) Departmental performance targets</td><td colspan="2">–</td><td colspan="2">30%</td></tr>
<tr><td colspan="2">3) Departmental targets (management issues of 3 indicators, including organizational health level)</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.

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

The Company’s Compensation Committee determines the amount of compensation for individual Directors and Executive Officers through discussions in accordance with 1) and 2) above. The Compensation Committee consists of a total of 3 members, comprised of 1 Director and 2 Outside Directors. The Committee discusses and examines basic policies for compensation for Executive Officers and Directors, the details and appropriateness of individual compensation amounts, and other matters.

In the fiscal year ended March 31, 2022, the Compensation Committee held 5 meetings, and the individual attendance was as follows:

Kotaro Hirano (Number of meetings attended: 5/5)

Kazushige Okuhara (Number of meetings attended: 4/4)
*Attended all 4 meetings of the Compensation Committee after being elected as a Compensation Committee member on June 28, 2021

Haruyuki Toyama (Number of meetings attended: 5/5)

Financial indicators such as the adjusted operating income ratio and targets, etc. in the medium-term management plan were set as performance indicators used to calculate the performance-linked compensation, to calculate the amount of compensation based on the business plan and outcome of the business for the relevant fiscal year within a certain range stipulated in the “Basic Policy for Compensation to Directors and Executive Officers.” As for the method of calculating the performance-linked compensation, the amount was determined within a certain range, depending on the degree of achievement of targets and outcome of business operations of which each person is in charge. The results of the performance indicators for performance-linked compensation paid to the Company’s executive officers for the fiscal year under review were adjusted operating margin of 9.1%, consolidated operating cash flow of ¥39,317 million, and consolidated value chain sales of ¥415,054 million, etc.

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

Category	Total amount of compensation (Millions of yen)	Total amount for each type of compensation (Millions of yen)		Number of eligible Directors and Executive Officers
		Monthly salary	Fiscal Year-end allowance and performance-linked compensation	
Directors (excluding Outside Directors)	53	50	3	4
Executive Officer	834	522	312	19
Outside Director	59	54	5	5

(Notes) 1. Amounts are rounded to the nearest millions of yen.
2. The above table includes the compensation for 2 Directors who retired as of the conclusion of the 57th Annual Shareholder’s Meeting held on June 28, 2021, for the fiscal year under review.
3. Directors who concurrently serve as Executive Officers receive only compensation as Executive Officers.

5) Total amount of consolidated compensation, etc., by officer

Name	Total amount of compensation (Millions of yen)	Officer Category	Company Category	Total amount for each type of compensation (Millions of yen)	
				Monthly salary	Fiscal Year-end allowance and performance-linked compensation
Kotaro Hirano	104	Director (Note 2)	The Company	54	50

(Notes) 1. The list includes those whose total consolidated compensation, etc. is ¥100 million or more.
2. He also served as a Director in the fiscal year under review, but did not receive compensation as a Director.

(5) Information on shareholdings

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

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

2) Investment securities held for purposes other than pure investment

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

The Company specifically examines individual issues of all investment securities at the Board of Directors meeting each fiscal year for the reasonableness and necessity of the continued shareholding, in light of capital cost in addition to the criteria and approach stated in 1) above. At the Board of Directors meeting held on January 31, 2022, it was confirmed that the holding of each issue was appropriate, by checking the status of sale of issues subject to sale, and examining each of the other individual issues.

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

	Number of stock names (Stock names)	Total amount recorded in the balance sheet (Millions of yen)
Unlisted stocks	12	230
Other than unlisted stocks	10	6,605

(Stocks increased in the fiscal year ended March 31, 2022)

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

(Stocks decreased in the fiscal year ended March 31, 2022)

	Number of stock names (Stock names)	Total selling price for the shares decreased (Millions of yen)
Unlisted stocks	–	–
Other than unlisted stocks	2	134

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

Specified investment securities

Stock name	Fiscal Year ended March 31, 2022	Fiscal Year ended March 31, 2021	Purpose of holding, quantitative holding effect, and reasons for the increase in the number of shares (Note 1)	Shareholding of the Company
	Number of shares (Shares)	Number of shares (Shares)		
	Carrying amount in the balance sheet (Millions of yen)	Carrying amount in the balance sheet (Millions of yen)		
KYB Corporation	892,000	892,000	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company’s revenue.	No
	2,654	2,694		

Stock name	Fiscal Year ended March 31, 2022 Number of shares (Shares) Carrying amount in the balance sheet (Millions of yen)	Fiscal Year ended March 31, 2021 Number of shares (Shares) Carrying amount in the balance sheet (Millions of yen)	Purpose of holding, quantitative holding effect, and reasons for the increase in the number of shares (Note 1)	Shareholding of the Company
Wakita & Co., LTD.	1,200,000 1,200	1,200,000 1,199	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
Kanamoto Co., Ltd.	344,581 690	344,581 993	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
KOKEN BORING MACHINE CO., LTD. (Note 2)	983,000 455	1,533,000 829	• Purpose of holding: Strengthening of service response capability for underground excavation equipment • Quantitative holding effect: As a result of strengthened mutual cooperation, certain effects were seen on the Company's revenue.	No
IJTT Co., Ltd. (Note 3)	1,300,000 699	1,300,000 798	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company's revenue.	No
Nippon Chuzo K. K.	718,921 586	718,921 658	• Purpose of holding: Stable procurement of materials • Quantitative holding effect: As a result of stable parts supply, certain effects were seen on the Company's revenue.	No
NISHIO RENT ALL CO., LTD.	66,000 185	66,000 198	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	No
NANYO Corporation	72,600 137	72,600 123	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	Yes
NIPPAN RENTAL Co., Ltd.	0 0	54,000 57	• Purpose of holding: Strengthening of sales route • Quantitative holding effect: As a result of sales expansion, certain effects were seen on the Company's revenue.	No

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

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

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

V. Financial Information

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

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

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

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

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements of the Company for the fiscal year ended March 31, 2022 were audited by Ernst & Young ShinNihon LLC.

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

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

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

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

1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

1) Consolidated statements of financial position

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and cash equivalents (note 22)	80,330	94,257
Trade receivables (notes 6, 23 and 24)	206,371	261,448
Contract assets (note 17)	4,845	4,816
Inventories (notes 8 and 24)	297,766	368,267
Income tax receivables (note 11)	4,025	1,884
Other financial assets (note 23)	16,172	25,262
Other current assets	7,083	8,421
Subtotal	616,592	764,355
Assets held for sale (note 18)	601	–
Total current assets	617,193	764,355
Non-current assets		
Property, plant and equipment (notes 4, 9 and 24)	345,847	384,164
Right-of-use assets (notes 4 and 7)	59,410	58,740
Intangible assets (notes 4 and 10)	40,601	42,008
Goodwill (notes 4 and 10)	35,406	39,071
Investments accounted for using the equity method	31,034	26,972
Trade receivables (notes 6 and 23)	41,436	42,747
Deferred tax assets (note 11)	16,338	16,099
Other financial assets (note 23)	18,643	20,450
Other non-current assets	13,974	14,954
Total non-current assets	602,689	645,205
Total assets	1,219,882	1,409,560
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 23)	180,673	222,841
Lease liabilities (note 7)	12,489	10,714
Contract liabilities (note 17)	8,820	11,527
Bonds and borrowings (notes 21 and 23)	150,262	174,337
Income taxes payable (note 11)	4,632	15,059
Other financial liabilities (note 23)	13,970	18,810
Other current liabilities	1,608	2,017
Total current liabilities	372,454	455,305
Non-current liabilities		
Trade and other payables (notes 12 and 23)	7,697	8,495
Lease liabilities (note 7)	46,942	50,717
Contract liabilities (note 17)	2,050	9,353
Bonds and borrowings (notes 22 and 23)	179,226	178,770
Retirement and severance benefit (note 13)	17,748	17,622
Deferred tax liabilities (note 11)	6,925	8,865
Other financial liabilities (note 23)	3,569	4,986
Other non-current liabilities	14,715	7,516
Total non-current liabilities	278,872	286,324
Total liabilities	651,326	741,629

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	80,620	78,397
Retained earnings (note 14)	350,229	414,541
Accumulated other comprehensive income (note 15)	4,262	40,183
Treasury stock, at cost (note 14)	(3,086)	(3,090)
Total equity attributable to owners of the parent	513,602	611,608
Non-controlling interests	54,954	56,323
Total equity	568,556	667,931
Total liabilities and equity	1,219,882	1,409,560

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

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

	2021	2022
Revenue (notes 4 and 17)	813,331	1,024,961
Cost of sales	(619,988)	(744,973)
Gross profit	193,343	279,988
Selling, general and administrative expenses	(160,633)	(186,470)
Other income (note 19)	5,067	17,212
Other expenses (note 19)	(9,542)	(4,140)
Operating income	28,235	106,590
Financial income (note 20)	3,658	4,459
Financial expenses (note 20)	(7,743)	(6,404)
Share of profits of investments accounted for using the equity method	1,428	6,224
Income before income taxes	25,578	110,869
Income taxes (note 11)	(10,951)	(31,005)
Net income	14,627	79,864
Net income attributable to:		
Owners of the parent	10,340	75,826
Non-controlling interests	4,287	4,038
Net income	14,627	79,864
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 21)	48.62	356.57
Net income per share (Diluted) (yen) (note 21)	48.62	356.57

3) Consolidated statements of comprehensive income

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

	2021	2022
Net income	14,627	79,864
Other comprehensive income		
Items that cannot be reclassified into net income		
Net gains and losses from financial assets measured at fair value through OCI (notes 15 and 23)	1,952	(142)
Remeasurements of defined benefit obligations (notes 13 and 15)	3,576	1,616
Other comprehensive income of equity-method affiliates (note 15)	(1)	2
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	38,611	39,724
Cash flow hedges (notes 15 and 23)	(583)	7
Other comprehensive income of equity-method affiliates (note 15)	(722)	1,102
Other comprehensive income, net of taxes	42,833	42,309
Comprehensive income	57,460	122,173
Comprehensive income attributable to: Owners of the parent	47,844	111,929
Non-controlling interests	9,616	10,244

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity
Fiscal Year ended March 31, 2021

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	80,475	347,668	(1,933)	5,700	228
Cumulative impact of change in accounting policy			(689)			
Balance at beginning of period reflecting change in accounting policy	81,577	80,475	346,979	(1,933)	5,700	228
Net income			10,340			
Other comprehensive income (note 15)				3,602	1,951	(583)
Comprehensive income	–	–	10,340	3,602	1,951	(583)
Acquisition of treasury stock (note 14)						
Dividends paid (note 16)			(7,231)			
Changes in the scope of consolidation						
Transfer to retained earnings			141		(141)	
Change in liabilities for written put options over non-controlling interests (note 14)		145				
Transaction with owners	–	145	(7,090)	–	(141)	–
Balance at end of period	81,577	80,620	350,229	1,669	7,510	(355)

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of period	(37,096)	(33,101)	(3,082)	473,537	51,574	525,111
Cumulative impact of change in accounting policy		–		(689)		(689)
Balance at beginning of period reflecting change in accounting policy	(37,096)	(33,101)	(3,082)	472,848	51,574	524,422
Net income		–		10,340	4,287	14,627
Other comprehensive income (note 15)	32,534	37,504		37,504	5,329	42,833
Comprehensive income	32,534	37,504	–	47,844	9,616	57,460
Acquisition of treasury stock (note 14)		–	(4)	(4)		(4)
Dividends paid (note 16)		–		(7,231)	(6,219)	(13,450)
Changes in the scope of consolidation		–		–		–
Transfer to retained earnings		(141)		–		–
Change in liabilities for written put options over non-controlling interests (note 14)		–		145	(17)	128
Transaction with owners	–	(141)	(4)	(7,090)	(6,236)	(13,326)
Balance at end of period	(4,562)	4,262	(3,086)	513,602	54,954	568,556

See accompanying notes to consolidated financial statements.

