Hitachi Capital Group
Financial Information Details 2020

Consolidated financial statements,
Notes to the consolidated financial statements and
Independent Auditor's Report

1. Consolidated financial statements

(1) Consolidated financial statements

(i) Consolidated statements of financial position

(Millions of yen)

	Notes	March 31, 2019	March 31, 2020
Assets			
Cash and cash equivalents	5,6,18,29	¥219,858	¥265,463
Trade and other receivables	6,17,18,21,29	1,517,882	1,279,496
Finance lease receivables	7, 17,18,29	1,206,090	1,256,013
Other financial assets	6,18	91,653	103,494
Operating leased assets	9,10,29	503,486	544,434
Investments accounted for using the equity method	8	36,746	37,623
Other property, plant and equipment	7,9,29	93,655	122,071
Other intangible assets	10	41,604	41,306
Deferred tax assets	11	15,167	14,292
Other assets	12	46,640	55,279
Total assets		3,772,784	3,719,474
Liabilities			
Trade and other payables	6,18	104,810	87,675
Borrowings and bonds	17,18,29	3,118,052	3,081,051
Other payables	6,18	11,510	12,638
Other financial liabilities	6,18	58,494	50,610
Income tax payable		3,867	3,435
Retirement and severance benefits	13	6,395	7,440
Deferred tax liabilities	11	4,865	5,915
Other liabilities	12,21	74,368	74,692
Total liabilities		3,382,365	3,323,460
Equity			
Equity attributable to owners of the parent			
Common stock	14	9,983	9,983
Capital surplus	14	45,313	45,029
Retained earnings	14	339,655	359,572
Accumulated other comprehensive income	15	(2,968)	(19,231)
Treasury stock	14	(14,425)	(14,626)
Total equity attributable to owners of the parent		377,557	380,728
Non-controlling interests		12,861	15,285
Total equity		390,418	396,013
Total liabilities and equity		3,772,784	3,719,474

See the accompanying notes to the consolidated financial statements.

(ii) Consolidated statements of profit or loss and comprehensive income

Consolidated statements of profit or loss

(Millions of yen, except per share amounts)

	Notes	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Revenues	4,21	¥404,124	¥453,253	¥464,020
Cost of sales	22	272,425	312,859	327,703
Gross profit		131,698	140,393	136,316
Selling, general and administrative expenses	23	86,274	110,997	96,442
Other income	24	723	1,023	2,078
Other expenses	24	2,987	714	856
Share of profits of investments accounted for using the equity method	8	1,135	3,001	1,430
Income before income taxes	4	44,295	32,706	42,526
Income taxes	11	11,070	14,544	10,541
Net income		33,224	18,161	31,985
Net income attributable to:				
Owners of the parent		32,057	19,363	30,693
Non-controlling interests		1,167	(1,201)	1,292
Earnings per share	25			
Earnings per share attributable to owners of the parent (basic and diluted)		¥274.26	¥165.69	¥262.67

See the accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(Millions of yen)

	Notes	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Net income		¥33,224	¥18,161	¥31,985
Other comprehensive income	15			
Items not to be reclassified to net income				
Financial assets measured at fair value through other comprehensive income		1,610	(1,198)	(605)
Remeasurements of defined benefit plans		2,447	(1,395)	170
Share of other comprehensive income of investments accounted for using the equity method	8	10	(157)	(35)
Total items not to be reclassified to net income		4,068	(2,752)	(470)
Items that can be reclassified to net income				
Foreign currency translation adjustments		2,033	(1,504)	(12,032)
Cash flow hedges		1,354	(1,583)	(3,284)
Share of other comprehensive income of investments accounted for using the equity method	8	36	(153)	(669)
Total items that can be reclassified to net income		3,424	(3,241)	(15,986)
Other comprehensive income		7,493	(5,993)	(16,456)
Comprehensive income		40,717	12,167	15,529
Comprehensive income attributable to:				
Owners of the parent		39,474	13,514	14,649
Non-controlling interests		1,242	(1,346)	880

See the accompanying notes to the consolidated financial statements.

(iii) Consolidated statements of changes in equity

Year ended March 31, 2018

(Millions of yen)

	Notes	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Non-controlling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock			
April 1, 2017		¥9,983	¥45,600	¥312,736	¥(4,139)	¥(14,335)	¥349,844	¥13,333	¥363,178
Changes in equity									
Net income				32,057			32,057	1,167	33,224
Other comprehensive income	15				7,417		7,417	75	7,493
Comprehensive income				32,057	7,417		39,474	1,242	40,717
Dividends	16			(10,052)			(10,052)		(10,052)
Dividends to non-controlling interests								(417)	(417)
Acquisition of treasury stock	14					(0)	(0)		(0)
Disposal of treasury stock	14					0	0		0
Transfer to retained earnings	18			344	(344)		—		—
Equity transaction with non-controlling interests			(385)		(25)		(410)	(179)	(589)
Acquisition of non-controlling interests								271	271
Total changes in equity		—	(385)	22,349	7,047	(0)	29,011	918	29,929
March 31, 2018		9,983	45,215	335,085	2,907	(14,336)	378,855	14,251	393,107

Year ended March 31, 2019

(Millions of yen)

	Notes	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Non-controlling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock			
April 1, 2018		¥9,983	¥45,215	¥335,085	¥2,907	¥(14,336)	¥378,855	¥14,251	¥393,107
Cumulative effect of changes in accounting policy	3			(4,419)			(4,419)	(110)	(4,530)
Restated balance at beginning of year		9,983	45,215	330,665	2,907	(14,336)	374,436	14,140	388,576
Changes in equity									
Net income				19,363			19,363	(1,201)	18,161
Other comprehensive income	15				(5,848)		(5,848)	(145)	(5,993)
Comprehensive income				19,363	(5,848)		13,514	(1,346)	12,167
Dividends	16			(10,401)			(10,401)		(10,401)
Dividends to non-controlling interests								(230)	(230)
Acquisition of treasury stock	14					(89)	(89)		(89)
Transfer to retained earnings	18			27	(27)		—		—
Equity transaction with non-controlling interests			97		0		98	32	131
Acquisition of non-controlling interests								264	264
Total changes in equity		—	97	8,989	(5,876)	(89)	3,121	(1,279)	1,842
March 31, 2019		9,983	45,313	339,655	(2,968)	(14,425)	377,557	12,861	390,418

Year ended March 31, 2020

(Millions of yen)

	Notes	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Non-controlling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock			
April 1, 2019		¥9,983	¥45,313	¥339,655	¥(2,968)	¥(14,425)	¥377,557	¥12,861	¥390,418
Cumulative effect of changes in accounting policy	3			(193)			(193)	(1)	(194)
Restated balance at beginning of year		9,983	45,313	339,462	(2,968)	(14,425)	377,364	12,859	390,224
Changes in equity									
Net income				30,693			30,693	1,292	31,985
Other comprehensive income	15				(16,044)		(16,044)	(411)	(16,456)
Comprehensive income				30,693	(16,044)		14,649	880	15,529
Dividends	16			(10,750)			(10,750)		(10,750)
Dividends to non-controlling interests								(242)	(242)
Acquisition of treasury stock	14					(200)	(200)		(200)
Transfer to retained earnings	18			168	(168)		—		—
Equity transaction with non-controlling interests			(291)		(50)		(341)	134	(207)
Acquisition of non-controlling interests								1,653	1,653
Share-based payment transactions			7				7		7
Total changes in equity		—	(283)	20,110	(16,262)	(200)	3,363	2,425	5,789
March 31, 2020		9,983	45,029	359,572	(19,231)	(14,626)	380,728	15,285	396,013

See the accompanying notes to the consolidated financial statements.

(iv) Consolidated statements of cash flows

(Millions of yen)

	Notes	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from operating activities	26			
Net income		¥33,224	¥18,161	¥31,985
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		119,229	131,608	146,384
Income taxes		11,070	14,544	10,541
Share of profits of investments accounted for using the equity method		(1,135)	(3,001)	(1,430)
(Increase) decrease in trade and other receivables		(86,345)	(127,396)	169,386
(Increase) decrease in finance lease receivables		(60,478)	(68,122)	(3,438)
Purchase of operating leased assets		(203,230)	(167,219)	(214,207)
Proceeds from sale of operating leased assets		31,918	46,616	43,759
Increase (decrease) in trade and other payables		(70,719)	348	(15,293)
Other		16,500	(11,170)	(28,386)
Subtotal		(209,966)	(165,629)	139,302
Income taxes paid		(9,656)	(10,877)	(9,281)
Net cash provided by (used in) operating activities		(219,623)	(176,507)	130,021
Cash flows from investing activities				
Purchase of other property, plant and equipment		(24,204)	(21,470)	(13,859)
Purchase of other intangible assets		(6,582)	(5,158)	(4,720)
Purchase of investments in securities and payments to time deposits		(5,188)	(21,500)	(4,459)
Proceeds from sale and redemption of investments in securities and withdrawal of time deposits		4,398	6,128	12,302
Proceeds from sales of a subsidiary resulting in loss of control		163	—	—
Payment for acquisition of a subsidiary, net of cash acquired		(4,663)	(4,922)	(294)
Purchase of investments accounted for using the equity method		(328)	(2,696)	(682)
Payments for acquisition of business, net of cash acquired		—	(2,207)	(2,802)
Net decrease (increase) in short-term loans receivable		—	(832)	(5)
Long-term loans provided		(356)	(3,691)	(1,762)
Collection of long-term loans receivable	3	13	25	495
Other	3	67	58	47
Net cash provided by (used in) investing activities		(36,681)	(56,268)	(15,741)
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	26	106,400	125,709	(151,080)
Proceeds from long-term borrowings and bonds	26	706,009	770,327	810,516
Repayments of long-term borrowings and bonds	26	(547,932)	(607,994)	(715,579)
Proceeds from non-controlling interests		—	38	1,713
Dividends paid		(9,916)	(10,415)	(10,750)
Dividends paid to non-controlling interests		(417)	(358)	(242)
Purchase of shares of consolidated subsidiaries from non-controlling interests		(565)	(84)	—
Other		—	(89)	(200)
Net cash provided by (used in) financing activities		253,577	277,131	(65,623)
Effect of exchange rate changes on cash and cash equivalents		(548)	697	(3,051)
Net increase (decrease) in cash and cash equivalents		(3,275)	45,053	45,604
Cash and cash equivalents at beginning of year	5	178,081	174,805	219,858
Cash and cash equivalents at end of year	5	174,805	219,858	265,463

See the accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Hitachi Capital Corporation (“the Company”) is a company domiciled in Japan, and its shares are listed on the Tokyo Stock Exchange. The Company’s registered address is 3-1, Nishi Shimbashi 1-chome, Minato-ku, Tokyo, Japan. The consolidated financial statements include the Company, its subsidiaries, and its interests in its associates and joint ventures. The Company and its subsidiaries (collectively “the Group”) provide financial services through a combination of finance, services and commercialization businesses, and collaboration with partners including the Hitachi Group. The Group has the following six reportable segments. The Japan Business consists of two reportable segments: Account Solution, which provides solutions that meet the diversified needs of customers, and Vendor Solution, which provides financial services that meet associated vendors’ needs for sales promotion. The Global Business consists of four reportable segments based on regional classification consisting of Europe, the Americas, China and ASEAN.

The consolidated financial statements were approved by Seiji Kawabe, Representative Executive Officer, President and CEO, and Satoshi Inoue, Executive Officer, Senior Vice President and CFO, on September 30, 2020.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board.

The consolidated financial statements of the Group have been prepared on an historical cost basis, except for derivative financial instruments measured at fair value, financial instruments measured at fair value through profit or loss (“FVTPL”), financial instruments measured at fair value through other comprehensive income (“FVTOCI”), and net defined benefit assets or liabilities. The consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency, and amounts are rounded down to the nearest ¥1 million. As a result, the total amounts presented in the accompanying tables may not equal the sum of the individual amounts shown.

In the preparation of the consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Any impact arising on the revision of accounting estimates is recognized in the period in which the estimate is revised and future periods.

Information about judgments made in applying accounting policies that have significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

・Scope of consolidated subsidiaries and companies accounted for using the equity method (Note 3 “Summary of significant accounting policies (1) Basis of consolidation”)

・Derecognition and transfer of financial assets (Note 3 “Summary of significant accounting policies (4) Financial instruments” and Note 20 “Transfer of financial assets”)

Information about uncertainties related to assumptions and estimates that could result in material adjustments in the year ending March 31, 2021 is included in the following notes:

・Impairment of financial assets (Note 3 “Summary of significant accounting policies (4) Financial instruments” and Note 17 “Financial instruments”)

・Impairment of non-financial assets (Note 3 “Summary of significant accounting policies (8) Impairment of non-financial assets” and Note 10 “Intangible assets”)

・Measurement of defined benefit obligations (Note 3 “Summary of significant accounting policies (9) Post-retirement benefits” and Note 13 “Employee benefits”)

・Recoverability of deferred tax assets (Note 3 “Summary of significant accounting policies (13) Income taxes” and Note 11 “Deferred taxes and income taxes”)

Outbreak of COVID-19

For the fiscal year ended March 31, 2020, the fourth quarter faced an outbreak of the novel coronavirus ("COVID-19") which was declared as a pandemic by the World Health Organization ("WHO"). Major countries have issued an emergency declaration and have taken actions such as travel restrictions, which has significantly limited economic activities and rapidly deteriorated business confidence.

This situation has also caused effects on the Group across countries and companies, such as receiving requests for extension on payments.

In preparing the consolidated financial statements, it is difficult to reasonably predict when COVID-19 pandemic will end for accounting treatment that requires estimates including the estimation of expected credit losses on finance lease receivables or trade and other receivables, an impairment test on non-financial assets such as goodwill, assessment and measurement of deferred tax assets. The Group makes such estimations based on a certain assumption that COVID-19 would have significant effects until June 2020 and subsequently the economy would recover moderately by March 2021. The Group believes these assumptions continue to be reasonable.

The Company considers that the estimates based on the assumption above is its best estimates as of March 31, 2020. However, depending on changes to situations, for example, if the effects of COVID-19 further increase or COVID-19 lasts longer than expected, significant accounting estimates and judgments may be affected.

3. Summary of significant accounting policies

(1) Basis of consolidation

(i) Subsidiaries including consolidated structured entities (e.g. trusts accounts)

Subsidiaries including consolidated structured entities are all companies and entities over which the Company exercises control.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins on the acquisition date when the Company obtains control over a subsidiary and ceases when the Company loses control over a subsidiary. When a subsidiary applies different accounting policies than those applied by the Company, necessary adjustments are made to the financial statements of the subsidiary to align with the Company's accounting policies.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. If a change in the ownership interest in a subsidiary results in a loss of control over the subsidiary, the Company derecognizes the subsidiary's assets, liabilities, non-controlling interests, and accumulated other comprehensive income.