Fiscal Year ended March 31, 2022

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Cash flow hedges
Balance at beginning of period	81,577	80,620	350,229	1,669	7,510	(355)
Net income			75,826			
Other comprehensive income (note 15)				1,574	(140)	7
Comprehensive income	–	–	75,826	1,574	(140)	7
Acquisition of treasury stock (note 14)						
Disposal of treasury stock (note 14)		0				
Dividends paid (note 16)			(11,696)			
Changes in the scope of consolidation						
Transfer to retained earnings			182		(182)	
Change in liabilities for written put options over non-controlling interests (note 14)		(2,223)				
Transaction with owners	–	(2,223)	(11,514)	–	(182)	–
Balance at end of period	81,577	78,397	414,541	3,243	7,188	(348)

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of period	(4,562)	4,262	(3,086)	513,602	54,954	568,556
Net income		–		75,826	4,038	79,864
Other comprehensive income (note 15)	34,662	36,103		36,103	6,206	42,309
Comprehensive income	34,662	36,103	–	111,929	10,244	122,173
Acquisition of treasury stock (note 14)		–	(4)	(4)		(4)
Disposal of treasury stock (note 14)		–	0	0		0
Dividends paid (note 16)		–		(11,696)	(8,826)	(20,522)
Changes in the scope of consolidation		–		–		–
Transfer to retained earnings		(182)		–		–
Change in liabilities for written put options over non-controlling interests (note 14)		–		(2,223)	(49)	(2,272)
Transaction with owners	–	(182)	(4)	(13,923)	(8,875)	(22,798)
Balance at end of period	30,100	40,183	(3,090)	611,608	56,323	667,931

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

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

	2021	2022
Net income	14,627	79,864
Depreciation	44,412	48,164
Amortization of intangible asset	5,765	7,316
Impairment losses	1,391	196
Income tax expense	10,951	31,005
(Gain) loss on business restructuring	425	(8,755)
Equity in net earnings of associates	(1,428)	(6,224)
(Gain) loss on sales of property, plant and equipment	43	(4,597)
Financial income	(3,658)	(4,459)
Financial expense	7,743	6,404
(Increase) decrease in trade receivables and contract assets	21,164	(50,316)
(Increase) decrease in lease receivables	2,137	18,745
(Increase) decrease in inventories	25,501	(48,167)
Increase (decrease) in trade payables	(19,237)	15,092
Increase (decrease) in retirement and severance benefit	163	(498)
Other	(8,568)	(24,130)
Subtotal	101,431	59,640
Interest received	2,058	1,769
Dividends received	3,300	1,479
Interest paid	(5,289)	(4,729)
Income tax paid	(10,161)	(18,842)
Net cash provided by (used in) operating activities	91,339	39,317
Capital expenditures	(28,311)	(27,924)
Proceeds from sale of property, plant and equipment	389	8,923
Acquisition of intangible assets	(4,893)	(6,616)
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	(315)	(2,642)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	884	22,592
(Increase) decrease in short-term loan receivables, net	(72)	187
Collection of long-term loan receivables	40	66
Payments for acquisition of businesses	-	(1,030)
Other	(3)	(410)
Net cash provided by (used in) investing activities	(32,281)	(6,854)
Increase (decrease) in short-term borrowings, net (note 22)	(42,150)	21,314
Proceeds from bonds and long-term borrowings (notes 22 and 23)	51,273	36,487
Payments on bonds and long-term borrowings (notes 22 and 23)	(32,069)	(50,160)
Payments on lease liabilities (note 22)	(11,534)	(12,699)
Dividends paid to owners of the parent (note 16)	(7,273)	(11,695)
Dividends paid to non-controlling interests	(4,255)	(8,857)
Other	(3)	(5)
Net cash provided by (used in) financing activities	(46,011)	(25,615)
Effect of exchange rate changes on cash and cash equivalents	5,118	7,079
Net increase (decrease) in cash and cash equivalents	18,165	13,927
Cash and cash equivalents at beginning of period (note 22)	62,165	80,330
Cash and cash equivalents at end of period (note 22)	80,330	94,257

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of operations

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

(2) Basis of presentation

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

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

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

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

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

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

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

- Valuation of goodwill
  The method of impairment losses on goodwill is provided in "(3) *(i) Impairment of non-financial assets*" and "(10) Goodwill and other intangible assets."
  Significant goodwill recorded in the consolidated statements of financial position as of March 31, 2022 is principally goodwill of ¥7,921 million due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in the fiscal year ended March 31, 2017, and goodwill of ¥21,883 million due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in the fiscal year ended March 31,2017.
  The recoverable amount per cash-generating unit (CGU) is calculated at the higher of fair value less costs of disposal or value in use. Comparison with similar publicly traded companies, and a market approach where a price that can be achieved in orderly transactions between market participants, such as market capitalization of the asset, etc. is reasonably estimated and calculated, are principally used as valuation techniques used to calculate fair value less costs of disposal. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs. The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU exceeded the carrying amount as of March 31, 2022, the carrying amount may exceed the value in use in and after the next fiscal year if the discount rate increases, and this may affect operating results, etc.
- Recoverability of deferred tax assets
  The process of considering recoverability of deferred tax assets is provided in "(11) Deferred taxes and income taxes."
  Deferred tax assets recorded in the consolidated statement of financial position as of March 31, 2022 was ¥16,099

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, 2022. 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.

Viewpoints in making accounting estimates

Impact of the novel coronavirus disease (COVID-19)

Significant accounting estimates based on future earnings forecasts in the fiscal year ended March 31, 2022 are based on the assumption that the impact of COVID-19 on the Group's business results will be limited, although the Group conducts its business activities globally and circumstances are different depending on regions. Therefore, COVID-19 posed no significant impact on the Group's accounting estimates or judgment involving estimates in the fiscal year under review.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2022. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

Impact of the Russia-Ukraine conflict

The consolidated statement of financial position as of March 31, 2022 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 ¥20,087 million and inventories of ¥10,823 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, the evaluation is based on an assumption that the inventories will be sold according to the plan as they are primarily held to fulfill the outstanding orders received.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2022. 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) Summary of significant accounting policies

(a) Basis of consolidation

(i) Consolidated subsidiaries

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

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

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

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

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

(ii) Affiliates

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

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

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

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

(b) Cash equivalents

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

(c) Foreign currency translation

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

i) Foreign currency transactions

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

(ii) Foreign operations

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

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

(d) Financial instruments

(i) Non-derivative financial assets

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

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

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

Financial assets measured at amortized cost

Financial assets are subsequently measured at amortized cost when they meet the following requirements:

- The financial asset is held within a business model of the Group the objective of which is to hold the asset to collect contractual cash flows.
- The contractual terms of the financial asset provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

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

FVTOCI financial assets

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

FVTPL financial assets

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

Impairment of financial assets

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

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

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

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

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

(ii) Non-derivative financial liabilities

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

(iii) Derivatives and hedge accounting

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

The Group accounts for hedging derivatives as follows

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

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

(iv) Offsetting financial assets and liabilities

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

(e) Inventories

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

(f) Property, plant and equipment

The Group uses the cost method to measure property, plant and equipment. They are stated at cost, less accumulated depreciation and accumulated impairment losses.

Acquisition cost includes direct costs of acquisition, and costs of dismantling, removing and restoring the assets. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives for major classes of assets:

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

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

(g) Goodwill and other intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

Software	2 to 10 years
Others	2 to 20 years

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

(Changes in accounting policies)

The Group used to recognize an intangible asset in relation to the configuration or customization costs in a cloud computing arrangement based on IAS 38 "Intangible Assets." The Group changed its accounting policies from the beginning of the fiscal year under review to recognize the costs as an expense when it receives a configuration or customization service, taking into account the discussions held by the IFRS Interpretations Committee to finalize the agenda decision published in April 2021.

The change in the accounting policies applies retroactively, and the new accounting policies have been reflected in the consolidated financial statements for the previous fiscal year. In terms of the impact on the consolidated statement of financial position, assets decreased by ¥689 million due to a decrease in intangible assets of ¥975 million and an increase in deferred tax assets of ¥286 million, and a decrease in equity of ¥689 million due to the adjustment of the previous fiscal year's opening balance of retained earnings. The impact on the consolidated income statement and net income attributable to owners of the parent per share and net income attributable to owners of the parent per share (diluted) was immaterial.

(h) Leases

(i) Lessee

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

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

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

<u>Lease liability</u>

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

(ii) Lessor

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

(i) Impairment of non-financial assets

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

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

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

(j) Retirement and severance benefits

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

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

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

(k) Provisions

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

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

(l) Contingencies

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

Notes to Consolidated Financial Statements

(m) Revenue recognition

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

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

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

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

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

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

(n) Government grants

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

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

(o) Deferred taxes and income taxes

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

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

(p) Earnings per share

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

(q) Business combinations

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

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

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

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

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

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

(s) Subsequent events

The Group has assessed events that occurred up to June 28, 2022, the filing date of this annual securities report.

Notes to Consolidated Financial Statements

(4) Segment information

(a) Reportable segment information

(i) Overview of reportable segments

The operating segments of the Group are the components for which separate financial information is available and that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The reportable segments are determined based on the operating segment.