(ii) Associates and joint ventures (companies accounted for using the equity method)

An associate is an entity in which the Group has significant influence, but not control or joint control, over the operating and financial policies through in principle ownership of 20% to 50% of the voting rights.

A joint venture is an entity that is jointly controlled by multiple parties including the Group based on contract agreements, which requires unanimous agreement of all parties for decisions related to relevant activities of the entity.

The Group accounts for investments in associates and joint ventures using the equity method ("Equity method associates and joint ventures").

The consolidated financial statements include the Group's share of profit or loss and changes in other comprehensive income of the equity method associates and joint ventures from the date when the Group obtains significant influence or joint control to the date when the Group loses such influence.

When the equity method associates and joint ventures apply different accounting policies than those applied by the Group, necessary adjustments are made to their financial statements to align with the Group's accounting policies.

(2) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less which are readily convertible to cash and subject to insignificant risk of changes in value.

(3) Foreign currency translation

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

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the entity's functional currency at the exchange rates at the dates of the transactions or similar rates. Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated into the entity's functional currency using the exchange rate of the end of reporting period, with gains or losses arising from translation and settlement recognized in profit or loss.

(ii) Translation of financial statements of overseas subsidiaries

Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the exchange rate at the end of reporting period, and revenue and expenses are translated into Japanese yen using the average exchange rate during the year.

Translation differences arising from translation of these overseas subsidiaries are recognized in other comprehensive income.

(4) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes trade and other receivables and non-derivative financial assets other than investments in securities included in other financial assets on the date they occur. Investments in securities are initially recognized on the date when the Group becomes a contracting party to such financial instruments.

The classification and measurement model of non-derivative financial assets is summarized as follows.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

・The asset is held within a business model of the Group whose objective is to collect contractual cash flows, and

・When the contractual terms of the financial asset give rise to 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 plus directly attributable transaction costs. After initial recognition, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, net of impairment loss, if necessary.

Impairment of financial assets measured at amortized cost

Accounting policies applied until March 31, 2018

The Group recognized impairment of a financial asset measured at amortized cost when there was objective evidence of impairment as a result of one or more events that had occurred since the initial recognition of the asset and the estimated future cash flows of the financial asset or the group of financial assets could be reliably estimated, and assessed whether impairment existed quarterly on an ongoing basis. Objective evidence included historical credit loss, delinquency in payment, extension of the collection period of receivables on the terms that the Group would not consider otherwise, negative evaluation by external credit agencies, insolvent, or evaluation of deteriorating financial position and performance of the debtor.

Impairment losses were recognized based on historical loss rates or the estimated recoverable amount calculated in consideration of past experience with evaluation of potential risks inherent in the business environment including commercial practices unique to the country or region where the debtor of the financial asset operated.

Impairment losses were recognized in profit or loss by directly reducing the carrying amount of the asset or through an allowance for doubtful accounts. Receivables were written off when all means of collection had been exhausted and there was no realistic prospect of future recovery. Generally, all means of collection were considered to be exhausted when a debtor initiated bankruptcy or liquidation procedures. If any event occurred that decreased the amount of impairment loss after the impairment had been recognized, the decrease in impairment loss or in the allowance for doubtful accounts was reversed through profit or loss to the extent that the revised carrying amount did not exceed the amortized cost that would have been determined at the time of reversal had no impairment loss been recognized.

Accounting policies applied from April 1, 2018

For the allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost, the Group assesses whether impairment exists on an ongoing basis each quarter, based on whether or not credit risk has increased significantly since initial recognition.

When credit risk has increased significantly since initial recognition, the allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses on the financial assets. When credit risk has not increased significantly since initial recognition, in general the allowance for doubtful accounts is measured at an amount equal to the expected credit losses to occur within 12 months from the year end. With respect to trade receivables and lease receivables, the allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses.

Whether credit risk has increased significantly is determined based on changes in risk of default. The Group defines the term of default as a condition in which a serious problem occurs in contractual cash flow payments by the debtor and no reasonable forecast can be made about the recovery of all or part of the financial assets. The Group considers mainly external credit ratings and past due information, etc. for judgement of whether or not there are changes in the risk default.

The expected credit losses are measured by weighted average through probability of occurrence of the discounted present value of the differences between all contractual cash flows regarding the financial assets and all expected future cash flows. If one or more than one event occurs, including past defaults, payment delinquency, extension of recoverable period of receivable that would not have been carried out except for in such circumstances, negative assessment by external ratings agency, excessive debt, or deterioration in financial condition or management results, the Group measures the expected credit losses based mainly on the past write-off rate or future recoverable amount, etc. after performing an individual assessment of the financial asset for which credit impairment has occurred. For financial assets for which credit impairment has not occurred, the Group measures the expected credit losses by collective assessment based on a provision rate adjusted for the present and future economic situation as needed multiplied by the past occurrence of doubtful accounts, after assessing of the unique nature of the credit risk of these financial assets.

Impairment losses are recognized in profit or loss by directly reducing the carrying amount of the asset or through an allowance for doubtful accounts, and included in “Selling, general and administrative expenses” on the consolidated statements of profit or loss. Receivables are written off when all means of collection have been exhausted and there is no realistic prospect of future recovery. Generally, all means of collection are considered to be exhausted when a debtor initiates bankruptcy or liquidation procedures. If any event occurs that decreases the amount of impairment loss after the impairment was recognized, the decrease in impairment loss or in the allowance for doubtful accounts is reversed through profit or loss to the extent that the revised carrying amount does not exceed the amortized cost that would have been determined at the time of reversal had no impairment loss been recognized.

Financial assets measured at FVTPL

Equity instruments that are not designated as financial assets measured at FVTOCI at initial recognition and debt instruments that are not classified as financial assets measured at amortized cost are classified as financial assets measured at FVTPL. Financial assets measured at FVTPL are measured at fair value at initial recognition with transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value with changes in fair value recognized in profit or loss.

Financial assets measured at FVTOCI

The Group irrevocably designates equity instruments that are held for the purpose of expanding its revenue base through the maintenance and enhancement of business relationships with its investees as financial assets measured at FVTOCI at initial recognition. The equity instruments designated as financial assets measured at FVTOCI are initially measured at fair value plus directly attributable transaction costs. Subsequent to initial recognition, the equity instruments designated as financial assets measured at FVTOCI are measured at fair value, with changes in fair value recognized in other comprehensive income and recorded in accumulated other comprehensive income. When a financial asset measured at FVTOCI is derecognized, the amount in accumulated other comprehensive income is directly transferred to retained earnings and not recognized in profit or loss. Dividends from equity instruments designated as financial assets measured at FVTOCI are recognized in profit or loss unless they clearly represent a return of the investment.

Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive cash flows from the asset have expired, or when the Group has transferred its contractual rights to receive cash flows from the financial assets in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset created or retained by the Group is recognized as a separate asset or liability.

When the Group has transferred financial assets but neither transferred nor retained substantially all of the risks and rewards of ownership of the asset, and retained control over the asset, the Group continues to recognize the transferred assets to the extent of the Group's continuing involvement. In that case, the Group also recognizes associated liabilities.

(ii) Non-derivative financial liabilities

The Group has trade and other payables, borrowings and bonds, and non-derivative financial liabilities included in other financial liabilities and initially recognizes them at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Debt securities issued by the Group are initially recognized on the issue date. All other financial liabilities are recognized on the transaction date when the Group becomes a contractual party to the financial instruments.

The Group derecognizes financial liabilities when they are extinguished, i.e., when its contractual obligation is performed or discharged, cancelled or expired.

(iii) Derivative financial instruments and hedge accounting

With regard to derivative transactions, the Group separates the execution and approval functions in different departments to meet internal control requirements, and manages and conducts derivative transactions in accordance with the Group risk management regulations.

The Group has documented the risk management policy including the objective and strategy for using derivative financial instruments as prescribed by the Group risk management regulations. In addition, an assessment is made at the inception of a hedge and periodically on an ongoing basis thereafter as to whether the derivative used is highly effective in offsetting changes in fair value or future cash flows of the hedged items.

Derivatives that meet the criteria for hedge accounting

The Group enters into derivative transactions to hedge exposures to fluctuations in fair value, interest rates and foreign exchange rates. The primary derivatives used by the Group are interest rate swaps, currency swaps and foreign exchange forward contracts. Derivatives used as hedging instruments are initially recognized at fair value, with related transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, with changes in fair value accounted for as follows:

・Fair value hedges

Gains or losses arising from remeasurements of derivatives used as hedging instruments at fair value are recognized in profit or loss. Changes in the fair value of hedged items attributable to the hedged risk are recognized in profit or loss and also recorded as part of the carrying amount of the hedged item.

・Cash flow hedges

When derivatives are designated as hedging instruments to hedge exposures to fluctuations in cash flows that are attributable to a particular risk associated with recognized assets or liabilities, or forecasted transactions, the effective portion of gains or losses on changes in the fair value of the derivatives is recognized in other comprehensive income. The gain or loss recognized in other comprehensive income is transferred to profit or loss in the same line item as the hedged item in the consolidated statements of comprehensive income in the period when cash flows from the hedged item affect profit or loss. Any ineffective portion of changes in fair value of derivatives is recognized immediately in profit or loss.

When hedge accounting is discontinued, the amount previously recognized in other comprehensive income remains until the hedged future cash flow affects profit or loss. When the hedged future cash flow is no longer expected to occur, the amount is recognized immediately in profit or loss.

When fair value and cash flow hedge transactions no longer meet the criteria for hedge accounting, when the hedging instrument expires or is sold, terminated or exercised, or when its designation as a hedge is revoked, application of hedge accounting is discontinued prospectively.

Derivatives that do not meet the criteria for hedge accounting

The Group has derivatives for hedging purposes that do not meet the criteria for hedge accounting. Any changes in fair value of these derivatives are recognized immediately in profit or loss.

(iv) Financial guarantee contracts

Financial guarantee contracts entered into by the Group are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of initial measurement net of accumulated amortization and the amount of expected credit losses.

(v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position, only if there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(5) Leases

The Group previously applied IAS 17 "Leases" but has applied IFRS 16 "Leases" from the beginning of the year ended March 31, 2020. However, IAS 17 is applied to comparative information as the Group elects not to restate comparative information in accordance with the transition method of IFRS 16.

The Group accounts for a lease based on a single lease accounting model for a lessee following the application of IFRS 16. Under this model, on the commencement date of the lease, the lessee recognizes right-of-use assets that represent the right to use underlying assets for the lease term and lease liabilities that represent the obligation to make lease payments to the lessor. After recognition of the right-of-use assets and lease liabilities, the depreciation expense of the right-of-use assets and the interest expense related to the lease liabilities are recorded. Lease payments for a lease that has the lease term of 12 months or less at the commencement date are recognized in profit or loss by using the straight-line method over the lease term. In addition, in the classification of sublease, the intermediate lessor classifies the sublease as a finance lease or an operating lease by reference to the right-of-use assets arising from the head lease, rather than by reference to the underlying assets.

(i) Lessee

Right-of-use assets

The Group adopts the cost model for the measurement of right-of-use assets, and presents them as "Other property, plant and equipment" and "Other intangible assets" at cost as of the commencement date of the lease less any accumulated depreciation or amortization and any accumulated impairment losses. Cost includes items such as the amount of the initial measurement of the lease liability and any initial direct costs incurred by the lessee. The right-of-use assets are depreciated from the commencement date to the earlier of the end of the estimated useful life of the right-of-use assets or the end of the lease term by using the straight-line method.

The estimated useful life and the method of depreciation are reviewed at the end of each year and any changes will be applied prospectively as changes in accounting estimates.

Lease liabilities

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. They are presented as "Borrowings and bonds". The interest expense related to the lease liabilities in each year during the lease term is recognized in profit or loss over the lease term at the amount calculated by applying a constant periodic rate to the balance of the lease liabilities.

(ii) Lessor

Finance leases

Finance lease receivables mainly comprise transactions involving various assets, including information-related equipment, office equipment, and industrial equipment.

Finance lease receivables are initially recognized at the inception date at the amount of the net investment in the finance lease calculated as the sum of the future minimum lease payments of the lessee and the unguaranteed residual value receivable discounted at an interest rate implicit in the lease. The unguaranteed residual value is estimated when the lease contract is entered into as the recoverable amount from disposal of the assets upon expiration of the lease term, based on market value of secondhand assets, an estimate for the timing and level of obsolescence, and the recovered amounts from similar assets in the past. An interest rate implicit in the lease is the rate that causes the net investment in the finance lease to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Operating leases

The Group has adopted the cost model for measurement of operating leases, under which operating leases are presented at cost less any accumulated depreciation or amortization and accumulated impairment losses. Operating leased assets mainly comprise transportation equipment, information-related equipment, and software, but do not include intangible assets with indefinite useful lives. The residual value of operating leased assets is determined based on market value of secondhand assets, an estimate for the timing and level of obsolescence, and the recovered amounts from similar assets in the past.

Operating leased assets are depreciated using the straight-line method over the lease term (mainly three to seven years). Depreciation expense on operating leased assets is included in cost of sales.

Revenue recognition

Revenue from finance lease transactions is recognized by allocating unearned finance income, which is the difference between the gross investment in the lease and net investment in the lease by a method which reflects a constant periodic rate over the lease term.

The increase in unguaranteed residual value due to the passage of time is recognized as revenue by the method of reflecting a constant periodic rate over the lease term.

Revenue from operating lease transactions is recognized by using the straight-line method over the lease term unless another systematic method is more representative of the pattern in which the benefit from use of the underlying asset is diminished.

(6) Other property, plant and equipment

The Group has adopted the cost model for measurement of other property, plant and equipment, under which other property, plant and equipment are presented at cost less any accumulated depreciation and accumulated impairment losses. Cost includes expenses directly related to purchase the assets, and an initial estimate of the cost to dismantle, dispose and restore to the original state.

Depreciation expense is calculated based on the depreciable amount. The depreciable amount is the cost of the asset less any residual value. Depreciation expense is recognized on the straight-line method in profit or loss over the estimated useful life of each component of other property, plant and equipment.

Other property, plant and equipment comprises own-use assets, right-of-use assets and construction in progress.

The Group’s primary own-use assets are machinery and equipment. The estimated useful life of this machinery and equipment is mainly 20 years.

The estimated useful life and the method of depreciation are reviewed at the end of each year and any changes will be applied prospectively as changes in accounting estimates.

(7) Other intangible assets

(i) Goodwill

Goodwill is presented at cost less any accumulated impairment losses.

(ii) Other intangible assets

The cost model has been adopted for measurement of intangible assets and assets with finite useful lives are presented at cost less any accumulated amortization and accumulated impairment losses.

Amortization expense is calculated based on the amount of cost less any residual value. Amortization expense on assets with finite useful lives is recognized in profit or loss on the straight-line method.

Other intangible assets mainly comprise software for internal use, whose estimated useful life is mainly five years.