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

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

For the fiscal year ended March 31, 2021

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
External customers	734,191	79,140	813,331	–	813,331
Intersegment transactions	16	3,297	3,313	(3,313)	–
Total revenues	734,207	82,437	816,644	(3,313)	813,331
Segment profit (*1)	23,638	4,597	28,235	–	28,235
Financial income	–	–	–	3,658	3,658
Financial expenses	–	–	–	(7,743)	(7,743)
Share of profits (losses) of investments accounted for using the equity method	1,428	–	1,428	–	1,428
Income before income taxes	25,066	4,597	29,663	(4,085)	25,578
Segment assets	1,103,899	116,839	1,220,738	(856)	1,219,882
Segment liabilities	583,693	68,489	652,182	(856)	651,326
Other items:					
Depreciation and amortization of intangible assets	(45,316)	(4,861)	(50,177)	–	(50,177)
Impairment losses	(168)	(1,223)	(1,391)	–	(1,391)
Business structure reform expenses	(2,288)	(1,251)	(3,539)	–	(3,539)
Investments accounted for using the equity method	31,034	–	31,034	–	31,034
Capital expenditure	75,770	2,494	78,264	–	78,264

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

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

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

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2022

(Millions of yen)

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

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

(b) Information on products and services

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

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Mining machinery	123,456	157,946
Construction machinery and others	689,875	867,015
Total	813,331	1,024,961

Notes to Consolidated Financial Statements

(c) Geographic information

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

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Japan	203,336	216,924
The Americas	118,048	219,156
Europe	87,849	124,180
Russia-CIS, Africa, and Middle East	72,350	101,299
Asia and Oceania	242,689	311,310
China	89,059	52,092
Total	813,331	1,024,961

In the fiscal years ended March 31, 2021 and 2022, an individual country to which revenues from external customers were material, other than Japan and China, was Australia included in Asia and Oceania. Revenues attributable to Australia were ¥123,814 million in the fiscal year ended March 31, 2021, and ¥149,608 million in the fiscal year ended March 31, 2022.

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Japan	281,185	288,150
The Americas	28,878	27,649
Europe	27,311	35,025
Asia	63,324	70,455
Oceania	78,829	100,621
Other Areas	1,737	2,083
Total	481,264	523,983

As of March 31, 2021 and March 31, 2022, an individual country in which balances of property, plant and equipment, intangible assets, right-of-use assets and goodwill were material was Australia, which was included in the Oceania, other than Japan. The balances in Australia included in those in the Oceania were ¥74,061 million as of March 31, 2021 and ¥90,800 million as of March 31, 2022.

(d) Significant customer information

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

(5) Business combinations

For the fiscal year ended March 31, 2021

Not applicable.

For the fiscal year ended March 31, 2022

Not applicable.

Notes to Consolidated Financial Statements

(6) Trade receivables

The components of trade receivables are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Accounts and notes receivable and electronically recorded monetary claims – operating	191,469	262,938
Finance lease receivables	64,523	51,584
Allowance for doubtful receivables	(8,185)	(10,327)
Total	247,807	304,195

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Current assets	206,371	261,448
Non-current assets	41,436	42,747
Total	247,807	304,195

Notes to Consolidated Financial Statements

(7) Leases

(a) Lessee

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

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

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2021	13,882	31,359	13,994	175	59,410
As of March 31, 2022	15,195	33,205	10,201	139	58,740

The increase in right-of-use assets in the fiscal year ended March 31, 2022 is ¥14,929 million.

Expenses and cash outflows related to leases are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Depreciation expense for right-of-use assets		
Land	650	846
Buildings and structures	4,924	5,501
Machinery, equipment and vehicles	4,170	3,851
Tools, furniture and fixtures	69	56
Total	9,813	10,254
Interest expenses on lease liabilities	1,349	1,411
Expenses for short-term leases	9,048	8,785
Total expenses related to leases	20,210	20,450
Total cash outflows related to leases	21,931	22,895

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

Notes to Consolidated Financial Statements

(b) Lessor

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

Revenue from leases is as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Lease revenue under finance leases		
Financial income on net investment in the lease	2,656	2,235
Lease revenue under operating leases	52,144	55,936
Total revenue from leases	54,800	58,171

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

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Undiscounted lease payments receivable		
Within 1 year	38,473	32,161
After 1 year but not more than 2 years	15,965	11,474
After 2 years but not more than 3 years	6,576	5,494
After 3 years but not more than 4 years	5,148	3,042
After 4 years but not more than 5 years	2,020	2,082
More than 5 years	363	323
Total	68,545	54,576
Unearned financial income on lease payments receivable	(4,022)	(2,992)
Net investment in the lease	64,523	51,584

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Within 1 year	3,574	2,372
After 1 year but not more than 2 years	1,073	1,142
After 2 years but not more than 3 years	651	826
After 3 years but not more than 4 years	260	591
After 4 years but not more than 5 years	182	429
More than 5 years	57	132
Total	5,797	5,492

Notes to Consolidated Financial Statements

(8) Inventories

The components of inventories are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Merchandise and finished goods	237,274	293,638
Work in process	35,797	42,573
Raw materials and supplies	24,695	32,056
Total	297,766	368,267

For the previous fiscal year and the fiscal year under review, the amounts of inventories expensed and included as cost of sales were ¥612,233 million and ¥739,942 million, respectively. For the previous fiscal year and the fiscal year under review, valuation losses recorded for inventories that were written down to net realizable value were ¥6,012 million and ¥3,220 million, respectively, and reversals of valuation losses were ¥1,075 million and ¥296 million, respectively.

Notes to Consolidated Financial Statements

(9) Property, plant and equipment

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

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Net carrying amount							
April 1, 2020	56,516	90,612	52,488	8,868	91,824	15,157	315,465
Acquisition	151	1,164	4,069	1,393	38,624	19,844	65,245
Sales and disposals	(24)	(228)	(820)	(327)	(9,423)	(1,481)	(12,303)
Depreciation	(263)	(6,100)	(9,785)	(3,592)	(14,859)	–	(34,599)
Impairment losses	(201)	(218)	(853)	(48)	(71)	–	(1,391)
Acquisitions and divestitures	–	–	–	–	–	–	–
Currency translation effect	1,997	4,803	3,509	603	2,914	940	14,766
Transfer from construction in progress	188	8,503	9,626	2,286	754	(21,357)	–
Other	(1,184)	(919)	(168)	514	129	292	(1,336)
March 31, 2021	57,180	97,617	58,066	9,697	109,892	13,395	345,847
Acquisition	360	1,903	3,661	1,196	44,468	23,307	74,895
Sales and disposals	(3,313)	(204)	(1,487)	(84)	(16,499)	(699)	(22,286)
Depreciation	–	(7,103)	(9,232)	(3,650)	(17,925)	–	(37,910)
Impairment losses	(23)	(49)	(30)	(8)	(46)	–	(156)
Acquisitions and divestitures	–	11	8	9	3,841	–	3,869
Currency translation effect	913	4,659	2,608	541	3,852	567	13,140
Transfer from construction in progress	1,211	8,007	5,267	2,326	5,859	(22,670)	–
Other	–	(866)	147	270	2,321	4,893	6,765
March 31, 2022	56,328	103,975	59,008	10,297	135,763	18,793	384,164

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

Notes to Consolidated Financial Statements

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Gross carrying amount							
March 31, 2021	57,283	212,289	234,930	62,260	181,437	13,395	761,594
March 31, 2022	56,433	225,583	244,256	64,211	220,250	18,793	829,526
Accumulated depreciation and impairment losses							
March 31, 2021	(103)	(114,672)	(176,864)	(52,563)	(71,545)	–	(415,747)
March 31, 2022	(105)	(121,608)	(185,248)	(53,914)	(84,487)	–	(445,362)

(10) Goodwill and other intangible assets

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

(Millions of yen)

	Goodwill	Software	Others	Total
Net carrying amount				
April 1, 2020 (before changes in accounting policies)	30,538	20,552	17,331	68,421
Cumulative impact of change in accounting policy		(975)		(975)
April 1, 2020 (after changes in accounting policies)	30,538	19,577	17,331	67,446
Purchases	–	4,821	72	4,893
Amortization	–	(4,885)	(880)	(5,765)
Impairment losses	–	–	–	–
Sales and disposals	–	(105)	(29)	(134)
Acquisitions and divestitures	–	–	–	–
Currency translation effect, etc.	4,868	372	3,904	9,144
Other	–	423	–	423
March 31, 2021	35,406	20,203	20,398	76,007
Purchases	1,723	4,883	927	7,533
Amortization	–	(5,813)	(1,503)	(7,316)
Impairment losses	–	–	–	–
Sales and disposals	–	(47)	(1)	(48)
Acquisitions and divestitures	–	–	–	–
Currency translation effect, etc.	3,225	416	1,723	5,364
Other	(1,283)	289	533	(461)
March 31, 2022	39,071	19,931	22,077	81,079

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

(Millions of yen)

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2021	35,728	45,120	30,685	111,533
March 31, 2022	39,393	49,203	34,119	122,715
Accumulated amortization and impairment losses				
March 31, 2021	(322)	(24,917)	(10,287)	(35,526)
March 31, 2022	(322)	(29,272)	(12,042)	(41,636)

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

Research and development expenditures recognized as an expense for the previous fiscal year and the fiscal year under review were ¥24,764 million and ¥25,462 million, respectively, and they are included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

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

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

Significant goodwill recorded in the consolidated statements of financial position is principally goodwill due to the inclusion of H-E Parts International LLC as a consolidated subsidiary following the acquisition of this company in the fiscal year ended March 31, 2017 (¥7,165 million in the fiscal year ended March 31, 2021, and ¥7,921 million in the fiscal year ended March 31, 2022), and goodwill due to the inclusion of Bradken Pty Limited as a consolidated subsidiary following the takeover offer in the fiscal year ended March 31, 2017 (¥20,066 million in the fiscal year ended March 31, 2021, and ¥21,883 million in the fiscal year ended March 31, 2022).

The recoverable amount per CGU group is calculated based on value in use. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate (approximately 11% for H-E Parts International LLC, and approximately 10% for Bradken Pty Limited) which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate (maximum of approximately 2.4% for H-E Parts International LLC, and maximum of approximately 2.4% for Bradken Pty Limited) not exceeding the long-term average growth rate of the market to which the CGU group belongs.

The major assumption on which calculation of recoverable amount in impairment test is based is a discount rate. Although the value in use per CGU group exceeded the carrying amount of goodwill as of March 31, 2022, the carrying amount may exceed the value in use if the discount rate increases by approximately 2% for H-E Parts International LLC or approximately 1.3% for Bradken Pty Limited.

Notes to Consolidated Financial Statements

(11) Deferred taxes and income taxes

The components of income tax expense are as follows:

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Income tax expense		
Current tax expense	11,988	29,897
Deferred tax expense	(1,037)	1,108
Temporary differences originated and reversed	(5,239)	7,831
Changes in write-down of deferred tax assets	4,202	(6,723)
Total	10,951	31,005

(Fiscal year ended March 31, 2021)

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

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

(Fiscal year ended March 31, 2022)

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

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

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

(percentage)

	As of March 31, 2021	As of March 31, 2022
Combined statutory income tax rate	30.6	30.6
Unitary taxation system including foreign subsidiaries	2.6	0.1
Income not taxable for tax purpose, such as dividends received	(44.6)	(11.1)
Elimination of dividends received	46.1	11.5
Difference in statutory tax rates of foreign subsidiaries	(6.0)	(3.5)
Changes in write-down of deferred tax assets	16.4	(6.1)
Other, net	(2.3)	6.5
Effective income tax rate	42.8	28.0

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

Notes to Consolidated Financial Statements

Changes in deferred tax assets and liabilities are as follows:

(Millions of yen)

	April 1, 2020	Impact of change in accounting policy	Restated balance	Recognized in profit or loss	Recognized in OCI	March 31, 2021
Deferred tax assets						
Allowance for doubtful receivables	770	–	770	65	–	835
Accrued bonuses	3,116	–	3,116	(194)	–	2,922
Accrued expenses	4,814	–	4,814	(330)	–	4,484
Retirement and severance benefits	5,150	–	5,150	487	63	5,700
Net operating loss carryforwards	3,375	–	3,375	2,686	–	6,061
Unrealized profits of inventories	1,724	–	1,724	(455)	–	1,269
Unrealized gain on fixed assets	1,479	–	1,479	(101)	–	1,378
Other	6,679	286	6,965	7,111	1,862	15,938
Total deferred tax assets	27,107	286	27,393	9,269	1,925	38,587
Offset with deferred tax liabilities	(12,013)	–	(12,013)	(10,236)	–	(22,249)
Reported deferred tax assets	15,094	286	15,380	(967)	1,925	16,338
Deferred tax liabilities						
Investments in subsidiaries and investments in affiliates	(7,702)	–	(7,702)	700	(653)	(7,655)
Assets acquired in business combinations	(6,300)	–	(6,300)	534	(705)	(6,471)
Investments in securities	(2,673)	–	(2,673)	–	(614)	(3,287)
Other	(1,457)	–	(1,457)	(9,466)	(838)	(11,761)
Total deferred tax liabilities	(18,132)	–	(18,132)	(8,232)	(2,810)	(29,174)
Offset with deferred tax assets	12,013	–	12,013	10,236	–	22,249
Reported deferred tax liabilities	(6,119)	–	(6,119)	2,004	(2,810)	(6,925)
Net deferred tax assets	8,975	286	9,261	1,037	(885)	9,413

Notes to Consolidated Financial Statements

(Millions of yen)

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

The total temporary differences related to excess amounts over the tax basis of investments in subsidiaries and investments in affiliates for which deferred tax liabilities are not recognized are ¥29,221 million and ¥36,114 million, respectively, as of March 31, 2021 and 2022.

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

In assessing the realizability of deferred tax assets, the Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these deductible differences, etc. become deductible. Although realization is not assured, the Group carries out an assessment of the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed. Based on these factors, the Group believes it is more likely than not that it will realize the benefits of these deductible differences as of March 31, 2022.

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deductible temporary differences	28,423	14,060
Tax loss carryforwards		
Expiring within 1 year	–	–
Expiring after 1 year but not more than 5 years	51,883	39,131
Expiring after 5 years	23,553	20,094
Total tax loss carryforwards	75,436	59,225

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

(12) Trade and other payables

The components of trade and other payables are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Accounts and notes payable and electronically recorded obligations – operating	110,097	144,531
Accounts payable – other	33,514	40,924
Accrued expenses	35,699	37,965
Other	9,060	7,916
Total	188,370	231,336

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Current liabilities	180,673	222,841
Non-current liabilities	7,697	8,495
Total	188,370	231,336

(13) Employee benefits

(a) Retirement and severance benefits

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

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Present value of defined benefit obligations at beginning of fiscal year	81,914	86,629
Service cost	4,284	4,273
Interest cost	1,193	1,204
Actuarial gain or (loss)	1,864	(3,117)
Benefits paid	(3,828)	(3,945)
Increase or (decrease) due to termination of the plan	(122)	(946)
Other	1,324	1,864
Present value of defined benefit obligations at end of fiscal year	86,629	85,962

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Fair value of plan assets at beginning of fiscal year	69,312	79,087
Interest income	838	978
Employers' contributions	3,793	3,897
Benefits paid	(2,943)	(2,915)
Return on plan assets (excluding the amount recognized as interest income)	7,003	(496)
Increase or (decrease) due to termination of the plan	(122)	(946)
Other	1,206	1,388
Fair value of plan assets at end of fiscal year	79,087	80,993

Changes in the effect of asset ceiling are as follows:

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Balance of the effect of asset ceiling at beginning of fiscal year	161	581
Interest income	–	–
Remeasurements	378	404
Effect of limiting net plan assets to the asset ceiling	–	–
Other	42	66
Balance the effect of asset ceiling at end of fiscal year	581	1,051

Notes to Consolidated Financial Statements

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Present value of defined benefit obligations (funded)	(70,993)	(69,862)
Fair value of plan assets	79,087	80,993
Funding position	8,094	11,131
Effect of asset ceiling	(581)	(1,051)
Present value of defined benefit obligations (unfunded)	(15,636)	(16,100)
Net assets (liabilities) in the consolidated statements of financial position	(8,123)	(6,020)
Amount in the consolidated statements of financial position		
Liabilities	(17,748)	(17,622)
Assets (other non-current assets)	9,625	11,602

The components of actuarial gain or loss are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Arising from changes in financial assumptions	(480)	2,192
Arising from changes in demographic assumptions	(719)	829
Other	(665)	96

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

(Percentage)

	As of March 31, 2021	As of March 31, 2022
Discount rate	1.5	1.6

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Increase by 0.5%	(7,017)	(6,359)
Decrease by 0.5%	7,349	6,597

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

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

(Years)

	As of March 31, 2021	As of March 31, 2022
Duration	15.9	15.9

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

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

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

The fair values of plan assets invested are as follows:

(Millions of yen)

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

(Millions of yen)

	As of March 31, 2022		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	–	–	–
Government bonds	1,083	1,040	2,123
Hedge funds	–	6,795	6,795
Securitization products	–	420	420
Cash and cash equivalents	2,267	–	2,267
Life insurance general accounts	–	2,315	2,315
Commingled funds	–	65,936	65,936
Other	366	771	1,137
Total	3,716	77,277	80,993

Commingled funds represent pooled institutional investments. As of March 31, 2021, commingled funds were approximately allocated to 26% in listed stocks, 30% in government bonds, 15% in corporate bonds and other debt securities and 29% in other assets. As of March 31, 2022, they were approximately allocated to 27% in listed stocks, 30% in government bonds, 18% in corporate bonds and other debt securities, and 25% in other assets.

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

For the purpose of maintaining balanced finance into the future, in accordance with the provisions of the Defined-Benefit Corporate Pension Act, the bylaws of the Pension Fund of Hitachi Construction Machinery require recalculation of the contribution amounts at the end of the fiscal year every five years.
Basic assumptions (expected interest rates, mortality rates, withdrawal rate, etc.) are reviewed to recalculate the appropriate level of contribution.

The amount of contributions expected to be paid by the Company and certain consolidated subsidiaries to the plan assets for the following fiscal year is ¥3,977 million.

Contributions made to defined contribution plans and expensed in profit or loss of the Company and certain consolidated subsidiaries in the previous fiscal year and the fiscal year under review were ¥1,826 million and ¥2,335 million, respectively.

(b) Other employee benefit expenses

The aggregated amounts of employee benefit expenses including salary other than retirement and severance benefits recognized in the consolidated statements of income for the previous fiscal year and the fiscal year under review were ¥145,161 million and ¥152,578 million, respectively.

(14) Equity

(a) Common stock

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

(Number of shares)

	As of March 31, 2021	As of March 31, 2022
Total number of authorized shares	700,000,000	700,000,000

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

(Number of shares)

	Issued shares outstanding
April 1, 2020	215,115,038
Change during the fiscal year	–
As of March 31, 2021	215,115,038
Change during the fiscal year	–
March 31, 2022	215,115,038

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

(Number of shares)

	Treasury stock
April 1, 2020	2,461,867
Acquisition of treasury stock	1,210
Sales of treasury stock	(30)
March 31, 2021	2,463,047
Acquisition of treasury stock	1,298
Sales of treasury stock	(30)
March 31, 2022	2,464,315

(b) Surplus

(i) Capital surplus

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

(ii) Retained earnings

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

(iii) Written put options over non-controlling interests

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

Notes to Consolidated Financial Statements

(15) Other comprehensive income (OCI)

Components of OCI are as follows:

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Foreign currency translation adjustments		
OCI arising during the fiscal year	38,992	39,149
Reclassification adjustment	–	2,091
OCI before tax effect	38,992	41,240
Tax effect	(381)	(1,516)
OCI, net of tax effect	38,611	39,724
Remeasurements of defined benefit obligations		
OCI arising during the fiscal year	4,761	2,217
Reclassification adjustment	–	–
OCI before tax effect	4,761	2,217
Tax effect	(1,185)	(601)
OCI, net of tax effect	3,576	1,616
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the fiscal year	2,814	(320)
Reclassification adjustment	–	–
OCI before tax effect	2,814	(320)
Tax effect	(862)	178
OCI, net of tax effect	1,952	(142)
Cash flow hedges		
OCI arising during the fiscal year	(961)	978
Reclassification adjustment	157	(966)
OCI before tax effect	(804)	12
Tax effect	221	(5)
OCI, net of tax effect	(583)	7
Other comprehensive income of equity-method affiliates		
OCI arising during the fiscal year	(719)	1,170
Reclassification adjustment	–	–
OCI before tax effect	(719)	1,170
Tax effect	(4)	(66)
OCI, net of tax effect	(723)	1,104
Total OCI		
OCI arising during the fiscal year	44,887	43,194
Reclassification adjustment	157	1,125
OCI before tax effect	45,044	44,319
Tax effect	(2,211)	(2,010)
OCI, net of tax effect	42,833	42,309

Notes to Consolidated Financial Statements

(16) Dividends

Dividends paid on common stock are as follows:

Decision	Stock class	Total amount of dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
June 18, 2020 The Board of Directors meeting held on	Common stock	5,104	24	March 31, 2020	June 19, 2020
October 27, 2020 The Board of Directors meeting held on	Common stock	2,127	10	September 30, 2020	November 30, 2020
May 24, 2021 The Board of Directors meeting held on	Common stock	2,127	10	March 31, 2021	May 31, 2021
October 26, 2021 The Board of Directors meeting held on	Common stock	9,569	45	September 30, 2021	November 30, 2021

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

Decision	Stock class	Total amount of dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
May 23, 2022 The Board of Directors meeting held on	Common stock	13,822	65	March 31, 2022	May 31, 2022

(17) Revenue recognition

(a) Disaggregation of revenue

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

For the fiscal year ended March 31, 2021

(Millions of yen)

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

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2022

(Millions of yen)

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

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

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

(b) Information about satisfaction of performance obligations

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

(Construction Machinery Business)

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

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

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

(Solution Business)

The Solution Business provides customers with parts services, etc. that are not included in the Construction Machinery Business Segment. Since performance obligations are principally satisfied at a point in time upon completion of the sale and customers’ acceptance and inspection of the goods, revenue is recognized when control over the goods is transferred to customers. For certain transactions whereby goods are supplied to customers over a long period of time, progress toward satisfaction of the performance obligation is measured and revenue is recognized over the duration of the contract in light of the nature of the goods provided to customers. With regard to services, etc. offered, uniform services are mainly provided according to the duration of the contract, and revenue is recognized over time based on the passage of time. Because the period between when performance obligations are satisfied and when consideration is received is usually within one year, a practical expedient is adopted and these receivables are not adjusted for significant financing components. Although there are some transactions for which consideration is collected over a period longer than one year, they are immaterial.