The estimated useful life and the method of amortization are reviewed at the end of each year and any changes will be applied prospectively as changes in accounting estimates.

(8) Impairment of non-financial assets

The Group assesses whether there is an indication that an asset may be impaired, and if there is any indication that the carrying amount of such asset may not be recoverable, the Group performs an impairment test. For intangible assets with indefinite useful lives and goodwill, the Group also performs an impairment test annually, mainly in the fourth quarter, regardless of any indication of impairment, by estimating the recoverable amount for each cash-generating unit (CGU) to which the asset belongs. For impairment testing, assets are grouped together into the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows of other assets or CGUs.

The Group measures the recoverable amount of an asset or a CGU using the fair value less costs of disposal or value in use, whichever is higher. The value in use is calculated using the income approach (present value method) based on the current market price or the estimated future cash flows generated from use and sale of such asset. When the carrying amount of an asset allocated to a CGU exceeds its recoverable amount, an impairment loss is recognized on the asset belonging to such CGU.

For assets excluding goodwill, the recoverable amount of the asset or CGU is estimated if there is an indication that previously recognized impairment losses no longer exist or have decreased due to material changes in assumptions used to determine the recoverable amount. If the calculated recoverable amount exceeds the carrying amount of the asset or CGU, a previously recognized impairment loss is reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

(9) Post-retirement benefits

The present value of defined benefit obligations and retirement benefit expenses are determined using the projected unit credit method.

The present value of defined benefit obligations and fair value of plan assets are remeasured at the end of each year. Actuarial gains and losses and changes in fair value of plan assets, excluding interest income, are recognized in other comprehensive income and are not subsequently reclassified into retained earnings. Past service costs resulting from plan amendments are recognized in profit or loss as incurred.

The amount of the present value of defined benefit obligations, net of fair value of plan assets, is presented as net defined benefit liability or asset in the consolidated statements of financial position.

(10) Provisions

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

When the time to settle an obligation is expected to be long and the effect of the time value of money is considered material, a provision is measured based on the present value of the expected payment for settlement. The present value is calculated using a pre-tax discount rate that reflects the time value of money and the risks specific to the obligation.

(11) Contingencies

The Group discloses an outflow of resources embodying economic benefits that is not probable to occur at the end of the reporting period as contingent liabilities in Note 30 “Commitments and contingencies” (excluding contingencies recognized as provisions) when such outflow cannot be confirmed as the present obligation at the end of the reporting period or when it does not meet the recognition criteria for provisions, unless the possibility of any outflow of resources embodying economic benefits in settlement is remote.

(12) Revenue recognition

The Group recognizes revenue based on the following five-step approach, excluding revenue based on IFRS 16 “Leases”, interest income based on IFRS 9 “Financial Instruments”, and insurance income based on IFRS 4 “Insurance Contracts”.

Step 1: Identification of contract with customer.

Step 2: Identification of performance obligations in the contract.

Step 3: Determination of transaction price.

Step 4: Allocation of transaction price to each performance obligation in the contract.

Step 5: Recognition of revenue at the point in time when the performance obligations are satisfied (or as they are satisfied).

<u>Revenue from sales of lease property</u>

The Group recognizes revenue when significant risks and economic value of ownership of the property are transferred to the customer, the Group retains neither continuing involvement nor substantial control for the property, furthermore the amount of revenue and the costs concerning to respect of the transaction can be measured reliably, and it is probable that the economic benefits which is the consideration for the transaction will flow to the Group. Generally, the revenue from sales of the lease property is recognized when the delivery of the related asset to the customer is completed and the performance obligation is satisfied.

<u>Revenue from sales financing arrangements with deferred payment terms ("installment sales")</u>

The Group determines that a performance obligation is satisfied at the time the delivery of goods to the customer is completed. For contracts that contain significant financing components for a promised consideration, the amount equivalent to the interest income is recognized as revenue using the effective interest method based on IFRS 9 in each year. The effective interest rate is the rate that discounts the estimated future cash receipts over the expected remaining period of the contract to the net carrying amount of the receivable.

(13) Income taxes

Income tax expense comprises current and deferred taxes. These are recognized in profit or loss, except for those arising from business combinations or those recognized either directly in equity or in other comprehensive income.

Current tax is the amount expected to be paid to (recovered from) the taxation authorities in respect of the taxable profit or loss for the current period, calculated using the tax rates that are enacted or substantially enacted at the end of reporting period, adjusted for the amount of income tax payable (recoverable) in prior years.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and their tax bases. Deferred tax assets and liabilities are not recognized when the temporary differences arise from initial recognition of goodwill, when the temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit or loss nor taxable profit or loss, and, in respect of taxable temporary differences associated with investments in subsidiaries and equity method associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the taxable profit in the year when the asset is realized or the liability is settled. Any impact on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and other comprehensive income in the year in which the law regarding the tax rate change is enacted.

Deferred tax assets are recognized for any unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available against which unused tax losses, tax credits and deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow tax benefits to be realized.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

(14) Consumption taxes

Consumption taxes that are withheld from customers and paid to the tax authorities are excluded from revenues, cost of sales and expenses in the consolidated statements of profit or loss.

(15) Earnings per share (“EPS”)

Basic EPS amounts attributable to owners of the parent are calculated using the weighted average number of shares of common stock, and diluted EPS amounts attributable to owners of the parent are calculated using the sum of the average number of shares of common stock and the number of shares that would be issued on conversion of dilutive securities.

(16) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred measured at the acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group measures the non-controlling interests in the acquiree at the proportionate share of the non-controlling interests in the fair value of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred.

(17) Changes in accounting policies

The Group has applied the following standards from the year ended March 31, 2020.

(i) Application of IFRS 16 “Leases”

The Group adopted IFRS 16 retrospectively in accordance with the modified retrospective transition method and accordingly, recognized the cumulative effect of initial adoption of the standard as an adjustment to the balance of retained earnings as of April 1, 2019.

The impacts of adopting IFRS 16 on the balance of the Group’s consolidated financial statements as of April 1, 2019 were increases in other property, plant and equipment of ¥16,180 million, finance lease receivables of ¥67,254 million and borrowings and bonds of ¥83,627 million, and a decrease in retained earnings of ¥193 million.

When applying IFRS 16 to those leases that were previously classified as operating leases under IAS 17, the Group applies a practical expedient to leases for which the lease term ends within 12 months of the date of initial application and accounts for such leases in the same manner as short-term leases at the date of initial application.

The Group also applies the practical expedient of using hindsight in determining the lease term for contracts that contain options to extend or terminate a lease.

A weighted average of the lessee’s incremental borrowing rate applied to lease liabilities recognized at the beginning of the year of the Group’s consolidated statements of financial position is 1.36%.

The difference between the future minimum lease payments payable under non-cancellable operating leases as of March 31, 2019 previously calculated based on IAS 17 and the lease liabilities recognized at the beginning of the year ended March 31, 2020 is ¥68,889 million. The difference is primarily attributable to revisions to the period of an option to extend or terminate included in the lease term.

Standard	Name of standard	Effective date (First year of application)	Year to be applied by the Group	Summary of new standards/amendments
IFRS 16	Leases	January 1, 2019	FY2019	Amendments to lease accounting

(ii) Application of “Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)”

The Group has early adopted “Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)” (“the Amendments”) published in September 2019 from the year ended March 31, 2020 because there are hedge transactions that will be affected by interest rate benchmark reform. By applying the Amendments, the Group can consistently apply hedge accounting even during the period in which the uncertainty arises before existing interest rate benchmarks are replaced by alternative benchmark rates as a result of interest rate benchmark reform. Therefore, there is no effect on the Group’s consolidated financial statements.

Details of the Amendments are described in Note 19 “Derivatives and hedging activities”.

(18) Changes in presentation

Consolidated statements of cash flows

“Collection of long-term loans receivable” in “Cash flows from investing activities” was presented as “Other” for the years ended March 31, 2018 and 2019 but has been presented separately from the year ended March 31, 2020 because its materiality has increased. The consolidated statements of cash flows for the years ended March 31, 2018 and 2019 have been reclassified to reflect this change in presentation.

As a result, ¥81 million of “Other” presented in “Cash flows from investing activities” in the consolidated statements of cash flows for the year ended March 31, 2018 have been reclassified to ¥13 million of “Collection of long-term loans receivable” and ¥67 million of “Other”, and ¥83 million of “Other” presented in “Cash flows from investing activities” in the consolidated statements of cash flows for the year ended March 31, 2019 have been reclassified to ¥25 million of “Collection of long-term loans receivable” and ¥58 million of “Other”.

(19) New accounting standards issued but not yet applied

Major new standards or amendments to standards that have been issued up to the approval date of the consolidated financial statements but not applied by the Group at March 31, 2020 are as follows.

Effects of their application on the Group's consolidated financial statements are currently being measured.

Standard	Name of standard	Effective date (First year of application)	Year to be applied by the Group	Summary of new standards/amendments
IFRS 17	Insurance Contracts	January 1, 2023	Year ending March 31, 2024	Amendments to accounting treatment and disclosures of insurance contracts

4. Segment information

(1) Reportable segments

Operating segments of the Group are components of the Group for which separate financial information is available that are reviewed by the Board of Directors ("the chief operating decision maker") regularly to make decisions regarding the allocation of management resources and evaluation of operating performance.

The Group determines its reportable segments based on area into Japan and other four segments, Europe, the Americas, China, and ASEAN. The Group further divides Japan into two segments ("Account Solution" and "Vendor Solution") in view of its business model and customers to provide solutions, resulting in six reportable segments in total. The Group does not aggregate two or more operating segments into a single reportable segment.

The respective services and customers by reportable segment are described below:

(i) Account Solution (Japan)

The Group provides solutions to meet various needs of customers such as enterprises and government and municipal offices by combining diverse functions such as leasing, installment sales, insurance and trust account services, and through collaboration with partners including the Hitachi Group.

(ii) Vendor Solution (Japan)

The Group provides solutions to meet associated vendors' needs including sales promotion utilizing its financial services, mainly related to leasing and installment sales.

(iii) Europe, the Americas, China, and ASEAN

The Group provides solutions to customers and vendors in each area utilizing its wide range of financial services and in collaboration with partners including the Hitachi Group.

Segment information for the years ended March 31, 2018, 2019 and 2020 are as follows.

Year ended March 31, 2018

(Millions of yen)

	Reportable segments							Others	Total	Adjustments	Consolidated statement of profit or loss
	Japan		Europe	The Americas	China	ASEAN	Total				
	Account Solution	Vendor Solution									
Revenues											
External customers	¥208,583	¥25,597	¥104,841	¥21,505	¥16,945	¥15,979	¥393,451	¥13,890	¥407,342	¥(3,218)	¥404,124
Intersegment	791	201	—	—	—	—	992	1,108	2,101	(2,101)	—
Total	209,374	25,799	104,841	21,505	16,945	15,979	394,444	14,999	409,444	(5,320)	404,124
Income before income taxes	17,289	5,346	16,907	3,701	7,677	998	51,919	1,267	53,187	(8,891)	44,295
Interest expenses	5,629	1,981	7,735	5,149	6,699	4,082	31,277	1,103	32,380	(2,140)	30,240
Depreciation and amortization	79,400	2,604	28,443	1,994	1,161	3,213	116,817	1,337	118,155	1,074	119,229

(Notes)

1. "Others" includes operating segments not included in any other reportable segments and includes companies involved in business development and in transforming the Group's business for the future.
2. Adjustments of income before income taxes, interest expenses, and depreciation and amortization represent company-wide expenses that are not allocated to any reportable segments and the difference between the amount allocated to reportable segments and the actual amount incurred.
 The company-wide expenses are mainly comprised of general and administrative expenses that are not allocated to reportable segments.
3. The Group does not allocate assets and liabilities to the reportable segments used by the chief operating decision maker.
4. Intersegment transactions are executed on an arm's length basis.

Year ended March 31, 2019

(Millions of yen)

	Reportable segments							Others	Total	Adjustments	Consolidated statement of profit or loss
	Japan		Europe	The Americas	China	ASEAN	Total				
	Account Solution	Vendor Solution									
Revenues											
External customers	¥228,634	¥24,870	¥127,091	¥26,945	¥18,600	¥17,534	¥443,676	¥11,683	¥455,360	¥(2,107)	¥453,253
Intersegment	747	85	—	—	—	—	832	1,103	1,936	(1,936)	—
Total	229,381	24,956	127,091	26,945	18,600	17,534	444,509	12,787	457,297	(4,044)	453,253
Income (loss) before income taxes	22,718	6,245	18,251	5,100	(13,895)	1,493	39,914	1,302	41,216	(8,509)	32,706
Interest expenses	5,669	1,660	10,360	8,134	8,742	4,506	39,074	811	39,886	(1,570)	38,316
Depreciation and amortization	86,754	2,558	33,584	2,308	1,162	3,545	129,914	770	130,685	923	131,608

(Notes)

1. "Others" includes operating segments not included in any other reportable segments and includes companies involved in business development and in transforming the Group's business for the future.
2. Adjustments of income (loss) before income taxes, interest expenses, and depreciation and amortization represent company-wide expenses that are not allocated to any reportable segments and the difference between the amount allocated to reportable segments and the actual amount incurred.
   The company-wide expenses are mainly comprised of general and administrative expenses that are not allocated to reportable segments.
3. The Group does not allocate assets and liabilities to the reportable segments used by the chief operating decision maker.
4. Intersegment transactions are executed on an arm's length basis.

Year ended March 31, 2020

(Millions of yen)

	Reportable segments							Others	Total	Adjustments	Consolidated statement of profit or loss
	Japan		Europe	The Americas	China	ASEAN	Total				
	Account Solution	Vendor Solution									
Revenues											
External customers	¥238,010	¥25,139	¥132,590	¥29,447	¥12,189	¥17,601	¥454,979	¥10,887	¥465,866	¥(1,846)	¥464,020
Intersegment	730	34	—	—	—	—	764	1,088	1,852	(1,852)	—
Total	238,740	25,173	132,590	29,447	12,189	17,601	455,743	11,976	467,719	(3,699)	464,020
Income before income taxes	20,188	5,435	18,533	3,212	1,956	702	50,029	941	50,971	(8,444)	42,526
Interest expenses	6,351	1,419	11,295	9,102	7,020	4,925	40,114	669	40,784	(1,240)	39,543
Depreciation and amortization	94,098	2,505	39,017	2,502	1,273	3,423	142,818	785	143,604	2,779	146,384

(Notes)

1. "Others" includes operating segments not included in any other reportable segments and includes companies involved in business development and in transforming the Group's business for the future.
2. Adjustments of income (loss) before income taxes, interest expenses, and depreciation and amortization represent company-wide expenses that are not allocated to any reportable segments and the difference between the amount allocated to reportable segments and the actual amount incurred.
   The company-wide expenses are mainly comprised of general and administrative expenses that are not allocated to reportable segments.
3. The Group does not allocate assets and liabilities to the reportable segments used by the chief operating decision maker.
4. Intersegment transactions are executed on an arm's length basis.