(c) Information about contract balances

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

For the fiscal year ended March 31, 2021

(Millions of yen)

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

For the fiscal year ended March 31, 2022

(Millions of yen)

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

Of the revenue recognized during the previous fiscal year, the amount included in contract liabilities at the beginning of the fiscal year was ¥6,692 million. There is no revenue related to performance obligations that were satisfied in prior periods and no cumulative catch-up adjustment for revenue. Impairment losses on trade receivables and contract assets recognized during the previous fiscal year were ¥98 million.

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

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

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

Notes to Consolidated Financial Statements

(d) Transaction price allocated to remaining performance obligations

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

For the fiscal year ended March 31, 2021

(Millions of yen)

	April 1, 2020	March 31, 2021
Products and services	2,282	2,050

For the fiscal year ended March 31, 2022

(Millions of yen)

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

During the fiscal year under review, pursuant to a licensing agreement executed following the dissolution of the joint venture with Deere & Company, the Group received a lump-sum payment of royalties pertaining to the use of a technology license required for assembly of components for existing machinery to be supplied to hydraulic excavator manufacturing and sales locations in the United States and Brazil. The payment was accounted for as a contract liabilities. The Group expects to perform roughly 70% of the balance of performance obligations to be performed as of March 31, 2022 within three years, and roughly 30% after three years and within five years.

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

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

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

(18) Assets held for sale

In the consolidated statement of financial position for the previous consolidated fiscal year, investments in the affiliated companies, Deere-Hitachi Construction Machinery Corp., and Deere-Hitachi Maquinas de Construcao do Brasil S.A., had been classified as investments accounted for using the equity method; however, the Group decided on a policy to transfer all shares held by the Company and concluded a joint venture cancellation agreement and a stock transfer agreement on August 19, 2021, and therefore accounting treatment using the equity method was discontinued at that time, and the investments were reclassified as assets held for sale, etc.

In addition, the sale of these shares was completed on February 28, 2022, and gains on business restructuring of ¥8,755 million were recorded. In addition, the transfer of shares classified as assets held for sale at the end of the previous fiscal year was also completed in the fiscal year under review.

(19) Other income and expenses

The main components of other income are as follows

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Gain on sales of property, plant and equipment (*1)	187	4,691
Subsidy income	321	232
Gain on business restructuring (*2)	39	8,755
Other	4,520	3,534
Total	5,067	17,212

(*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 attributable to the sale of land adjacent to the Hitachinaka Works of the Company.

(*2) Gain on business restructuring

Gain on business restructuring for the fiscal year under review was attributable to the sale of shares held by the Company in Deere-Hitachi Construction Machinery Corp. and Deere-Hitachi Maquinas de Construcao do Brasil S.A., which had been equity-method affiliates of the Company. For the details, please refer to (18) Assets held for sale.

The main components of other expenses are as follows

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Loss on sales of property, plant, and equipment	230	94
Loss on disposal of property, plant and equipment	750	1,413
Impairment loss	1,391	196
Business structure reform expenses (*1)	3,539	595
Other	3,632	1,842
Total	9,542	4,140

(*1) Business structure reform expenses

Business structure reform expenses recognized for the fiscal year ended March 31, 2021 and for the fiscal year ended March 31, 2022 include a special severance payment and so forth.

(20) Financial income and financial expenses

Main components of financial income are as follows:

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Interest income		
Financial assets measured at amortized cost	2,063	1,792
Dividend income		
FVTOCI financial assets	230	636
Other	1,365	2,031
Total	3,658	4,459

Main components of financial expenses are as follows:

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Interest expenses		
Financial liabilities measured at amortized cost	5,232	4,914
Foreign exchange losses	1,146	1,382
Other	1,365	108
Total	7,743	6,404

Notes to Consolidated Financial Statements

(21) Earnings per share (EPS) information

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

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
		(Millions of yen)
Net income attributable to owners of the parent	10,340	75,826
Adjustments for dilutive effect	–	–
Net income attributable to owners of the parent (diluted)	10,340	75,826
		(Number of shares)
Weighted average number of common shares outstanding	212,652,631	212,651,357
Dilutive effect of stock options	–	–
Weighted average number of common shares outstanding – diluted	212,652,631	212,651,357
		(Yen)
Net income attributable to owners of the parent per share (basic)	48.62	356.57
Net income attributable to owners of the parent per share (diluted)	48.62	356.57
Summary of potential shares not included in the calculation of diluted earnings per share (attributable to owners of the parent) due to no dilutive effect	–	–

Notes to Consolidated Financial Statements

(22) Cash and cash equivalents

The balance of cash and cash equivalents reported in the consolidated statements of financial position as of March 31, 2021 and 2022 is consistent with that reported in the consolidated statements of cash flows.

Changes in liabilities arising from financing activities are as follows:

For the fiscal year ended March 31, 2021

(Millions of yen)

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

For the fiscal year ended March 31, 2022

(Millions of yen)

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

(23) Financial instruments and related disclosures

(a) Financial risks

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

(i) Market risk

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

a Interest rate risk

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

Interest rate sensitivity analysis

The sensitivity analysis for interest rates as of March 31, 2021 and 2022 shown below indicates the impact on income before income taxes reported in the Company's consolidated statements of income, if interest rates increased by 1% on the financial instruments (floating-interest financial assets and liabilities measured at amortized cost, financial assets and liabilities measured at FVTPL and derivatives) held by the Company as of March 31, 2021 and 2022, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Impact on income before income taxes	(594)	(594)

b Currency exchange risk

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

Currency exchange rate sensitivity analysis

The sensitivity analysis for major currency exchange rates as of March 31, 2021 and 2022 shown below indicates the impact on income before income taxes reported in the Group's consolidated statements of income, if the Japanese yen depreciated by 1% on the foreign-currency denominated financial instruments held by the Company and its consolidated subsidiaries as of March 31, 2021 and 2022, while all other variables are held constant.

(Millions of yen)

	Currency	As of March 31, 2021	As of March 31, 2022
Impact on income before income taxes	US Dollar	71	67
	Euro	1	(1)

c Equity instruments price volatility risk

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

Equity instruments sensitivity analysis

The sensitivity analysis for price volatility risk of equity instruments of the Group shown below indicates the impact on OCI, net of taxes reported in the consolidated statements of comprehensive income, if the market price of listed stock held by the Group as of March 31, 2021 and 2022 fell by 10%, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Impact on OCI, net of taxes	(524)	(458)

(ii) Credit risk

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

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

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

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

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

The changes in the balance of allowance for doubtful receivables and the changes in the gross carrying amounts corresponding to the allowance for doubtful receivables for the fiscal year ended March 31, 2021 and the fiscal year ended March 31, 2022 were as follows. Other financial assets mainly consist of financial assets measured at amortized cost such as short-term loans receivable, accounts receivable – other and long-term loans receivable.

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2021

(Millions of yen)

Accounts and notes receivable and electronically recorded monetary claims – operating and Contract assets	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2020	5,625	1,089	6,714	195,282	3,391	198,673
Net change during the fiscal year	(665)	56	(609)	(6,813)	1,088	(5,725)
Credit-impairment (a)	–	–	–	(15)	15	–
Write-off (b)	(34)	(64)	(98)	(749)	(64)	(813)
Other (c)	192	(145)	47	4,656	(474)	4,182
March 31, 2021	5,118	936	6,054	192,361	3,956	196,317

For the fiscal year ended March 31, 2022

(Millions of yen)

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

For the fiscal year ended March 31, 2021

(Millions of yen)

Finance lease receivables	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2020	24	1,298	1,322	55,363	6,116	61,479
Net change during the fiscal year	(2)	612	610	(284)	153	(131)
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	(1)	(1)	–	(2)	(2)
Other (c)	–	187	187	2,543	618	3,161
March 31, 2021	22	2,096	2,118	57,622	6,885	64,507

For the fiscal year ended March 31, 2022

(Millions of yen)

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

Notes to Consolidated Financial Statements

For the fiscal year ended March 31, 2021

(Millions of yen)

Other financial assets	Allowance for doubtful receivables			Gross carrying amount		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
March 31, 2020	31	98	129	18,860	98	18,958
Net change during the fiscal year	–	(89)	(89)	(2,993)	(89)	(3,082)
Credit-impairment (a)	–	–	–	–	–	–
Write-off (b)	–	–	–	(741)	–	(741)
Other (c)	3	5	8	(783)	5	(778)
March 31, 2021	34	14	48	14,343	14	14,357

For the fiscal year ended March 31, 2022

(Millions of yen)

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

(a) The Group measures the allowance for doubtful receivables relating to credit-impaired financial assets based on individual assessment and, therefore, transfers them from collective assessment.

(b) The Group generally writes off and derecognizes the corresponding carrying amount when it has no reasonable expectations of recovering the financial asset in its entirety or a portion.

(c) Other mainly includes the effects of acquisitions and divestitures and exchange rate fluctuations.

(iii) Liquidity risk

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

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

(Millions of yen)

	As of March 31, 2021				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	188,370	188,370	180,673	7,697	–
Lease liabilities	59,431	70,216	13,488	27,775	28,953
Short-term borrowings	75,710	76,199	76,119	–	–
Bonds	59,812	60,997	10,157	10,484	40,356
Long-term borrowings	193,966	196,712	65,640	110,702	20,370
Derivative liabilities					
Forward exchange contracts	3,846	3,846	3,846	–	–
Interest rate swaps	–	–	–	–	–
Currency swaps	101	101	–	101	–

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

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

(Millions of yen)

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

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

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

The details on each bond issued are provided below.

Issuer	Name of bond	Issued	Millions of yen		Security	Interest rates (%)	Maturity date
			March 31, 2021	March 31, 2022			
The Company	Unsecured debenture #16 Ordinary bonds	2014	9,999	–	Unsecured	0.487	June 16, 2021
The Company	Unsecured debenture #17 Ordinary bonds	2017	9,983	9,993	Unsecured	0.16	December 13, 2022
The Company	Unsecured debenture #18 Ordinary bonds	2020	19,926	19,938	Unsecured	0.25	March 12, 2027
The Company	Unsecured debenture #19 Ordinary bonds	2020	9,955	9,960	Unsecured	0.29	March 12, 2030

(iv) Capital management

In pursuing sustainable growth, the Group has made upfront investments, including investments in technology development and facilities, based on medium- and long-term business strategies. With the principal capital

management policy to maintain and strengthen its sound financial structure, the Group closely monitors the balance (excluding lease liabilities) of interest-bearing liabilities, net of cash and cash equivalents.
Net interest-bearing liabilities as of March 31, 2021 and 2022 amounted to ¥249,158 million and ¥258,850 million, respectively.
The Group is not subject to any capital requirements except for the general rules such as the Japanese Companies Act.

(b) Fair value of financial instruments

(i) Fair value measurements

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

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

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

Other financial assets and other financial liabilities

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

Bonds and borrowings

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

(ii) Financial instruments measured at amortized cost

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

(Millions of yen)

Category	As of March 31, 2021		As of March 31, 2022	
	Carrying amount	Estimated fair values	Carrying amounts	Estimated fair values
Assets				
Trade receivables(*1)	247,807	249,900	304,195	306,090
Liabilities				
Liabilities Trade and other payables(2*)	(188,370)	(188,080)	(231,336)	(231,602)
Bonds and borrowings (*3)	(329,488)	(328,904)	(353,107)	(352,460)

(*1) Trade receivables
Classified as level 2 as fair value is measured based on observable market data.
(*2) Liabilities Trade and other payables
Classified as level 2 as fair value is measured based on observable market data.
(*3) Bonds and borrowings

Classified as level 2 as fair value is measured based on observable market data.

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

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

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

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

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

The following tables present the financial assets and financial liabilities that are measured at fair value on a recurring basis.

(Millions of yen)

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

Notes to Consolidated Financial Statements

(Millions of yen)

Fiscal Year ended March 31, 2022	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	6,606	–	9,609	16,215
FVTPL financial assets:				
Other financial assets				
Derivative assets	–	2,012	–	2,012
Other financial assets	–	–	497	497
Total financial assets	6,606	2,012	10,106	18,724
FVTPL financial liabilities				
Other financial liabilities				
Derivative liabilities	–	(8,256)	–	(8,256)
Other				
Other financial liabilities				
Liabilities for written put options over non-controlling interests	–	–	(3,877)	(3,877)
Total liabilities	–	(8,256)	(3,877)	(12,133)

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

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Balance at beginning of the fiscal year	8,804	9,566
Total gain/(loss)	767	185
Other comprehensive income	767	185
Purchased	309	455
Sold	(294)	(44)
Other	(20)	(56)
Balance at end of the fiscal year	9,566	10,106

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

The remaining balance of liabilities for written put options over non-controlling interests classified as Level 3 at the beginning and end of the fiscal year ended March 31, 2022 was ¥1,413 million and ¥3,877 million, respectively. Changes in the fiscal year ended March 31, 2022 were principally changes in fair value and exchange rates, and others.

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

(Millions of yen)

Principal FVTOCI financial assets	As of March 31, 2021	As of March 31, 2022
KYB Corporation	2,694	2,654
ELLE Construction Machinery (China) Co., LTD.	2,506	1,747
Wakita & Co., LTD.	1,199	1,200
IJT Technology Holdings Co., Ltd.	798	699
Kanamoto Co., Ltd.	993	690

See (20) Financial income and financial expenses for dividends received from securities classified as FVTOCI financial assets.

Accumulated gains and losses on valuation of securities classified as FVTOCI financial assets are reclassified into retained earnings when derecognized during the fiscal year. The net gain (loss) reclassified, net of taxes, for the previous fiscal year and the fiscal year under review was ¥141 million and ¥182 million, respectively.
The main reason for the above was the derecognition of securities classified as FVTOCI financial assets due to the disposal of shares after reviewing particular business relations.

Information on securities classified as FVTOCI financial assets that were derecognized includes the following:

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Fair value at the time of derecognition	224	398
Accumulated gains at the time of derecognition	202	262

(c) Derivatives and hedging activities

(i) Fair value hedge

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

(ii) Cash flow hedge

Foreign currency risk

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

Interest rate volatility risk

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

When applying hedge accounting, the Group assesses hedge effectiveness through a qualitative assessment of whether the critical terms of the hedged item and the hedging instrument match or are closely aligned and whether changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item in order to confirm that an economic relationship exists between the hedged item and the hedging instrument. The Group also sets appropriate hedge ratios based on the economic relationship between the hedging instrument and the hedged item and the Group's risk management policies. For the fiscal year ended March 31, 2022, hedge ineffectiveness recognized in profit or loss was not material.

As of March 31, 2022, the period in which the cash flows from the hedged items were expected to occur and in which they were expected to affect profit or loss was from April 2022 to September 2024.

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

For the fiscal year ended March 31, 2021

(Millions of yen)

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

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

For the fiscal year ended March 31, 2022

(Millions of yen)

	Notional amount		Carrying amount	
		More than 1 year	Assets	Liabilities
Fair value hedge				
Currency exchange risk	87,674	–	50	(7,588)
Cash flow hedge				
Currency exchange risk	5,894	–	210	(668)
Interest rate risk	–	–	–	–

The fair value of derivative assets for which hedge accounting was not applied was ¥1,752 million.

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

For the fiscal year ended March 31, 2021

(Millions of yen)

Hedged items related to fair value hedges	Consolidated statements of financial position Account	Carrying amount	
		Assets	Liabilities
Currency exchange risk	Trade receivables and other financial assets Liabilities Trade and other payables	67,168	(24,749)

For the fiscal year ended March 31, 2022

(Millions of yen)

Hedged items related to fair value hedges	Consolidated statements of financial position Account	Carrying amount	
		Assets	Liabilities
Currency exchange risk	Trade receivables and other financial assets Liabilities Trade and other payables	114,603	(26,929)

For the fiscal year ended March 31, 2022, changes in the fair value of hedging instruments and hedged items for which fair value hedges are applied and the accumulated amount of fair value hedge adjustments on hedged items included in the carrying amount of the hedged items were not material.

Changes in the fair value of hedging instruments recorded in AOCI for which cash flow hedges are applied are as follows:
For the fiscal year ended March 31, 2021

(Millions of yen)

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

For the fiscal year ended March 31, 2022

(Millions of yen)

	April 1, 2021	Changes in fair value of hedging instruments recognized in OCI	Amount reclassified to profit or loss	March 31, 2022
Currency exchange risk	(476)	978	(966)	(464)
Interest rate risk	(4)	–	–	(4)

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

(24) Pledged assets

The Company and certain consolidated subsidiaries pledged a part of their assets as collateral primarily to banks and finance companies. The components of pledged assets are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Accounts and notes receivable	4,499	6,796
Inventories	9,103	12,529
Other property, plant and equipment	59,272	62,717
Total	72,874	82,042

Notes to Consolidated Financial Statements

(25) Principal consolidated subsidiaries

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

Name of subsidiary	Address	Principal business activities (*1)	Ownership percentage (%)	
			As of March 31, 2021	As of March 31, 2022
			%	%
Hitachi Construction Machinery Tierra Co., Ltd.	Koka-city, Shiga	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Japan Co., Ltd.	Soka-city, Saitama	Construction Machinery Business	100.0	100.0
LLC Hitachi Construction Machinery Eurasia	Tver, Russia	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Europe) N.V.	Oosterhout, the Netherlands	Construction Machinery Business	98.9	98.9
Hitachi Construction Machinery (China) Co., Ltd.	Hefei, Anhui, China	Construction Machinery Business	81.3	81.3
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	Pioneer Walk, Singapore	Construction Machinery Business	100.0	100.0
P.T. Hitachi Construction Machinery Indonesia	Bekasi, Indonesia	Construction Machinery Business	82.0	82.0
Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	Construction Machinery Business	54.4	54.4
Hitachi Construction Machinery Financial Leasing (China) Co., Ltd.	Shanghai, China	Construction Machinery Business	85.3	85.3
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Bangalore, Karnataka, India	Construction Machinery Business	60.0	60.0
Hitachi Construction Machinery Holding U.S.A. Corp.	Kernersville, North Carolina, U.S.A.	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Oceania Holdings Pty., Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Australia) Pty. Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	80.0	80.0
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	Solution Business	100.0	100.0

Notes to Consolidated Financial Statements

Name of subsidiary	Address	Principal business activities (*1)	Ownership percentage (%)	
			As of March 31, 2021	As of March 31, 2022
Bradken Pty Limited	Newcastle, New South Wales, Australia	Solution Business	100.0	100.0

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

Notes to Consolidated Financial Statements

(26) Related party transactions

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

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Monthly salary, fiscal year-end allowance and performance-linked compensation	715	947

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

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

For the fiscal year ended March 31, 2021

(Millions of yen)

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

For the fiscal year ended March 31, 2022

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayment of funds	2	–
		Interest on borrowings	36	–

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

For the fiscal year ended March 31, 2021

(Millions of yen)

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

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

For the fiscal year ended March 31, 2022

There were no significant transactions with related parties in the fiscal year under review.

Notes to Consolidated Financial Statements

(27) Commitments and contingencies

Guarantee obligations

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Guarantee obligations	58,179	64,003
Guarantee commitment	95	49
Total	58,274	64,052

(28) Subsequent events

Not applicable

(29) Approval of consolidated financial statements

The consolidated financial statements were approved on June 28, 2022 by Kotaro Hirano, President and Executive Officer of the Company.

(2) Others

Quarterly information for the fiscal year under review

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2021	Six months ended September 30, 2021	Nine months ended December 31, 2021	Fiscal Year ended March 31, 2022
Revenue	228,136	473,692	720,366	1,024,961
Income before income taxes	12,005	42,555	66,260	110,869
Net income attributable to owners of the parent	7,127	31,889	46,462	75,826
Net income attributable to owners of the parent per share (basic) (Yen)	33.51	149.96	218.49	356.57

	First quarter (April 1 to June 30, 2021	Second quarter (July 1 to September 30, 2021	Third quarter (October 1 to December 31, 2021	Fourth quarter (January 1 to March 31, 2022)
Net income attributable to owners of the parent per share (basic) (Yen)	33.51	116.44	68.53	138.09

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	17,785	18,365
Electronically recorded monetary claims – operating	213	203
Accounts receivable – trade(*1)	132,180	189,408
Merchandise and finished goods	52,318	65,011
Work in process	18,176	17,921
Raw materials and supplies	1,397	1,352
Prepaid expenses	1,360	1,356
Short-term loans receivable (*1)	52,538	80,293
Accounts receivable – other (*1)	28,714	34,747
Other	555	196
Allowance for doubtful accounts	(1,033)	(306)
Total current assets	304,202	408,545
Non-current assets		
Property, plant and equipment		
Buildings	29,722	30,863
Structures	3,495	4,222
Machinery and equipment	23,110	22,191
Vehicles	78	105
Tools, furniture and fixtures	3,611	3,582
Land	39,603	36,386
Construction in progress	6,121	6,854
Total property, plant and equipment	105,740	104,204
Intangible assets		
Software	11,384	11,522
Others	299	214
Total intangible assets	11,683	11,735
Investments and other assets		
Investment securities	7,870	6,930
Shares of subsidiaries and affiliates	146,808	141,780
Investments in capital of subsidiaries and affiliates	18,942	18,942
Long-term prepaid expenses	779	561
Prepaid pension costs	8,841	9,003
Deferred tax assets	3,762	5,440
Others	1,397	8,463
Allowance for doubtful accounts	(106)	(166)
Total investments and other assets	188,293	190,953
Total non-current assets	305,717	306,892
Total financial assets	609,918	715,436