(2) Geographic information

Revenues attributed to geographic areas based on the location of the customers for the years ended March 31, 2018, 2019 and 2020 are as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Japan	¥244,852	¥263,080	¥272,191
Europe and the Americas	126,347	154,037	162,037
Asia	32,924	36,134	29,791
Total	404,124	453,253	464,020

At March 31, 2019 and 2020, balances of property, plant and equipment and intangible assets for each geographic area are as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Japan	¥406,786	¥456,626
Europe and the Americas	212,781	236,013
Asia	19,178	15,171
Total	638,746	707,811

(3) Customer information

For each of the years ended March 31, 2018, 2019 and 2020, there is no concentration of revenue from a specific customer.

5. Cash and cash equivalents

Cash and cash equivalents do not include time deposits with maturities over three months.

6. Financial assets and liabilities by period up to collection or settlement

The components of financial assets and liabilities by period up to collection or settlement are as follows.

(Millions of yen)

	March 31, 2019			March 31, 2020		
	Period up to collection or settlement		Total	Period up to collection or settlement		Total
	Within 12 months	Over 12 months		Within 12 months	Over 12 months	
Financial assets						
Cash and cash equivalents	¥219,858	¥—	¥219,858	¥265,463	¥—	¥265,463
Trade and other receivables	732,289	785,592	1,517,882	533,624	745,871	1,279,496
Other financial assets	36,664	54,989	91,653	40,584	62,909	103,494
Total financial assets	988,811	840,582	1,829,394	839,672	808,781	1,648,453
Financial liabilities						
Trade and other payables	100,000	4,810	104,810	85,386	2,288	87,675
Other payables	11,502	7	11,510	12,614	24	12,638
Other financial liabilities	28,562	29,931	58,494	19,875	30,735	50,610
Total financial liabilities	140,065	34,750	174,815	117,876	33,048	150,925

See Note 7 “Leases” for components of “Finance lease receivables” by period up to collection.

See Note 17 “Financial instruments” for components of “Borrowings and bonds” by period up to settlement.

7. Leases

(1) Lessee

The Group enters into a lease contract as a lessee primarily for office buildings, land for lease of buildings and land for the power generation business.

The components of the right-of-use assets at March 31, 2020 are as follows.

(Millions of yen)

	March 31, 2020
Buildings	¥9,666
Land	10,840
Other (Note 1)	108
Total	20,615

(Note 1) “Other” includes vehicles and tools, furniture and fixtures.

Expenses relating to leases, income from the sublease of the right-of-use assets and total cash outflows for the year ended March 31, 2020 are as follows.

(Millions of yen)

	Year ended March 31, 2020
Depreciation expense of the right-of-use assets	
Buildings	¥2,775
Land	591
Other (Note 1)	59
Total depreciation expense of the right-of-use assets	3,426
Expense related to short-term leases	295
Interest expense related to the lease liabilities	1,257
Income from the sublease of the right-of-use assets	219
Total cash outflows for leases	12,316

(Note 1) “Other” includes vehicles and tools, furniture and fixtures.

(2) Lessor

Gross investment in leases and present value of minimum lease payments receivable under finance leases at March 31, 2019 are as follows.

(Millions of yen)

	Gross investment in leases	Present value of minimum lease payments receivable
	March 31, 2019	March 31, 2019
Within 1 year	¥389,272	¥372,123
After 1 year but not more than 5 years	805,640	704,704
More than 5 years	126,549	96,574
Total	1,321,461	1,173,402
Unearned finance income	(108,141)	
Net investment in finance leases	1,213,320	
Unguaranteed residual value	(39,918)	
Present value of minimum lease payments receivable	1,173,402	

Undiscounted lease payments receivable under finance leases and net investment in finance leases at March 31, 2020 are as follows.

(Millions of yen)

	Undiscounted lease payments receivable	Net investment in finance leases
	March 31, 2020	March 31, 2020
Within 1 year	¥391,161	¥361,432
After 1 year but not more than 2 years	312,356	295,815
After 2 years but not more than 3 years	229,930	222,766
After 3 years but not more than 4 years	151,382	150,191
After 4 years but not more than 5 years	74,590	78,313
More than 5 years	177,869	154,451
Total	1,337,290	1,262,971
Unearned finance income	(117,289)	
Unguaranteed residual value	42,970	
Net investment in finance leases	1,262,971	

Future minimum lease payments receivable under non-cancellable operating leases at March 31, 2019 are as follows.

(Millions of yen)

	March 31, 2019
Within 1 year	¥71,767
After 1 year but not more than 5 years	107,806
More than 5 years	5,613
Total	185,188

Undiscounted lease payments receivable under operating leases at March 31, 2020 are as follows.

(Millions of yen)

	March 31, 2020
Within 1 year	¥160,909
After 1 year but not more than 2 years	113,487
After 2 years but not more than 3 years	76,484
After 3 years but not more than 4 years	44,297
After 4 years but not more than 5 years	20,942
More than 5 years	16,644
Total	432,764

The Group is exposed to the risk that the actual disposal value of lease properties under finance leases and operating leases may fall below the initially-estimated residual value due to factors such as unexpected changes in the market environment and technological innovation.

In order to reduce the risk above, the Group strives to improve the capability to evaluate the residual value of lease properties and to resell properties for which a lease contract has terminated. With respect to the residual value, the Group has in place a process to obtain up-to-date information on relevant matters and estimate an appropriate residual value through periodic reviews by closely monitoring the market value of secondhand assets in each country.

See Note 21 “Revenues” for the revenue relating to leases as a lessor.

8. Investments accounted for using the equity method

For the years ended March 31, 2018, 2019 and 2020, the following investments in associates and joint ventures that are not individually significant and accounted for using the equity method are included in the consolidated financial statements.

(1) Associates

(Millions of yen)

	March 31, 2019	March 31, 2020
Carrying amount of investments	¥25,042	¥25,912

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Net income	¥1,392	¥2,707	¥1,363
Other comprehensive income	15	(231)	(132)
Total comprehensive income	1,407	2,476	1,231

(2) Joint ventures

(Millions of yen)

	March 31, 2019	March 31, 2020
Carrying amount of investments	¥11,704	¥11,710

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Net income	¥(257)	¥293	¥66
Other comprehensive income	31	(79)	(572)
Total comprehensive income	(226)	213	(505)

9. Property, plant and equipment

The changes in net carrying amount, gross carrying amount, accumulated depreciation and accumulated impairment losses of property, plant and equipment are as follows.

(Millions of yen)

	Operating leased assets	Other property, plant and equipment					Total
		Machinery and equipment	Other own-use assets	Right-of-use assets	Construction in progress	Subtotal	
Net carrying amount							
April 1, 2018	¥409,755	¥61,418	¥4,954	¥—	¥14,610	¥80,983	¥490,739
Additions	151,940	1,421	1,431	—	19,432	22,285	174,226
Sales or disposals	(36,252)	—	(460)	—	—	(460)	(36,712)
Depreciation	(101,994)	(3,875)	(949)	—	—	(4,824)	(106,819)
Impairment losses	(123)	(27)	(25)	—	—	(53)	(176)
Reversal of impairment losses	56	—	—	—	—	—	56
Acquisitions through business combinations	16,147	43	334	—	—	378	16,526
Exchange differences	(4,513)	—	(77)	—	—	(77)	(4,591)
Transfers	5,319	490	—	—	(5,809)	(5,319)	—
Other	5,597	—	69	—	673	742	6,339
March 31, 2019	445,933	59,471	5,276	—	28,907	93,655	539,588
Cumulative effect of changes in accounting policy	—	—	(81)	16,261	—	16,180	16,180
Restated balance at beginning of year (April 1, 2019)	445,933	59,471	5,194	16,261	28,907	109,835	555,768
Additions	173,548	6,722	918	9,357	17,311	34,310	207,858
Sales or disposals	(38,928)	—	(160)	(1,302)	—	(1,463)	(40,392)
Depreciation	(110,808)	(4,549)	(993)	(3,426)	—	(8,969)	(119,778)
Impairment losses	(46)	—	(11)	—	(476)	(488)	(535)
Reversal of impairment losses	3	—	—	—	—	—	3
Acquisitions through business combinations	4,796	—	—	—	—	—	4,796
Exchange differences	(15,006)	(3)	(225)	(239)	—	(468)	(15,474)
Transfers	7,956	24,690	559	—	(33,207)	(7,956)	—
Other	9,207	(249)	(549)	(35)	(1,892)	(2,727)	6,480
March 31, 2020	476,656	86,081	4,732	20,615	10,642	122,071	598,727

The amounts recognized as depreciation, impairment losses and reversal of impairment losses for the year ended March 31, 2019 were ¥106,938 million, with ¥105,933 million included in “Cost of sales”, ¥952 million in “Selling, general and administrative expenses” and ¥53 million in “Other expenses” in the consolidated statements of profit or loss. The amount recognized as impairment losses was mainly attributable to the Europe segment.

The amounts recognized as depreciation, impairment losses and reversal of impairment losses for the year ended March 31, 2020 were ¥120,310 million, with ¥116,017 million included in “Cost of sales”, ¥3,804 million in “Selling, general and administrative expenses” and ¥488 million in “Other expenses” in the consolidated statements of profit or loss. The amount recognized as impairment losses was mainly attributable to the Account Solution and the Americas segments.

At March 31, 2019 and 2020, the amounts of contractual commitments for the acquisition of operating leased assets were ¥53,726 million and ¥55,451 million, respectively.

(Millions of yen)

	Operating leased assets	Other property, plant and equipment					Total
		Machinery and equipment	Other own-use assets	Right-of-use assets	Construction in progress	Subtotal	
Gross carrying amount							
April 1, 2018	¥1,226,376	¥81,006	¥9,827	¥—	¥14,610	¥105,444	¥1,331,820
March 31, 2019	1,214,674	82,978	11,160	—	28,907	123,046	1,337,721
March 31, 2020	1,233,753	113,655	10,742	28,517	11,119	164,035	1,397,788
Accumulated depreciation and impairment losses							
April 1, 2018	816,620	19,587	4,873	—	—	24,460	841,081
March 31, 2019	768,741	23,507	5,883	—	—	29,391	798,132
March 31, 2020	757,097	27,574	6,010	7,902	476	41,963	799,061

The changes in net carrying amount, and gross carrying amount, accumulated depreciation and accumulated impairment losses of each underlying asset of operating leased assets are as follows.

(Millions of yen)

	Vehicles	Tools, furniture and fixtures	Other property, plant and equipment	Total
Net carrying amount				
April 1, 2019	¥243,753	¥119,803	¥82,376	¥445,933
Additions	104,698	52,538	16,311	173,548
Sales or disposals	(24,316)	(5,881)	(8,729)	(38,928)
Depreciation	(54,457)	(44,301)	(12,050)	(110,808)
Impairment losses	—	(1)	(45)	(46)
Reversal of impairment losses	—	—	3	3
Acquisitions through business combinations	4,796	—	—	4,796
Exchange differences	(14,469)	(107)	(429)	(15,006)
Transfers	—	—	7,956	7,956
Other	2,097	5,922	1,187	9,207
March 31, 2020	262,102	127,972	86,581	476,656

(Millions of yen)

	Vehicles	Tools, furniture and fixtures	Other property, plant and equipment	Total
Gross carrying amount				
April 1, 2019	¥404,720	¥408,538	¥401,416	¥1,214,674
March 31, 2020	435,243	402,144	396,365	1,233,753
Accumulated depreciation and impairment losses				
April 1, 2019	160,967	288,735	319,039	768,741
March 31, 2020	173,141	274,172	309,783	757,097

10. Intangible assets

(1) Net carrying amount, gross carrying amount, accumulated amortization and accumulated impairment losses of intangible assets

The changes in net carrying amount, gross carrying amount, accumulated amortization and accumulated impairment losses of intangible assets are as follows.

(Millions of yen)

	Operating leased assets (Note 1)	Other intangible assets				Total
		Software for internal use	Goodwill	Other	Subtotal	
Net carrying amount						
April 1, 2018	¥60,888	¥6,003	¥17,100	¥11,501	¥34,604	¥95,493
Additions	18,090	539	—	4,619	5,158	23,249
Amortization	(21,621)	(2,528)	—	(640)	(3,168)	(24,789)
Disposals	(519)	(167)	—	(65)	(232)	(752)
Acquisitions through business combinations	—	173	4,328	1,215	5,717	5,717
Exchange differences	—	(29)	44	(99)	(84)	(84)
Transfers	—	6,376	—	(6,376)	—	—
Other	714	8	(1)	(397)	(390)	323
March 31, 2019	57,552	10,376	21,472	9,756	41,604	99,157
Additions	32,970	621	—	4,099	4,720	37,691
Amortization	(22,592)	(3,207)	—	(805)	(4,013)	(26,605)
Reversal of impairment losses	—	—	—	1	1	1
Disposals	(680)	(37)	—	(3)	(41)	(722)
Acquisitions through business combinations	—	—	322	—	322	322
Exchange differences	—	(148)	(846)	(466)	(1,461)	(1,461)
Transfers	—	2,143	—	(2,143)	—	—
Other	526	4	(784)	952	172	699
March 31, 2020	67,777	9,750	20,163	11,392	41,306	109,084

(Note 1) “Operating leased assets” primarily include software.

The amount recognized as amortization of intangible assets for the year ended March 31, 2019 was ¥24,789 million, with ¥21,621 million included in “Cost of sales” and ¥3,168 million in “Selling, general, and administrative expenses” in the consolidated statements of profit or loss.

The amount recognized as amortization of intangible assets and reversal of impairment losses for the year ended March 31, 2020 was ¥26,603 million, with ¥22,592 million included in “Cost of sales”, ¥4,013 million in “Selling, general, and administrative expenses” and ¥1 million in “Other income” in the consolidated statements of profit or loss.

(Millions of yen)

	Operating leased assets	Other intangible assets				Total
		Software for internal use	Goodwill	Other	Subtotal	
Gross carrying amount						
April 1, 2018	¥146,164	¥41,873	¥19,887	¥12,832	¥74,594	¥220,759
March 31, 2019	144,681	35,397	24,212	11,749	71,359	216,041
March 31, 2020	157,754	37,298	22,587	14,165	74,051	231,806
Accumulated amortization and impairment losses						
April 1, 2018	85,275	35,870	2,787	1,331	39,989	125,265
March 31, 2019	87,128	25,021	2,740	1,993	29,755	116,883
March 31, 2020	89,977	27,548	2,423	2,773	32,744	122,722

(2) Impairment losses

(i) Impairment losses on other intangible assets

There were no material impairment losses on other intangible assets recognized during the years ended March 31, 2018, 2019 and 2020.

(ii) Impairment test on goodwill

Goodwill arising from a business combination is allocated on the acquisition date to the CGU that is expected to benefit from the business combination.

At March 31, 2020, significant goodwill was allocated to CGU of Creekridge Capital LLC with the carrying amount of ¥7,307 million (¥7,452 million at March 31, 2019). Other goodwill was allocated to CGU of CLE Capital Inc. with the carrying amount of ¥3,147 million (¥3,380 million at March 31, 2019), and Hitachi Capital Mobility Holding Netherlands B.V. with the carrying amount of ¥4,196 million (¥4,372 million at March 31, 2019), but the others, including goodwill allocated to CGU of CLE Capital Inc. and Hitachi Capital Mobility Holding Netherlands B.V., is not significant.

The recoverable amount of each CGU is calculated using value in use. The value in use of the CGU of Creekridge Capital LLC to which goodwill is allocated is calculated by discounting estimated future cash flows based on the three-year business plan approved by management at a pre-tax discount rate of 17.6%. The business plan is determined based on the number of existing contracts and new contracts that are expected to be acquired, under the assumption that the future revenue will grow to a certain degree taking into consideration the past financial results and the future uncertainties. Management's assessment of forecasts included in the business plan is based on external and internal information, and cash flows beyond the periods covered by the business plan are estimated mainly in consideration of past financial results and by applying an expected average growth rate of 2.5% in markets.

The recoverable amount of Creekridge Capital LLC to which goodwill is allocated, estimated based on the assumptions above in the year ended March 31, 2020 would become equal to the carrying amount if it were assumed that future cash inflows would decrease by 10% in each year. The Company believes that any reasonably possible changes in the key assumptions used in the calculation of the recoverable amount (e.g. the number of new contracts, discount rate and average growth rate) are unlikely to cause significant impairment losses.

While it is difficult to reasonably predict when COVID-19 will end, the Group has made an estimation based on a certain assumption that COVID-19 would have significant effects until June 2020 and subsequently the economy would recover moderately by March 2021. The Group believes these assumptions continue to be reasonable.

11. Deferred taxes and income taxes

The components of income taxes recognized in the consolidated statements of profit or loss and deferred taxes recognized in the consolidated statements of comprehensive income are as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Income taxes			
Current	¥8,734	¥10,566	¥7,938
Deferred			
Origination and reversal of temporary differences	3,142	5,661	2,689
Changes in unrecognized temporary differences	(127)	(1,683)	(87)
Adjusted deferred tax assets and liabilities due to changes in tax rate of foreign subsidiaries	(678)	—	—
Total	11,070	14,544	10,541
Deferred taxes recognized in other comprehensive income			
Financial assets measured at FVTOCI	712	(529)	(267)
Remeasurements of defined benefit plans	966	(562)	(70)
Cash flow hedges	288	(400)	(802)
Total	1,967	(1,491)	(1,140)

The Company and its domestic subsidiaries are mainly subject to corporate income tax, inhabitant tax and business tax. The effective statutory tax rate calculated with these taxes as a basis was approximately 30.6% for the years ended March 31, 2019 and 2020 because of reductions in the corporate tax rate beginning from the consolidated fiscal years, starting on or after April 1, 2016, following approval by the Japanese Diet on March 29, 2016 of “the Act on Partial Revision of the Income Tax Act” (Act No. 15 of 2016) and “the Act on Partial Revision of the Local Tax Act” (Act No. 13 of 2016). However, overseas subsidiaries are subject to corporate income tax and other taxes based on their location.

The reconciliations between the statutory income tax rates and the effective income tax rates are as follows:

(%)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Statutory income tax rates	30.9	30.6	30.6
Difference in statutory income tax rates of foreign subsidiaries	(5.5)	(6.7)	(6.0)
Changes in tax rate of foreign subsidiaries	(1.5)	—	—
Expenses that are perpetually non-deductible, such as entertainment expenses	0.1	14.0	0.7
Changes in unrecognized temporary differences	(0.3)	5.1	(0.2)
Share of profits of investments accounted for using the equity method	(0.8)	(2.8)	(1.0)
Income that is perpetually non-taxable, such as dividend income	(2.4)	(11.7)	(5.5)
Elimination of dividends from subsidiaries	3.7	14.7	6.5
Other, net	0.8	1.3	(0.3)
Effective income tax rates	25.0	44.5	24.8

The movements in deferred tax assets and liabilities are as follows.

(Millions of yen)

	April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2018
Deferred tax assets					
Depreciation	¥3,878	¥(22)	¥—	¥(366)	¥3,490
Addition of revenue from lease contracts, etc.	5,843	(861)	—	3	4,984
Net defined benefit liability	2,830	(547)	(966)	(54)	1,262
Allowance for doubtful accounts	2,474	17	—	(31)	2,460
Asset retirement obligations	3,299	547	—	—	3,847
Accrued expenses	1,548	(12)	—	(10)	1,526
Net operating loss carryforwards	1,981	486	—	3	2,471
Bad debt write-offs	609	(151)	—	(11)	446
Other	4,644	183	(345)	134	4,617
Total deferred tax assets	27,111	(359)	(1,312)	(332)	25,107
Deferred tax liabilities					
Additional depreciation by overseas subsidiaries	(5,381)	(612)	—	150	(5,843)
Gains or losses on sale or purchase of lease receivables	(168)	71	—	—	(97)
Asset retirement obligations	(2,087)	(538)	—	—	(2,626)
Financial assets measured at FVTOCI	(1,290)	—	(712)	281	(1,721)
Intangible assets	(1,365)	137	—	(31)	(1,259)
Other	(1,071)	(1,034)	57	(22)	(2,072)
Total deferred tax liabilities	(11,365)	(1,977)	(655)	377	(13,620)
Net deferred tax assets	15,745	(2,336)	(1,967)	44	11,485

(Note) Other includes acquisitions through business combinations and foreign currency translation gains and losses, etc.

(Millions of yen)

	April 1, 2018	Cumulative effect of change in accounting policy	Restated balance at beginning of year (April 1, 2018)	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2019
Deferred tax assets							
Depreciation	¥3,490	¥—	¥3,490	¥(513)	¥—	¥85	¥3,061
Addition of revenue from lease contracts, etc.	4,984	—	4,984	(1,312)	—	—	3,672
Net defined benefit liability	1,262	—	1,262	80	562	4	1,909
Allowance for doubtful accounts	2,460	1,314	3,774	(393)	—	182	3,563
Asset retirement obligations	3,847	—	3,847	116	—	—	3,963
Accrued expenses	1,526	—	1,526	(79)	—	5	1,451
Net operating loss carryforwards	2,471	—	2,471	344	—	27	2,843
Bad debt write-offs	446	—	446	(104)	—	10	352
Other	4,617	—	4,617	(1,730)	400	239	3,527
Total deferred tax assets	25,107	1,314	26,421	(3,591)	962	554	24,347
Deferred tax liabilities							
Additional depreciation by overseas subsidiaries	(5,843)	—	(5,843)	(1,012)	—	(172)	(7,029)
Gains or losses on sale or purchase of lease receivables	(97)	—	(97)	22	—	—	(74)
Asset retirement obligations	(2,626)	—	(2,626)	37	—	—	(2,589)
Financial assets measured at FVTOCI	(1,721)	—	(1,721)	—	529	—	(1,192)
Intangible assets	(1,259)	—	(1,259)	118	—	(204)	(1,345)
Other	(2,072)	—	(2,072)	447	—	(188)	(1,813)
Total deferred tax liabilities	(13,620)	—	(13,620)	(387)	529	(565)	(14,043)
Net deferred tax assets	11,485	1,314	12,800	(3,978)	1,491	(10)	10,302

(Note) Other includes acquisitions through business combinations and foreign currency translation gains and losses, etc.

(Millions of yen)

	April 1, 2019	Cumulative effect of change in accounting policy (Note 1)	Restated balance at beginning of year (April 1, 2019)	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note 2)	March 31, 2020
Deferred tax assets							
Depreciation	¥3,061	¥—	¥3,061	¥(1,289)	¥—	¥(40)	¥1,731
Addition of revenue from lease contracts, etc.	3,672	—	3,672	(451)	—	—	3,221
Net defined benefit liability	1,909	—	1,909	167	70	29	2,176
Allowance for doubtful accounts	3,563	—	3,563	633	—	(136)	4,061
Asset retirement obligations	3,963	—	3,963	907	—	—	4,871
Accrued expenses	1,451	—	1,451	(315)	—	(33)	1,103
Net operating loss carryforwards	2,843	—	2,843	335	—	(198)	2,980
Bad debt write-offs	352	—	352	81	—	(4)	429
Other	3,527	67	3,595	(588)	802	(41)	3,768
Total deferred tax assets	24,347	67	24,415	(520)	872	(424)	24,343
Deferred tax liabilities							
Additional depreciation by overseas subsidiaries	(7,029)	—	(7,029)	(1,721)	—	145	(8,605)
Gains or losses on sale or purchase of lease receivables	(74)	—	(74)	6	—	—	(67)
Asset retirement obligations	(2,589)	—	(2,589)	(741)	—	—	(3,330)
Financial assets measured at FVTOCI	(1,192)	—	(1,192)	—	267	74	(850)
Intangible assets	(1,345)	—	(1,345)	167	—	(315)	(1,493)
Other	(1,813)	(26)	(1,840)	206	—	16	(1,616)
Total deferred tax liabilities	(14,043)	(26)	(14,070)	(2,082)	267	(79)	(15,964)
Net deferred tax assets	10,302	41	10,344	(2,602)	1,140	(503)	8,377

(Notes)

1. Other cumulative effect of change in accounting policy relates to deferred tax assets and liabilities arising on right-of-use assets and lease liabilities under IFRS 16.

2. Other includes acquisitions through business combinations and foreign currency translation gains and losses, etc.

The Group does not generally recognize deferred tax liabilities on taxable temporary differences related to its investments in subsidiaries. This is because the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

At March 31, 2019 and 2020, the total amounts of temporary differences related to undistributed profit of subsidiaries that were not recognized as deferred tax liabilities were ¥128,515 million and ¥135,037 million, respectively.

In assessing the recoverability of deferred tax assets, the Group considers the probability that part or all of the deferred tax assets will not be recovered. The ultimate recovery of deferred tax assets is dependent on whether taxable profit will be available during the period in which deductible temporary differences can be reversed and unused tax credits can be utilized in the calculation of tax amounts in each respective tax jurisdiction. Although the recoverability is not definitive, the Group considers the reversal schedule of deferred tax liabilities and expected future taxable profit in assessing the recoverability of deferred tax assets. Based on these factors, the Group believes that it is probable that deferred tax assets that are determined to be recognizable as of March 31, 2020 will be recovered. However, the period in which taxable profit will be incurred and its amount may be affected by changes in uncertain future economic conditions, including the impacts of COVID-19. If the actual period and amount of taxable profit differs from the estimation, it may have a significant impact on the amount to be recognized in the consolidated financial statements for the next year onwards.

The deductible temporary differences for which deferred tax assets have not been recognized are as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Deductible temporary differences	¥6,647	¥7,079
Total	6,647	7,079

12. Other assets and other liabilities

The components of other assets and other liabilities are as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Other assets		
Inventories	¥5,767	¥6,908
Advance payments	11,067	13,132
Prepaid expenses	24,813	27,021
Other	4,992	8,216
Total other assets	46,640	55,279
Other liabilities		
Accrued expenses	18,182	16,759
Advances received	16,130	14,691
Asset retirement obligations	13,835	17,270
Other	26,219	25,971
Total other liabilities	74,368	74,692

"Other" in Other liabilities includes provision for bonuses and contract liabilities.

13. Employee benefits

(1) Post-retirement benefits

The Group has externally-funded defined benefit corporate pension plans and unfunded severance lump-sum payment plans as defined benefit plans to provide for the payment of employee retirement benefits. The Group also has defined contribution pension plans as defined contribution plans.

Defined benefit corporate pension plans provide a lump-sum payment or pension as retirement benefits based on the employees' salary and length of service, and severance lump-sum payment plans provide a lump-sum payment based on the employees' salary and length of service.

The plan is administered by the Hitachi Capital Corporate Pension Fund ("Fund") that is legally separated from the Group. Under the Defined Benefit Corporate Pension Act, the Group is obligated to make contributions to the Fund that provides pension benefits. The amount of contributions is reviewed on a regular basis by the Fund to the extent permitted by laws, and the Group is obligated to make contributions into the future.

Directors of the Fund are required to comply with administrative measures by the Minister of Health, Labour and Welfare or Chief of Regional Bureau of Health and Welfare in accordance with laws and regulations, as well as the bylaws of the Fund and resolutions by the board of trustees, and fulfill their duties for the best interest of the Fund. The board of trustees consists of representatives selected by the employer ("Selected Trustees") and those selected by employees ("Co-optative Trustees") in equal numbers. All resolutions of the board of trustees shall be passed by a majority of the attendees, unless otherwise provided for by laws and regulations and the bylaws. In the case of a tie vote, the chairperson shall make the decision.

It is also stipulated that the directors of the Fund are prohibited to conduct any activity, for the benefit of themselves or any third party, that may prevent appropriate administration and management of contributions that should be used to pay benefits ("Contributions") and that when the directors fail to perform their duties related to operation of the Fund regarding administration and management of the Contributions, they shall be held jointly and severally liable for damages arising from such failure against the Fund.

The Contributions are managed by managing trustees in accordance with the terms and conditions set forth by the investment management rules approved by the board of trustees. The Fund fulfills its duties to manage the Contributions safely and efficiently by setting a basic policy on management of the Contributions and relevant implementation guidelines and provide them to the managing trustees.

For severance lump-sum payment plans, the Group is responsible for making direct payments to pensioners.

For the years ended March 31, 2019 and 2020, the changes in the present value of defined benefit obligations and the fair value of plan assets are as follows:

Changes in present value of defined benefit obligations

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Defined benefit obligations at beginning of year	¥60,171	¥61,085
Service cost	1,630	1,587
Interest cost	513	448
Benefits paid	(3,074)	(2,191)
Prior service costs	(55)	—
Exchange differences and other	(200)	(607)
Remeasurements of defined benefit obligations		
Actuarial gains and losses arising from changes in financial assumptions	1,416	(1,784)
Actuarial gains and losses arising from changes in demographic assumptions	230	587
Other	453	(232)
Defined benefit obligations at end of year	61,085	58,893

Changes in fair value of plan assets

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Fair value of plan assets at beginning of year	¥55,916	¥54,778
Interest income	500	423
Remeasurements of defined benefit plan assets – Return on plan assets	141	(1,328)
Employer's contributions	1,112	980
Benefits paid	(2,607)	(1,788)
Exchange differences and other	(286)	(670)
Fair value of plan assets at end of year	54,778	52,392

The difference between the defined benefit obligations at end of year less the fair value of plan assets at end of year and "Retirement and severance benefits" represents the defined benefit pension assets and is included in "Other assets".

The weighted average key actuarial assumptions used in the actuarial calculation of defined benefit obligations at March 31, 2018, 2019 and 2020 are as follows.