See accompanying notes to financial statements.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Electronically recorded obligations – operating	18,248	26,705
Accounts payable – trade (*1)	50,339	70,614
Short-term borrowings	1,141	24,860
Short-term borrowings from subsidiaries and affiliates	18,526	10,208
Current portion of long-term borrowings	15,000	2,448
Current portion of bonds	10,000	10,000
Lease obligations	112	113
Accounts payable – other (*1)	10,549	14,469
Accrued expenses	9,995	10,620
Income taxes payable	621	9,124
Deposits received (*1)	18,521	20,483
Contract liabilities	1,280	2,836
Other	3,720	7,655
Total current liabilities	158,053	210,136
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term borrowings	78,607	90,150
Lease obligations	2,614	2,501
Provision for retirement benefits	8,203	8,338
Contract liabilities	1,316	7,688
Other	10,134	200
Total non-current liabilities	150,874	148,877
Total liabilities	308,927	359,013
Net assets		
Shareholders' equity		
Common stock	81,577	81,577
Capital surplus		
Legal capital surplus	81,084	81,084
Other capital surplus	3,875	3,876
Total capital surplus	84,959	84,959
Retained earnings		
Legal retained earnings	2,169	2,169
Other retained earnings		
Reserve for reduction entry	985	861
General reserve	12,952	12,952
Retained earnings brought forward	118,820	174,836
Total retained earnings	134,926	190,818
Treasury stock, at cost	(3,086)	(3,090)
Total shareholders' equity	298,376	354,264
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,937	2,503
Deferred gains or losses on hedges	(322)	(344)
Total valuation and translation adjustments	2,615	2,159
Total net assets	300,991	356,424
Total liabilities and net assets	609,918	715,436

See accompanying notes to financial statements.

2) Non-consolidated statements of income

(Millions of yen)

	2021	2022
Net sales (*1)	392,842	551,859
Cost of sales (*1)	355,788	464,865
Gross profit	37,054	86,994
Selling, general and administrative expenses (*2)	60,603	69,250
Operating income (loss)	(23,550)	17,744
Non-operating income		
Interest income	501	358
Dividend income (*1)	32,627	35,237
Foreign exchange gains	1,239	–
Miscellaneous income (*1)	2,514	3,726
Total non-operating income	36,882	39,321
Non-operating expenses		
Interest expenses (*1)	808	744
Foreign exchange losses	–	2,101
Miscellaneous loss (*1)	3,592	1,487
Total non-operating expenses	4,399	4,332
Ordinary income	8,933	52,733
Extraordinary income		
Gain on sales of shares of subsidiaries and affiliates	–	15,888
Gain on sales of investment securities	196	236
Gain on sales of property, plant and equipment	18	4,340
Total extraordinary income	214	20,464
Extraordinary losses		
Loss on valuation of investment securities	4	–
Impairment losses on fixed assets	–	47
Total extraordinary losses	4	47
Income before income taxes	9,143	73,150
Income taxes – current	(1,954)	6,924
Income taxes – deferred	(1,046)	(1,362)
Net income	12,142	67,589

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

Fiscal Year ended March 31, 2021

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreciation	Reserve for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	81,577	81,084	3,875	84,959	2,169	3	1,108	12,952	113,781	130,014
Changes of items during period										
Dividends of surplus				–					(7,230)	(7,230)
Net income				–					12,142	12,142
Acquisition of treasury stock				–						–
Reversal of reserve for special depreciation				–		(3)			3	–
Reversal of reserve for reduction entry				–			(124)		124	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	–	–	–	(3)	(124)	–	5,039	4,912
Balance at beginning of period	81,577	81,084	3,875	84,959	2,169	–	985	12,952	118,820	134,926

(Millions of yen)

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

Fiscal Year ended March 31, 2022

(Millions of yen)

	Shareholders' equity									
	Common stock	Capital surplus			Retained earnings					
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
						Reserve for special depreciation	Reserve for reduction entry	General reserve	Retained earnings brought forward	
Balance at beginning of period	81,577	81,084	3,875	84,959	2,169	–	985	12,952	118,820	134,926
Changes of items during period										
Dividends of surplus				–					(11,696)	(11,696)
Net income				–					67,589	67,589
Acquisition of treasury stock				–						–
Disposal of treasury shares			0	0						–
Reversal of reserve for special depreciation				–						–
Reversal of reserve for reduction entry				–			(124)		124	–
Net changes of items other than shareholders' equity				–						–
Total changes of items during period	–	–	0	0	–	–	(124)	–	56,017	55,893
Balance at beginning of period	81,577	81,084	3,876	84,959	2,169	–	861	12,952	174,836	190,818

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets
Balance at beginning of period	(3,086)	298,376	2,937	(322)	2,615	300,991
Changes of items during period						
Dividends of surplus		(11,696)			–	(11,696)
Net income		67,589			–	67,589
Acquisition of treasury stock	(4)	(4)			–	(4)
Disposal of treasury shares	0	0			–	0
Reversal of reserve for special depreciation		–			–	–
Reversal of reserve for reduction entry		–			–	–
Net changes of items other than shareholders' equity		–	(435)	(21)	(456)	(456)
Total changes of items during period	(4)	55,889	(435)	(21)	(456)	55,433
Balance at beginning of period	(3,090)	354,264	2,503	(344)	2,159	356,424

Notes to Non-Consolidated Financial Statements

Significant accounting policies

1. Valuation standards and valuation methods for securities
   (1) Investments in subsidiaries and affiliates
   Stated at cost based on the moving-average method.
   (2) Available-for-sale securities
      1) Other than stocks without market price
      Stated at fair value as of the end of the fiscal year. (Any changes in unrealized holding gain or loss, net of the applicable income taxes, are directly included in net assets, and the cost of securities sold is calculated by the moving-average method.)
      2) Other than stocks without market price
      Stated at cost based on the moving-average method.
2. Valuation standards and valuation methods for inventories
   (1) Merchandise and finished goods, raw materials and supplies
   Stated at cost based on the moving-average method.
   (2) Work in process
   Stated at cost based on the specific identification method.
   (In any case, the cost of inventories is written-down when their carrying amounts become unrecoverable.)
3. Depreciation and amortization method for non-current assets
   (1) Property, plant and equipment (excluding leased assets)
   Amortized using the straight-line method.
   (2) Intangible assets (excluding leased assets)
   Amortized using the straight-line method.
   Software for internal use is amortized using the straight-line method over the usable period (5 years).
   (3) Leased assets
   Leased assets under finance lease transactions where the ownership of the assets is not considered to be transferred
   Depreciated using the straight-line method by using their useful lives as the lease period and assuming zero residual value.
4. Allowances and provisions
   (1) Allowance for doubtful receivables
   To prepare for bad debt losses from uncollectible receivables, a general provision for doubtful accounts is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. A specific provision is provided based on the assessment of the collectability of individual receivables.
   (2) Provision for retirement benefits
   To prepare for the payment of retirement benefits to employees, the amount based on the estimated retirement benefit obligations and fair value of plan assets as of the end of the current fiscal year is recognized as provision for retirement benefits.
   Accounting for provision for retirement benefits and retirement benefit expenses is as follows:
      1) The method to attribute expected benefits to periods of service
      In calculating retirement benefits obligations, an expected benefit is attributed to periods of service up to the current fiscal year based on the benefit formula basis.
      2) The method of recognizing actuarial gains and losses and prior service costs as expenses
      Actuarial gains and losses are recognized as expenses from the year after the year of occurrence on a straight-line method over the average remaining service periods of employees expected in the year of occurrence.
      Prior service costs are recognized as expenses on a straight-line method over the expected average remaining service periods of employees from the year of occurrence.

Notes to Non-Consolidated Financial Statements

5. Revenue and expenses

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

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

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

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

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

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

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

6. Accounting for deferred assets

   (1) Share issuance cost

   Share issuance costs are fully recognized as expenses when paid.

   (2) Bond issuance cost

   Bond issuance costs are fully recognized as expenses when paid.

7. Method of hedge accounting

   (1) Method of hedge accounting

   Deferral hedge accounting is applied.

   (2) Hedging instruments and hedged items

   The Company uses forward exchange contracts to mitigate foreign currency exchange risks associated with import and export transactions. It also engages in interest rate swap agreements according to respective financing periods, to fix the risk of fluctuations in cash flows in long-term borrowings.

   (3) Hedging policy

   As currency related derivative transactions are mainly used to hedge the foreign exchange risk associated with sales contracts denominated in U.S. dollars, the use of derivatives is limited to the amount of accounts receivable – trade and sales contracts denominated in foreign currencies.

   Through interest-related derivative transactions, the Company aims to fix the interest rate for each long- term borrowing at the prevailing market rate as of each fund procurement since the Company emphasizes obtaining long-term borrowings at stable interest rates.

   (4) Method of assessing hedge effectiveness

   Effectiveness of hedging activities is assessed by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges up to the time of assessment.

Notes to Non-Consolidated Financial Statements

8. Valuation standard and valuation method for derivative financial instruments
   Derivative financial instruments are measured at fair value.
9. Translation of foreign currency-denominated assets and liabilities into yen
   Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rates as of the fiscal year-end. Foreign exchange gains and losses are recognized in profit or loss.
10. Consolidated tax return
    The Company adopted consolidated income tax return filing.

11. Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
    The Company will transition from the consolidated taxation system to the group tax sharing system in the next fiscal year. However, as for items regarding the transition to the group tax sharing system introduced in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and items regarding the non-consolidated taxation system that were revised in connection with the transition to the group tax sharing system, the Company has not applied the provisions of paragraph (44) of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph (3) of the "Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.
    The Company also plans to apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021), which stipulates procedures for the accounting and disclosure of national corporate tax, local corporate tax, and tax effect accounting when applying the group tax sharing system, from the beginning of the next fiscal year.

Changes in accounting policies

(1) Application of Accounting Standard for Fair Value Measurement, etc.
The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the fiscal year under review, and in accordance with the transitional treatment prescribed in paragraph (19) of the Accounting Standard for Fair Value Measurement and paragraph (44)-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), 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.

(2) Application of Accounting Standard for Revenue Recognition, etc.
The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has recognized revenue at the amount expected to be received in exchange for the promised goods or services at the time the control of said goods or services is transferred. Furthermore, with the application of the standard from the fiscal year under review, the "unearned revenue" has been changed to "contract liabilities" and "net sales" has been changed to "revenue."
This change in accounting policies has no impact.