	March 31, 2018	March 31, 2019	March 31, 2020
Discount rate	0.9%	0.8%	0.8%

At March 31, 2019 and 2020, changes of 0.5% in the discount rate, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown below. This impact reflects only changes in the discount rate, and actual changes may have a different impact on the defined benefit obligations.

(Millions of yen)

	March 31, 2019	March 31, 2020
Increase by 0.5%	¥(4,610)	¥(4,260)
Decrease by 0.5%	5,098	4,779

At March 31, 2019 and 2020, the weighted average duration of defined benefit obligations is as follows.

	March 31, 2019	March 31, 2020
Weighted average duration	17.00 years	16.74 years

The plan assets are exposed to general investment risk, interest rate risk, inflation risk, and longevity risk, etc. The Fund's investment policy of the plan assets is to maintain the current value of assets necessary and sufficient to pay lump-sum payments and pension benefits, to ensure stable profits in the long term, and to aim at a sound financial position.

To this end, the Fund has set a target rate of return in consideration of the composition of the employees, funding level of the plan assets, risk-bearing capacity of the Company and its certain subsidiaries and the trend of management environment of the plan assets, and then, determined a policy asset mix to achieve the target rate of return, by taking account of expected rate of return for each asset class, standard deviation of rate of return and correlation coefficient between assets.

The policy asset mix of the Fund aims to have a portfolio mix of approximately 20% in domestic and foreign equity securities, approximately 70% in domestic and foreign public and corporate bonds, approximately 8% in alternative investments and approximately 2% in cash on hand and at banks for a diversified investment through commingled funds.

The fair value of plan assets at March 31, 2019 and 2020 is as follows.

(Millions of yen)

	March 31, 2019		
	Quoted market price in an active market		Total
	Yes	No	
Commingled funds	¥—	¥47,417	¥47,417
Cash on hand and at banks	7,228	—	7,228
Other	130	1	132
Total	7,359	47,418	54,778

(Millions of yen)

	March 31, 2020		
	Quoted market price in an active market		Total
	Yes	No	
Commingled funds	¥—	¥45,922	¥45,922
Cash on hand and at banks	6,379	—	6,379
Other	90	1	91
Total	6,469	45,923	52,392

At March 31, 2019 and 2020, commingled funds of the Group consist of listed shares of 26% and 27%, respectively, and public and corporate bonds of 60% and 58%, respectively, and other assets of 14% and 15%, respectively.

Plan assets presented above do not include the Group's transferable financial instruments.

The Group sets the respective end of the reporting period as the measurement date.

For the purpose of maintaining the financial soundness of the Fund in which the Company and its certain subsidiaries participate, the Fund recalculates the pension financing every five years so as to reflect the funding status to contributions.

The Group expects to contribute ¥929 million to the defined benefit pension plans in the year ending March 31, 2021.

(2) Employee benefits expense

(i) Defined benefit plans

For the years ended March 31, 2018, 2019 and 2020, the Group recognized expenses related to defined benefit plans of ¥1,850 million, ¥1,588 million and ¥1,612 million, respectively.

(ii) Defined contribution plans

For the years ended March 31, 2018, 2019 and 2020, the Group recognized expenses related to contributions to the defined contribution plans of ¥815 million, ¥1,002 million and ¥1,032 million, respectively.

14. Equity

(1) Common stock

(Number of shares)

	March 31, 2019	March 31, 2020
Number of authorized shares	270,000,000	270,000,000

(Millions of yen)

	Total number of shares issued	Issued capital
April 1, 2018	124,826,552 shares	¥9,983
March 31, 2019	124,826,552 shares	9,983
March 31, 2020	124,826,552 shares	9,983

The Company issues common stock without par value. The total number of shares issued above includes treasury stock.

The changes in the number of shares and amounts of treasury stock during the years ended March 31, 2018, 2019 and 2020 are as follows.

(Millions of yen)

	Number of shares of treasury stock	Treasury stock
April 1, 2017	7,940,222 shares	¥14,335
Acquisition of treasury stock	344 shares	0
Disposal of treasury stock	66 shares	0
March 31, 2018	7,940,500 shares	14,336
Acquisition of treasury stock	29,270 shares	89
March 31, 2019	7,969,770 shares	14,425
Acquisition of treasury stock	77,105 shares	200
March 31, 2020	8,046,875 shares	14,626

(2) Surplus

(i) Capital surplus

The Companies Act of Japan (“Companies Act”) stipulates that 50% or more of the amounts paid in or provided as consideration for issued stocks shall be recorded as issued capital, with the remaining amount recorded as capital reserve included in capital surplus.

(ii) Retained earnings

The Companies Act requires that an amount equal to 10% of distribution of surplus be appropriated as capital reserve or earned surplus reserve until the aggregate amount of capital reserve and earned surplus reserve equals to 25% of issued capital. Earned surplus reserve may be used based on a resolution at the general shareholders’ meeting.

15. Accumulated other comprehensive income and other comprehensive income

Accumulated other comprehensive income, net of related tax effect, recognized in the consolidated statements of changes in equity for the years ended March 31, 2018, 2019 and 2020 is as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Foreign currency translation adjustments			
Beginning balance	¥(2,621)	¥(629)	¥(2,229)
Net other comprehensive income	2,017	(1,600)	(11,828)
Transfer to non-controlling interests	(25)	—	6
Ending balance	(629)	(2,229)	(14,050)
Remeasurements of defined benefit plans			
Beginning balance	(2,982)	(623)	(2,082)
Net other comprehensive income	2,359	(1,452)	210
Transfer to retained earnings	—	(6)	—
Transfer to non-controlling interests	—	—	—
Ending balance	(623)	(2,082)	(1,871)
Financial assets measured at FVTOCI			
Beginning balance	2,882	4,186	2,908
Net other comprehensive income	1,648	(1,256)	(658)
Transfer to retained earnings	(344)	(21)	(168)
Transfer to non-controlling interests	—	—	—
Ending balance	4,186	2,908	2,081
Cash flow hedges			
Beginning balance	(1,419)	(25)	(1,565)
Net other comprehensive income	1,393	(1,539)	(3,768)
Transfer to non-controlling interests	—	—	(57)
Ending balance	(25)	(1,565)	(5,390)
Total accumulated other comprehensive income			
Beginning balance	(4,139)	2,907	(2,968)
Net other comprehensive income	7,417	(5,848)	(16,044)
Transfer to retained earnings	(344)	(27)	(168)
Transfer to non-controlling interests	(25)	—	(50)
Ending balance	2,907	(2,968)	(19,231)

An analysis of items presented in the accumulated other comprehensive income, including non-controlling interests, and related tax effect by item for the years ended March 31, 2018, 2019 and 2020 is as follows.

(Millions of yen)

	Year ended March 31, 2018		
	Before tax effect	Tax effect	Net of tax effect
Other comprehensive income			
Foreign currency translation adjustments	¥2,033	¥—	¥2,033
Remeasurements of defined benefit plans	3,414	(966)	2,447
Financial assets measured at FVTOCI	2,323	(712)	1,610
Cash flow hedges	14,646	(2,763)	11,882
Share of other comprehensive income of investments accounted for using the equity method	51	(4)	46
Total	22,469	(4,448)	18,021
Other comprehensive income not included in the statement of comprehensive income			
Foreign currency translation adjustments	—	—	—
Cash flow hedges	(13,003)	2,475	(10,528)
Share of other comprehensive income of investments accounted for using the equity method	—	—	—
Total	(13,003)	2,475	(10,528)
Net other comprehensive income			
Foreign currency translation adjustments	2,033	—	2,033
Remeasurements of defined benefit plans	3,414	(966)	2,447
Financial assets measured at FVTOCI	2,323	(712)	1,610
Cash flow hedges	1,643	(288)	1,354
Share of other comprehensive income of investments accounted for using the equity method	51	(4)	46
Total	9,465	(1,972)	7,493
Net other comprehensive income attributable to non-controlling interests			
Foreign currency translation adjustments			52
Remeasurements of defined benefit plans			61
Financial assets measured at FVTOCI			—
Cash flow hedges			(38)
Total			75
Net other comprehensive income attributable to owners of the parent			
Foreign currency translation adjustments			1,980
Remeasurements of defined benefit plans			2,385
Financial assets measured at FVTOCI			1,610
Cash flow hedges			1,393
Share of other comprehensive income of investments accounted for using the equity method			46
Total			7,417

(Millions of yen)

	Year ended March 31, 2019		
	Before tax effect	Tax effect	Net of tax effect
Other comprehensive income			
Foreign currency translation adjustments	¥(1,504)	¥—	¥(1,504)
Remeasurements of defined benefit plans	(1,958)	562	(1,395)
Financial assets measured at FVTOCI	(1,728)	529	(1,198)
Cash flow hedges	(2,591)	537	(2,053)
Share of other comprehensive income of investments accounted for using the equity method	(382)	70	(311)
Total	(8,163)	1,699	(6,464)
Other comprehensive income not included in the statement of comprehensive income			
Foreign currency translation adjustments	—	—	—
Cash flow hedges	607	(136)	470
Share of other comprehensive income of investments accounted for using the equity method	—	—	—
Total	607	(136)	470
Net other comprehensive income			
Foreign currency translation adjustments	(1,504)	—	(1,504)
Remeasurements of defined benefit plans	(1,958)	562	(1,395)
Financial assets measured at FVTOCI	(1,728)	529	(1,198)
Cash flow hedges	(1,983)	400	(1,583)
Share of other comprehensive income of investments accounted for using the equity method	(382)	70	(311)
Total	(7,556)	1,562	(5,993)
Net other comprehensive income attributable to non-controlling interests			
Foreign currency translation adjustments			(57)
Remeasurements of defined benefit plans			(43)
Financial assets measured at FVTOCI			—
Cash flow hedges			(43)
Total			(145)
Net other comprehensive income attributable to owners of the parent			
Foreign currency translation adjustments			(1,446)
Remeasurements of defined benefit plans			(1,352)
Financial assets measured at FVTOCI			(1,198)
Cash flow hedges			(1,539)
Share of other comprehensive income of investments accounted for using the equity method			(311)
Total			(5,848)

(Millions of yen)

	Year ended March 31, 2020		
	Before tax effect	Tax effect	Net of tax effect
Other comprehensive income			
Foreign currency translation adjustments	¥(12,032)	¥—	¥(12,032)
Remeasurements of defined benefit plans	100	70	170
Financial assets measured at FVTOCI	(872)	267	(605)
Cash flow hedges	15,392	(3,024)	12,367
Share of other comprehensive income of investments accounted for using the equity method	(854)	150	(704)
Total	1,732	(2,536)	(804)
Other comprehensive income not included in the statement of comprehensive income			
Foreign currency translation adjustments	—	—	—
Cash flow hedges	(19,479)	3,827	(15,652)
Share of other comprehensive income of investments accounted for using the equity method	—	—	—
Total	(19,479)	3,827	(15,652)
Net other comprehensive income			
Foreign currency translation adjustments	(12,032)	—	(12,032)
Remeasurements of defined benefit plans	100	70	170
Financial assets measured at FVTOCI	(872)	267	(605)
Cash flow hedges	(4,087)	802	(3,284)
Share of other comprehensive income of investments accounted for using the equity method	(854)	150	(704)
Total	(17,747)	1,290	(16,456)
Net other comprehensive income attributable to non-controlling interests			
Foreign currency translation adjustments			(327)
Remeasurements of defined benefit plans			(22)
Financial assets measured at FVTOCI			—
Cash flow hedges			(62)
Total			(411)
Net other comprehensive income attributable to owners of the parent			
Foreign currency translation adjustments			(11,704)
Remeasurements of defined benefit plans			192
Financial assets measured at FVTOCI			(605)
Cash flow hedges			(3,222)
Share of other comprehensive income of investments accounted for using the equity method			(704)
Total			(16,044)

16. Dividends

Dividends paid for the years ended March 31, 2018, 2019 and 2020 are as follows.

Resolution	Class of shares	Total dividends (Millions of yen)	Dividend source	Dividends per share (yen)	Record date	Effective date
Board of directors meeting on:						
May 25, 2017	Common stock	¥5,026	Retained earnings	¥43.00	March 31, 2017	May 29, 2017
October 31, 2017	Common stock	5,026	Retained earnings	43.00	September 30, 2017	November 28, 2017
May 24, 2018	Common stock	5,026	Retained earnings	43.00	March 31, 2018	May 28, 2018
November 5, 2018	Common stock	5,376	Retained earnings	46.00	September 30, 2018	November 27, 2018
August 29, 2019	Common stock	4,675	Retained earnings	40.00	August 14, 2019	October 15, 2019
November 6, 2019	Common stock	6,078	Retained earnings	52.00	September 30, 2019	December 5, 2019

Dividends with the record date in the year ended March 31, 2020 but with the effective date in the year ending March 31, 2021 are as follows.

Resolution	Class of shares	Total dividends (Millions of yen)	Dividend source	Dividends per share (yen)	Record date	Effective date
Board of directors meeting on June 3, 2020	Common stock	6,779	Retained earnings	58.00	March 31, 2020	June 26, 2020

17. Financial instruments

(1) Policy for financial instruments

Together with partners including Hitachi, Ltd., the Group provides consumers and enterprise with a wide range of financial services in various geographic regions that meet customers' needs, including leases, loans, collection of accounts receivable and settlement of accounts payable. To conduct this business, the Group raises funds through direct funding such as securitization of receivables and issuance of bonds, medium-term notes and commercial paper, as well as through indirect methods such as bank loans, with consideration of the market environment and the balance between direct and indirect funding.

To reduce the impact of interest rate fluctuations on revenues, the Group employs asset-liability management (ALM) and uses fixed-rate funding such as securitization of receivables, bonds, medium-term notes and bank loans to fund fixed-rate assets. The Group also uses derivative transactions as part of its measures to reduce the risk but not for speculative purposes.

(2) Nature and risk of financial instruments

Financial assets held by the Group are mainly corporate and consumer receivables, which are exposed to credit risk arising from the possibility of customer default and the price fluctuation risk caused by interest rate fluctuations. Certain foreign currency-denominated receivables are exposed to foreign exchange risk, but the risk is hedged with payables denominated in the same currency as the receivables and foreign exchange forward transactions, etc.

Other financial assets are mainly trust beneficiary rights and shares, etc. held for policy purposes. Also, the Company's non-life insurance subsidiary primarily holds debt securities for investment purposes. These other financial assets are exposed to the credit risk of the issuer and price fluctuation risk caused by interest rate fluctuation.

Financial liabilities, including borrowings, bonds, medium-term notes, commercial paper, borrowings associated with consolidation of structured entities for securitization, and borrowings associated with securitization of receivables, are primarily funded at fixed interest rates in accordance with the Group's ALM policy, and part of the borrowings with variable interest rates are converted to fixed-rate borrowings using interest rate swap transactions.

Certain overseas subsidiaries use currency swap transactions, etc. to hedge foreign exchange risk on funds raised in foreign currencies and also use interest rate swap transactions to fix the interest rates on funds procured at variable interest rates. Such transactions may have impacts on profit or loss if they do not meet the requirements for hedge accounting.

Borrowings, bonds, medium-term notes, commercial paper, borrowings associated with consolidation of structured entities for securitization, and borrowings associated with securitization of receivables are exposed to liquidity risk that the Group will encounter difficulty in funding or issuing these securities and not be able to make payments when due under certain environments.

(3) Risk management system for financial instruments

(i) Management of credit risk (risk of customer default)

The Group mainly holds receivables for corporates and consumers and these assets are exposed to credit risk arising from the possibility of customer default. In general, the Group has no significant concentration of credit risk as the Group works to identify credit risk when appropriate and manage it at a reasonable level by the method of measuring credit risk, among others, and the counterparties and business areas of the Group are well diversified.

The Group extends various types of credit, including leases and loans, and, in accordance with the credit risk management rules, etc., the Group has developed and operated a system for credit management, including credit review for each deal, credit limit, credit information management, internal ratings, requirements for guarantees or collaterals, response to problem receivables, and periodic monitoring of the financial status.

Credit risk is managed by sales departments as well as by the credit examination department, and large transactions require the approval of the executive officers in charge according to the amount.

Credit risk on issuers of other financial assets is managed by the department handling the transactions and the department in charge of finance by regularly monitoring credit information and fair value. Counterparty risk on derivative transactions is managed by the department in charge of finance by monitoring issuer's ratings and other relevant information and periodically reporting to the executive officer in charge of finance.

The Group executes credit enhancement procedures to secure collection of trade receivables, when deemed necessary.

There is no significant asset held as collateral and other credit enhancements.

The Group's maximum exposure to credit risk without collateral or other credit enhancement (excluding credit guarantees) is the carrying amount of financial assets presented in the consolidated financial statements. See Note 30 "Commitments and contingencies" for credit guarantees.

Changes in the allowance for doubtful accounts during the year ended March 31, 2018 are as follows.

(Millions of yen)

	Trade and other receivables	Finance lease receivables	Other financial assets measured at amortized cost	Total
April 1, 2017	¥8,064	¥4,707	¥5	¥12,777
Acquisitions through business combinations	41	—	—	41
Increase during the year (addition)	5,019	1,884	4	6,908
Decrease during the year (for intended purpose)	(4,264)	(1,266)	(5)	(5,536)
Decrease during the year (reversal)	(437)	(1,357)	(5)	(1,800)
Other	82	(1)	1	81
March 31, 2018	8,505	3,968	—	12,473

The sum of balances of trade and other receivables, finance lease receivables, and other financial assets measured at amortized cost individually impaired at March 31, 2018 amounted to ¥24,439 million, and the allowance for doubtful accounts provided for these receivables amounted to ¥5,521 million.

The change in allowance for doubtful accounts related to trade and other receivables and finance lease receivables and the change in the gross carrying amount of trade and other receivables and finance lease receivables during the years ended March 31, 2019 and 2020 are follows.

The main reason for change in the allowance for doubtful accounts related to trade and other receivables (general approach) during the year ended March 31, 2019 was the recording a provision for allowance for doubtful accounts because of a significant increase in credit risk caused by inappropriate deals that were found in factoring transactions carried out by Hitachi Capital Factoring (China) Co., Ltd., a subsidiary of the Group.

Furthermore, “Selling, general and administrative expenses” in the consolidated statements of profit or loss increased by ¥20,665 million because of this allowance for doubtful accounts related to these factoring transactions.

For the year ended March 31, 2020, future economic conditions are expected to deteriorate as a result of the global spread of COVID-19. Therefore, expected credit losses are estimated in consideration of macroeconomic projections, the state of extending payments in each country and company, industries expected to be significantly affected and other relevant factors to increase the amount of allowance for doubtful accounts.

While it is difficult to reasonably predict when COVID-19 will end, the allowance for doubtful accounts is estimated based on a scenario that credit risk heightens for approximately six months from March 31, 2020 under the assumption that COVID-19 would have significant effects until June 2020 and subsequently the economy will recover moderately by March 2021. The Group believes these assumptions continue to be reasonable. As a result of the increase in allowance for doubtful accounts, “Selling, general and administrative expenses” in the consolidated statements of profit or loss increased by ¥2,600 million.

The main reason for the changes in the allowance for doubtful accounts of other trade and other receivables (simplified approach) and finance lease receivables (simplified approach) was changes in the financial assets and provision rate.

(i) Trade and other receivables (general approach)

(Millions of yen)

	Allowance for doubtful accounts				Gross carrying amount			
	12 month expected credit losses	Lifetime expected credit losses		Total	12 month expected credit losses	Lifetime expected credit losses		Total
		Collective assessment	Individual assessment			Collective assessment	Individual assessment	
April 1, 2018	¥796	¥1,115	¥2,852	¥4,764	¥891,811	¥44,112	¥7,129	¥943,053
Cumulative effect of changes in accounting policy	1,013	771	(565)	1,219	—	—	—	—
Restated balance of beginning of year (April 1, 2018)	1,810	1,887	2,286	5,984	891,811	44,112	7,129	943,053
Recognition and derecognition	565	14	17,267	17,847	98,262	153	20,573	118,989
Transfer	(309)	490	1,070	1,251	(4,500)	1,969	2,531	—
Write-offs (Note 1)	(7)	(177)	(162)	(347)	(167)	(511)	(362)	(1,042)
Change in provision rate	(97)	189	1,459	1,551	—	—	—	—
Other (Note 2)	70	(78)	(148)	(157)	(466)	(125)	(379)	(972)
March 31, 2019	2,031	2,325	21,772	26,130	984,938	45,598	29,492	1,060,028

(Notes)

1. The Group derecognizes financial assets as write-offs at the point in time at which there are no means of collection and recoverability is almost extinguished.
2. Mainly includes the effect of foreign exchange fluctuations.

(Millions of yen)

	Allowance for doubtful accounts				Gross carrying amount			
	12 month expected credit losses	Lifetime expected credit losses		Total	12 month expected credit losses	Lifetime expected credit losses		Total
		Collective assessment	Individual assessment			Collective assessment	Individual assessment	
April 1, 2019	¥2,031	¥2,325	¥21,772	¥26,130	¥984,938	¥45,598	¥29,492	¥1,060,028
Recognition and derecognition	1,401	1,471	(115)	2,757	(142,696)	2,176	(900)	(141,420)
Transfer	(277)	(972)	2,373	1,123	(11,459)	6,326	5,132	—
Write-offs (Note 1)	(41)	(216)	(257)	(515)	(1,115)	(617)	(396)	(2,130)
Change in provision rate	8	78	—	87	—	—	—	—
Other (Note 2)	(14)	(45)	(232)	(292)	(23,436)	(1,654)	(262)	(25,354)
March 31, 2020	3,108	2,640	23,541	29,290	806,229	51,828	33,064	891,123

(Notes)

1. The Group derecognizes financial assets as write-offs at the point in time at which there are no means of collection and recoverability is almost extinguished.
2. Mainly includes the effect of foreign exchange fluctuations.

(ii) Trade and other receivables (simplified approach)

(Millions of yen)

	Allowance for doubtful accounts			Gross carrying amount		
	Lifetime expected credit losses			Lifetime expected credit losses		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
April 1, 2018	¥1,544	¥2,196	¥3,740	¥448,018	¥3,238	¥451,257
Cumulative effect of changes in accounting policy	1,583	5	1,589	—	—	—
Restated balance of beginning of year (April 1, 2018)	3,128	2,201	5,329	448,018	3,238	451,257
Recognition and derecognition	18	(17)	1	39,169	(655)	38,513
Transfer	20	(9)	11	(757)	757	—
Write-offs (Note 1)	(724)	(318)	(1,042)	(805)	(515)	(1,321)
Change in provision rate	(86)	117	30	—	—	—
Acquisitions through business combinations	2	89	91	309	123	433
Other (Note 2)	(858)	5	(852)	(1,305)	(24)	(1,329)
March 31, 2019	1,499	2,069	3,569	484,629	2,924	487,553

(Notes)

1. The Group derecognizes financial assets as write-offs at the point in time at which there are no means of collection and recoverability is almost extinguished.
2. Mainly includes the effect of foreign exchange fluctuations.

(Millions of yen)

	Allowance for doubtful accounts			Gross carrying amount		
	Lifetime expected credit losses			Lifetime expected credit losses		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
April 1, 2019	¥1,499	¥2,069	¥3,569	¥484,629	¥2,924	¥487,553
Recognition and derecognition	1,226	1,105	2,331	(921)	1,240	318
Transfer	(2)	17	14	(484)	484	—
Write-offs (Note 1)	(844)	(290)	(1,135)	(937)	(439)	(1,376)
Change in provision rate	827	161	989	—	—	—
Acquisitions through business combinations	—	—	—	75	—	75
Other (Note 2)	(887)	(198)	(1,085)	(64,046)	(176)	(64,223)
March 31, 2020	1,819	2,865	4,684	418,313	4,034	422,347

(Notes)

1. The Group derecognizes financial assets as write-offs at the point in time at which there are no means of collection and recoverability is almost extinguished.
2. Mainly includes the effect of foreign exchange fluctuations.

(iii) Finance lease receivables (simplified approach)

(Millions of yen)

	Allowance for doubtful accounts			Gross carrying amount		
	Lifetime expected credit losses			Lifetime expected credit losses		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
April 1, 2018	¥1,686	¥2,281	¥3,968	¥1,150,957	¥2,782	¥1,153,740
Cumulative effect of changes in accounting policy	3,106	(70)	3,035	—	—	—
Restated balance of beginning of year (April 1, 2018)	4,792	2,210	7,003	1,150,957	2,782	1,153,740
Recognition and derecognition	438	(322)	115	68,420	(686)	67,733
Transfer	52	522	574	(1,289)	1,289	—
Write-offs (Note 1)	(302)	(521)	(824)	(1,414)	(668)	(2,082)
Change in provision rate	(624)	(287)	(912)	—	—	—
Other (Note 2)	1,400	(127)	1,272	(5,843)	(227)	(6,070)
March 31, 2019	5,756	1,474	7,230	1,210,830	2,489	1,213,320

(Notes)

1. The Group derecognizes financial assets as write-offs at the point in time at which there are no means of collection and recoverability is almost extinguished.
2. Mainly includes the effect of foreign exchange fluctuations.

(Millions of yen)

	Allowance for doubtful accounts			Gross carrying amount		
	Lifetime expected credit losses			Lifetime expected credit losses		
	Collective assessment	Individual assessment	Total	Collective assessment	Individual assessment	Total
April 1, 2019	¥5,756	¥1,474	¥7,230	¥1,210,830	¥2,489	¥1,213,320
Cumulative effect of changes in accounting policy	—	—	—	67,254	—	67,254
Restated balance of beginning of year (April 1, 2019)	5,756	1,474	7,230	1,278,085	2,489	1,280,575
Recognition and derecognition	469	(88)	381	3,827	531	4,358
Transfer	(166)	234	68	(1,307)	1,307	—
Write-offs (Note 1)	(358)	(304)	(662)	(2,087)	(572)	(2,660)
Change in provision rate	52	160	212	—	—	—
Other (Note 2)	(168)	(103)	(272)	(18,746)	(555)	(19,301)
March 31, 2020	5,585	1,371	6,957	1,259,770	3,200	1,262,971

(Notes)

1. The Group derecognizes financial assets as write-offs at the point in time at which there are no means of collection and recoverability is almost extinguished.
2. Mainly includes the effect of foreign exchange fluctuations.

The Group's credit risk exposure related to trade and other receivables and finance lease receivables at March 31, 2019 and 2020 is as follows.

(i) Trade and other receivables (general approach)

(Millions of yen)

	March 31, 2019		
	12 month expected credit losses	Lifetime expected credit losses	
		Collective assessment	Individual assessment
No delinquency	¥974,791	¥42,443	¥9,997
Within 30 days	9,098	99	18
Between 31 days and 90 days	1,047	779	12,036
Over 91 days	—	2,276	7,439
Total	984,938	45,598	29,492

(Millions of yen)

	March 31, 2020		
	12 month expected credit losses	Lifetime expected credit losses	
		Collective assessment	Individual assessment
No delinquency	¥778,309	¥45,044	¥421
Within 30 days	26,060	132	9
Between 31 days and 90 days	1,860	4,485	127
Over 91 days	—	2,166	32,505
Total	806,229	51,828	33,064

(ii) Trade and other receivables (simplified approach)

(Millions of yen)

	March 31, 2019		March 31, 2020	
	Lifetime expected credit losses		Lifetime expected credit losses	
	Collective assessment	Individual assessment	Collective assessment	Individual assessment
No delinquency	¥449,589	¥679	¥396,604	¥18
Within 30 days	30,113	377	18,019	1,446
Between 31 days and 90 days	4,304	189	3,339	272
Over 91 days	621	1,677	350	2,297
Total	484,629	2,924	418,313	4,034

(iii) Finance lease receivables (simplified approach)

(Millions of yen)

	March 31, 2019		March 31, 2020	
	Lifetime expected credit losses		Lifetime expected credit losses	
	Collective assessment	Individual assessment	Collective assessment	Individual assessment
No delinquency	¥1,185,376	¥30	¥1,231,886	¥—
Within 30 days	21,184	59	22,820	47
Between 31 days and 90 days	2,862	179	3,675	481
Over 91 days	1,407	2,221	1,389	2,671
Total	1,210,830	2,489	1,259,770	3,200

(ii) Management of market risk (risk of fluctuations of foreign exchange rates, interest rates and others)

(a) Management of interest rate risk

In accordance with ALM policies approved by the representative executive officer each year, the Company checks asset and liability durations and manages interest rate fluctuation risk. The progress and status are reported on a monthly basis to the representative executive officer and the executive officer in charge of finance. Certain consolidated subsidiaries also review the effects of interest rate fluctuation on profit or loss, etc. on a regular basis in accordance with the respective ALM policies.

Certain overseas subsidiaries enter into interest rate swap transactions to fix interest rates on funds procured at variable interest rates. Such transactions may have impacts on profit or loss if they do not meet the requirements for hedge accounting.

(b) Management of foreign exchange rate risk

The Group manages foreign exchange rate fluctuation risk on a deal-by-deal basis.

In the absence of corresponding receivables, the Group enters into currency swap transactions, etc. solely for the purpose of hedging foreign exchange rate fluctuation risk on funds raised in foreign currencies.

(c) Management of price fluctuation risk

Investments, including marketable securities, are mainly held for policy purposes, and the Company monitors relevant market environment and the financial status of its business partners on a regular basis. The information is reported to the executive officer in charge of finance on a regular basis.