Significant accounting estimates

(1) Valuation of shares of subsidiaries and affiliates with no market price
   1) Amounts recorded in the financial statements as of March 31, 2022
      Valuation of shares of subsidiaries and affiliates with no market price ¥141,156 million
      Of the above amount, carrying amounts of major shares of subsidiaries and affiliates acquired through M&A, etc.
      - Bradken Pty Limited ¥58,766 million
      - H-E Parts International LLC ¥20,713 million
   2) Information contributing to understanding of accounting estimates
      As for shares of subsidiaries and affiliates, if the actual value of a share has decreased significantly after comparison between the actual value and the purchase price of the share, the recoverability is assessed in light of business performance based on the company's business plan. For the business plan, actual results in and after the next fiscal

year often differ from the plan due to risks related to changes in business environment and other factors. If actual results are different, this may affect operating results, etc.

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

(2) Recoverability of deferred tax assets

1) Amounts recorded in the financial statements as of March 31, 2022

Deferred tax assets: ¥5,440 million

2) Information contributing to understanding of accounting estimates

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

Changes in presentation

Non-consolidated balance sheets

"Asset retirement obligations," which had been stated separately under "non-current liabilities" in the previous fiscal year, is included in "others," from the fiscal year under review due to its decreased materiality.

"Contract liabilities," which had been included in "others" under "non-current liabilities" in the previous fiscal year, is stated separately from the fiscal year under review due to its increased materiality.

The amount of "contract liabilities" for the previous fiscal year was ¥1,316 million.

Non-consolidated statements of income

"Gain on sales of property, plant and equipment," which had been included in "miscellaneous income" under "non-operating income" in the previous fiscal year, is stated separately under "extraordinary income" from the fiscal year under review due to its increased materiality.

Additional information

Viewpoint for the impact of the novel coronavirus disease in making accounting estimates

Significant accounting estimates based on future earnings forecasts in the fiscal year ended March 31, 2022 are based on the assumption that the impact of COVID-19 on the Company's business results will be limited, although the Company conducts its business activities globally and circumstances are different depending on regions. Therefore, COVID-19 posed no significant impact on the Company's accounting estimates or judgment involving estimates in the fiscal year under review.

This assumption has been judged to be based on the Management's best estimates as of March 31, 2022. However, if the actual progress of economic activities differs from the assumption, judgment of significant accounting estimates in and after the next fiscal year may be affected.

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated balance sheet

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Short-term monetary claims	177,963	255,782
Short-term monetary debts	39,570	49,589

*2. Guarantee obligations

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

(1) Guarantees

(Millions of yen)

As of March 31, 2021		As of March 31, 2022	
ACME Business Hold co, LLC	41,704	ACME Business Hold co, LLC	46,961
Marubeni Equipment Finance (Oceania) Pty. Ltd	5,610	Marubeni Equipment Finance (Oceania) Pty. Ltd	6,166
Eurasian Machinery LLP	4,043	Eurasian Machinery LLP	4,635
SCAI S.p.A.	2,596	SCAI S.p.A.	1,367
Other	326	Other	287
Total	54,279	Total	59,416

(2) Guarantee commitment

(Millions of yen)

As of March 31, 2021		As of March 31, 2022	
OKUBO GEAR Co., LTD	95	OKUBO GEAR Co., LTD	49
Total	95	Total	49

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and affiliates

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Operating transaction		
Sales	302,230	438,679
Purchase	127,981	176,899
Non-operating transaction	38,557	41,473

Notes to Non-Consolidated Financial Statements

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

(Millions of yen)

	Fiscal Year ended March 31, 2021	Fiscal Year ended March 31, 2022
Packing and shipping expenses	10,555	16,182
Employees' salaries and allowances	10,617	11,240
Retirement benefit expenses	714	746
Subcontract expenses	5,507	6,355
Depreciation	2,098	2,164
R&D expenses	17,958	17,912
Approximate ratio (%)		
Selling expenses	31	35
General and administrative expenses	69	65

Notes on securities

Investments in subsidiaries and affiliates

As of March 31, 2021

(Millions of yen)

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

As of March 31, 2022

(Millions of yen)

Category	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Shares of subsidiaries	624	21,589	20,965
Total	624	21,589	20,965

(Note) Carrying amount of shares of subsidiaries and affiliates without market prices

(Millions of yen)

Category	As of March 31, 2021	As of March 31, 2022
Shares of subsidiaries	136,849	138,249
Shares of affiliates	9,335	2,907

Notes to Non-Consolidated Financial Statements

Notes on tax effect accounting

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

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Net operating loss carryforwards	2,758	1,882
Accrued business tax	182	470
Provision for bonuses	1,695	1,973
Accrued expenses	5,135	2,339
Allowance for doubtful accounts	316	94
Write down of inventories	1,724	1,571
Loss on valuation of shares of subsidiaries and affiliates	14,708	12,825
Loss on valuation of investment securities	202	122
Provision for retirement benefits	2,512	2,553
Impairment loss	12	12
Excess over depreciation limit	1,860	1,790
Foreign tax credit carryforwards	671	232
Other	892	913
Subtotal of deferred tax assets	32,668	26,775
Valuation allowance on tax loss carryforwards	(2,636)	(1,738)
Valuation allowance on total deductible temporary differences	(21,090)	(14,787)
Subtotal of valuation allowance	(23,726)	(16,525)
Total	8,942	10,250
Deferred tax liabilities		
Prepaid pension costs	2,707	2,757
Reserve for reduction entry	435	380
Valuation difference on available-for-sale securities	1,296	989
Valuation difference on fair value of land	652	652
Others	89	32
Total	5,179	4,810
Net deferred tax assets	3,762	5,440

Notes to Non-Consolidated Financial Statements

2. Reconciliation between the effective statutory tax rate and the effective tax rate as a percentage of incomes after the application of tax effect accounting by major cause

	As of March 31, 2021	As of March 31, 2022
Effective statutory tax rates (%)	26.8	30.6
(Adjustments)		
Aggregate income of specified foreign subsidiaries	6.3	0.1
Non-deductible amount for tax expense of donations	2.5	0.4
Income not taxable for tax purpose, such as dividend income	(92.9)	(14.0)
Withholding tax on dividends received by foreign subsidiaries	1.8	0.5
Change in valuation allowance	19.3	(9.8)
Foreign tax credit	(0.5)	0.8
Other	3.9	(0.9)
Effective income tax rates after tax effect accounting	(32.8)	7.6

Business combinations, etc.

Not applicable

Subsequent events

Not applicable

Notes to Non-Consolidated Financial Statements

4) Non-consolidated supplementary schedules

[Supplementary schedule of property, plant and equipment, etc.]

(Millions of yen)

Asset type	Balance as of April 1, 2021	Increase during reporting period	Decrease during reporting period	Depreciation and amortization during reporting period	Balance as of March 31, 2022	Accumulated depreciation and amortization
Property, plant and equipment						
Buildings	29,722	3,790	306 (23)	2,342	30,863	43,108
Structures	3,495	1,286	46 (1)	513	4,222	11,859
Machinery and equipment	23,110	3,313	159	4,074	22,191	89,582
Vehicles	78	55	0	29	105	1,620
Tools, furniture and fixtures	3,611	1,918	92	1,855	3,582	31,516
Land	39,603	9	3,226 (23)	–	36,386	–
Construction in progress	6,121	10,770	10,037	–	6,854	–
Total property, plant and equipment	105,740	21,141	13,865 (47)	8,813	104,204	177,684
Intangible assets						
Software	11,384	6,375	2,917	3,320	11,522	17,346
Others	299	3	28	61	214	2,932
Total intangible assets	11,683	6,378	2,945	3,381	11,735	20,278

(Notes) 1. The amount in parentheses under “Decrease during reporting period” is a figure representing the amount of impairment loss recorded.

2. Among decreases for the fiscal year under review other than 1. above, the major decrease was as follows.
Sale of land adjacent to Hitachinaka Works of ¥3,203 million

[Supplementary schedule of provisions]

(Millions of yen)

Account	Balance as of April 1, 2021	Increase during reporting period	Decrease during reporting period	Balance as of March 31, 2022
Allowance for doubtful receivables	1,139	472	1,139	472

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

(2) Major assets and liabilities

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

(3) Others

There were no specific items to be disclosed.

VI. Overview of Operational Procedures for Shares of the Company

Fiscal year	From April 1 to March 31
Annual Shareholder's Meeting	Within three months after the day following each fiscal year-end date
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Additional purchase and sales of shares less than one unit	
Office for handling business	(Special account) Head Office, Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Shareholder register administrator	(Special account) Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Forwarding office	—
Additional purchase and sales fee	No fee
Additional share sales request handling stoppage period	The period starting 10 business days before the respective ends of March, June, September and December, up to each of those dates, and the period stipulated by the Company
Method of public notice	Electronic public notice will be made by the Company. However, if it is impossible to publish public notices electronically because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nihon Keizai Shimbun. Electronic public notices will be posted on the Company's website at the following URL: https://www.hitachicm.com/global/jp/
Special benefits for shareholders	Not applicable.

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

1. Right set forth in each item of Article 189, paragraph (2) of the Companies Act
2. Right to receive an allotment of shares for subscription or an allotment of share options for subscription in accordance with the number of shares held by the shareholder
3. Right to request that the Company sell to the shareholder such number of shares that, together with the number of shares less than one unit held by the shareholder, will constitute one share unit

VII. Reference Information of the Company

1. Information about Parent Company, etc. of the Company

   The Company does not have a parent company, etc. as prescribed in Article 24-7, paragraph (1) of the Financial Instruments and Exchange Act.

2. Other Reference Information

   From the beginning of the fiscal year under review until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

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

Filed with Director-General of Kanto Local Finance Bureau on June 29, 2021

(2) Internal Control Report and Appendices

Filed with Director-General of Kanto Local Finance Bureau on June 29, 2021

(3) Quarterly Securities Reports and Written Confirmations

First quarter of the 58th term (from April 1, 2021 to June 30, 2021)

Filed with Director-General of Kanto Local Finance Bureau on August 5, 2021

Second quarter of the 58th term (from July 1, 2021 to September 30, 2021)

Filed with Director-General of Kanto Local Finance Bureau on November 12, 2021

Third quarter of the 58th term (from October 1, 2021 to December 31, 2021)

Filed with Director-General of Kanto Local Finance Bureau on February 14, 2022

(4) Extraordinary Securities Report

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

Filed with Director-General of Kanto Local Finance Bureau on June 29, 2021

Extraordinary Securities Report based on Article 19, paragraph (2), items 3 and 4 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed with Director-General of Kanto Local Finance Bureau on January 14, 2022

(5) Amended Extraordinary Securities Report

Amendment Registration Statement of the Extraordinary Securities Report that was filed on January 14, 2022, as stated in (4) above.

Filed with Director-General of Kanto Local Finance Bureau on June 24, 2022

(6) Shelf Registration Statement (Bonds) and Appendices

Filed with Director-General of Kanto Local Finance Bureau on March 15, 2022.

(7) Amended Shelf Registration Statement

Filed with Director-General of Kanto Local Finance Bureau on June 29, 2021

Filed with Director-General of Kanto Local Finance Bureau on January 14, 2022

Filed with Director-General of Kanto Local Finance Bureau on June 24, 2022

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

Not applicable