The Company’s non-life insurance subsidiary primarily holds debt securities, whose tolerance for risk is managed by establishing risk limits. In addition, the department in charge of managing investment risk monitors and analyzes investment risk generally twice a year, the result of which is reported to the ERM Committee on a regular basis.

(d) Derivative transactions

With regard to derivative transactions, the Group separates the execution and approval functions in different departments to meet internal control requirements, and manages and conducts derivative transactions in accordance with the Group risk management regulations.

(e) Quantitative information related to market risk

The Group’s primary financial instruments subject to interest rate risk include “Trade and other receivables”, “Finance lease receivables”, public and corporate bonds and loan receivables included in “Other financial assets”, “Borrowings and bonds”, and interest rate swap transactions included in “Other financial assets” and “Other financial liabilities”.

Interest rate sensitivity analysis

At March 31, 2019 and 2020, the impact of an increase of 0.01% in interest rates applicable to financial instruments held by the Group at such dates, holding all other variables constant, on income before income taxes in the consolidated statements of profit or loss of the Group, were decreases in the amount of ¥75 million and ¥110 million, respectively.

(iii) Management of liquidity risk related to funding (risk of not being able to make payments when due)

In order to reduce the impact of liquidity risk, the Company controls liquidity-on-hand in consideration of market environment, manages the repayment terms taking into account maturity of financial assets, and employs diversified funding methods and financial institutions as the source of funds. The Company has concluded overdraft agreements and commitment line agreements for a total of ¥318,084 million with a number of financial institutions to strengthen measures against liquidity risk. The amount available (unused amount) at March 31, 2020 was ¥291,832 million.

The balance of financial liabilities held by the Group by maturity is as follows. Derivative transactions to be settled on a net basis with other contracts are also presented in the gross amount of inflow or outflow on a deal-by-deal basis.

Items without a fixed receivable or payable amount are disclosed at the amount calculated using an interest rate estimated based on the spot rate at March 31, 2019 and 2020.

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder of financial guarantee contracts for a loss incurred because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. The maximum exposure is the carrying amount of loan guarantee liabilities described in Note 30 “Commitments and contingencies.”

(Millions of yen)

		March 31, 2019				
		Carrying amount	Undiscounted contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Borrowings		¥2,186,645	¥2,400,150	¥1,402,206	¥937,837	¥60,106
Bonds		918,099	944,496	216,828	613,244	114,422
Lease liabilities		13,307	13,307	931	2,899	9,476
Foreign exchange forward contracts	Inflow	—	—	—	—	—
	Outflow	(0)	(0)	(0)	—	—
Currency swaps	Inflow	6,453	6,453	2,343	3,943	165
	Outflow	(7,936)	(7,936)	(4,757)	(2,592)	(585)
Interest rate swaps	Inflow	162	162	68	93	—
	Outflow	(2,443)	(2,443)	(44)	(1,138)	(1,261)

(Millions of yen)

		March 31, 2020				
		Carrying amount	Undiscounted contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Borrowings		¥2,049,463	¥2,075,838	¥1,054,991	¥945,697	¥75,149
Bonds		930,165	949,811	228,963	604,181	116,667
Lease liabilities		101,421	138,454	10,090	30,295	98,068
Currency swaps	Inflow	18,935	18,935	8,246	7,686	3,003
	Outflow	(2,540)	(2,540)	(757)	(1,243)	(539)
Interest rate swaps	Inflow	430	430	4	426	—
	Outflow	(4,443)	(4,443)	(263)	(3,060)	(1,119)

(4) Capital management

The balance of borrowings and bonds, cash and cash equivalents, and capital (equity attributable to owners of the parent) that are subject to the Group's management is as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Borrowings and bonds	¥3,118,052	¥3,081,051
Cash and cash equivalents	219,858	265,463
Capital (equity attributable to owners of the parent)	377,557	380,728

In addition to general regulations provided by the Companies Act, etc., the Insurance Business Act and other foreign laws and regulations require certain subsidiaries of the Group to maintain such ratios as the solvency margin ratio and capital adequacy ratio above a certain level. Each subsidiary maintains its capital ratio at a sufficient level and other ratios as required by laws and regulations in the respective countries or regions.

(5) Borrowings and bonds

(i) Details of borrowings and bonds

The details of borrowings are as follows:

(Millions of yen)

	Maturity	Average interest rate (%)	March 31, 2019	March 31, 2020
Short-term borrowings (mainly bank loans)	—	2.07%	¥485,467	¥360,685
Commercial paper	—	0.27%	277,114	221,746
Long-term borrowings (mainly bank loans)	April 2020–March 2050	1.34%	964,906	1,009,231
Borrowings associated with consolidation of structured entities for securitization	April 2020–March 2042	0.34%	315,318	311,219
Borrowings associated with securitization of receivables	April 2020–November 2023	0.62%	143,838	146,580
Lease liabilities	April 2020–April 2068	1.13%	13,307	101,421
Total		1.15%	2,199,953	2,150,885

(Notes)

1. "Maturity" represents the repayment date for the balance of each borrowing at March 31, 2020.
2. "Average interest rate" represents the weighted average interest rate applicable to the balance of each borrowing at March 31, 2020.
3. Long-term borrowings (mainly bank loans), Borrowings associated with consolidation of structured entities for securitization, Borrowings associated with securitization of receivables, and Lease liabilities include the respective borrowings to be repaid within one year from the end of reporting period.
4. Borrowings associated with consolidation of structured entities for securitization represent funds raised through securitization of Trade and other receivables and finance lease receivables by the structured entities that were consolidated by the Group.
5. Borrowings associated with securitization of receivables represent part of the funds raised through securitization of Trade and other receivables and finance lease receivables, of which corresponding financial assets are not derecognized.

The details of bonds are as follows:

(Millions of yen)

Company name/ description	Issue date	Maturity	Interest rate (%)	Collateral	March 31, 2019	March 31, 2020
Hitachi Capital Corporation						
The 45th unsecured domestic bonds payable	Oct. 18, 2012	Dec. 20, 2019	0.67%	No	¥10,014	¥—
The 47th unsecured domestic bonds payable	Apr. 23, 2013	Mar. 20, 2023	0.87%	No	14,974	14,981
The 49th unsecured domestic bonds payable	Sept. 13, 2013	Sept. 18, 2020	0.72%	No	9,994	10,000
The 50th unsecured domestic bonds payable	Mar. 20, 2014	Mar. 19, 2024	0.89%	No	19,957	19,967
The 51st unsecured domestic bonds payable	June 3, 2014	June 20, 2019	0.31%	No	20,017	—
The 52nd unsecured domestic bonds payable	June 3, 2014	June 18, 2021	0.51%	No	15,003	15,013
The 53rd unsecured domestic bonds payable	June 3, 2014	Mar. 19, 2024	0.82%	No	14,969	14,977
The 54th unsecured domestic bonds payable	Sept. 11, 2014	Sept. 17, 2021	0.42%	No	14,980	14,989
The 55th unsecured domestic bonds payable	Sept. 11, 2014	Sept. 18, 2026	0.96%	No	14,960	14,966
The 56th unsecured domestic bonds payable	Dec. 19, 2014	Dec. 20, 2019	0.20%	No	9,999	—
The 57th unsecured domestic bonds payable	Dec. 19, 2014	Dec. 20, 2024	0.62%	No	9,989	9,993
The 58th unsecured domestic bonds payable	May 1, 2015	June 19, 2020	0.22%	No	9,996	10,005
The 61st unsecured domestic bonds payable	June. 9, 2016	June 19, 2026	0.31%	No	9,973	9,978
The 62nd unsecured domestic bonds payable	Sept. 27, 2016	Sept. 20, 2019	0.001%	No	29,983	—
The 63rd unsecured domestic bonds payable	Feb. 28, 2017	Apr. 20, 2020	0.001%	No	19,976	19,998
The 64th unsecured domestic bonds payable	Feb. 28, 2017	Feb. 18, 2022	0.13%	No	9,976	9,984
The 65th unsecured domestic bonds payable	Apr. 18, 2017	Apr. 20, 2022	0.15%	No	14,971	14,984
The 66th unsecured domestic bonds payable	June 13, 2017	June 20, 2024	0.26%	No	9,975	9,981
The 67th unsecured domestic bonds payable	June 13, 2017	June 18, 2027	0.33%	No	9,969	9,974
The 68th unsecured domestic bonds payable	Aug. 31, 2017	Sept. 20, 2022	0.19%	No	14,959	14,968
The 69th unsecured domestic bonds payable	Dec. 6, 2017	Dec. 18, 2020	0.08%	No	29,951	29,984
The 70th unsecured domestic bonds payable	Dec. 6, 2017	Dec. 20, 2022	0.20%	No	14,963	14,975
The 71st unsecured domestic bonds payable	Apr. 23, 2018	Mar. 19, 2021	0.04%	No	14,963	14,982
The 72nd unsecured domestic bonds payable	Apr. 23, 2018	Apr. 18, 2025	0.28%	No	9,975	9,981
The 73rd unsecured domestic bonds payable	July 11, 2018	July 20, 2021	0.01%	No	24,936	24,964
The 74th unsecured domestic bonds payable	July 11, 2018	July 20, 2023	0.17%	No	9,967	9,975
The 75th unsecured domestic bonds payable	July 11, 2018	July 20, 2028	0.36%	No	9,962	9,966
The 76th unsecured domestic bonds payable	Dec. 4, 2018	Dec. 20, 2023	0.18%	No	9,965	9,973
The 77th unsecured domestic bonds payable	Feb. 28, 2019	Dec. 20, 2023	0.21%	No	9,959	9,972
The 78th unsecured domestic bonds payable	Oct. 25, 2019	Oct. 20, 2022	0.02%	No	—	24,929
The 79th unsecured domestic bonds payable	Oct. 25, 2019	Oct. 18, 2024	0.12%	No	—	24,923
The 80th unsecured domestic bonds payable	Oct. 25, 2019	Oct. 19, 2029	0.28%	No	—	9,965
The 81st unsecured domestic bonds payable	Dec. 20, 2019	Dec. 20, 2021	0.04%	No	—	9,994
The 82nd unsecured domestic bonds payable	Feb. 28, 2020	Feb. 20, 2023	0.09%	No	—	29,906
The 83rd unsecured domestic bonds payable	Feb. 28, 2020	Feb. 20, 2025	0.18%	No	—	9,959

(Millions of yen)

Company name/ description	Issue date	Maturity	Interest rate (%)	Collateral	March 31, 2019	March 31, 2020
The 84th unsecured domestic bonds payable	Feb. 28, 2020	Feb. 20, 2030	0.29%	No	—	9,960
The 1st unsecured, interest deferrable and early redeemable subordinated bonds	Dec. 19, 2016	Dec.19, 2076	1.04%	No	19,985	20,012
The 2nd unsecured, interest deferrable and early redeemable subordinated bonds	Dec. 19, 2016	Dec.19, 2076	1.31%	No	9,974	9,981
Hitachi Capital(UK) PLC						
MTN program bonds	Feb.26, 2014–Mar.20, 2020	Apr.24, 2020–Nov.28, 2029	0.96%–2.15%	No	389,014	372,303
Hitachi Capital America Corp.						
MTN program bonds	Oct.25, 2016–Dec.4, 2019	May.26, 2020–Dec.4, 2025	2.24%–3.92%	No	51,388	38,961
Hitachi Capital (Hong Kong) Ltd.						
The 5th bonds payable in HKD	Jan. 26, 2017	Jan. 24, 2020	2.73%	No	8,476	—
Hitachi Capital Management (China) Ltd.						
The 1st bonds payable in USD (green bonds)	Dec. 15, 2017	Dec. 15, 2022	1.62%	No	11,091	10,891
The 1st bonds payable in HKD	Sept. 26, 2018	Sept. 24, 2021	2.61%	No	8,439	8,390
Other companies						
Unsecured domestic bonds payable	May 28, 2015–Mar. 30, 2016	Sept. 30, 2038	1.50%	No	440	440
Total					918,099	930,165

(Notes)

1. "Interest rate" shows a nominal coupon rate applicable to each bond, and therefore it differs from an effective interest rate used to measure amortized cost.
2. MTN (Medium Term Notes) program bond includes the hedged items hedged by interest rate swaps that convert variable rates to fixed rates or fixed rates to variable rates, and "Interest rate" shows an interest rate taking into account the effect of the hedge.
3. The 1st unsecured, interest deferrable and early redeemable subordinated bonds have a clause that enables early redemption at the discretion of the Company on each interest payment date from December 19, 2021.
4. The 2nd unsecured, interest deferrable and early redeemable subordinated bonds have a clause that enables early redemption at the discretion of the Company on each interest payment date from December 19, 2026.

18. Fair value of financial instruments

(1) Details of financial assets and fair value

(Millions of yen)

	March 31, 2019		March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Finance lease receivables	¥1,206,090	¥1,252,725	¥1,256,013	¥1,321,557
Financial assets measured at amortized cost				
Cash and cash equivalents	219,858	219,858	265,463	265,463
Notes receivable	2,331	2,331	1,453	1,453
Accounts receivable	1,515,550	1,535,161	1,278,042	1,304,208
Trade and other receivables	1,517,882	1,537,493	1,279,496	1,305,661
Public and corporate bonds	5,648	5,673	6,232	6,221
Time deposits with a maturity of more than three months or more	14,324	14,324	4,814	4,814
Other receivables	19,024	19,024	25,677	25,677
Other investments	4,612	4,612	4,760	4,760
Loans receivable	4,747	4,797	5,920	6,000
Other	425	425	454	454
Other financial assets	48,782	48,858	47,860	47,928
Financial assets measured at FVTPL				
Equity securities	3,308	3,308	3,320	3,320
Other investments	12,173	12,173	12,641	12,641
Other financial assets	15,482	15,482	15,962	15,962
Financial assets measured at FVTOCI				
Equity securities	20,772	20,772	20,305	20,305
Other investments	0	0	0	0
Other financial assets	20,772	20,772	20,305	20,305
Derivative financial assets				
Interest rate swaps	162	162	430	430
Currency swaps	6,453	6,453	18,935	18,935
Other financial assets	6,616	6,616	19,366	19,366
Total financial assets	3,035,484	3,101,806	2,904,467	2,996,245

(i) Finance lease receivables

The portion of finance lease receivables under finance lease transactions involving to the right to receive future lease payments is classified according mainly to the type of receivables, collection history of individual receivables (e.g. internal rating), and the respective term, and the fair value is calculated for each classification by discounting the sum of principals and interests, taking into consideration early repayments, cancellations and expected credit losses, using the risk-free rate. With regard to credit-impaired receivables, expected credit losses are calculated based on the recoverable amount from insurance, collateral and sale of pledged properties, and therefore it is assumed that the carrying amount, net of expected credit losses, of these receivables approximates the fair value.

(ii) Financial assets measured at amortized cost

(a) Accounts receivable

The fair value of accounts receivable, most of which bear fixed interest rates, is determined in a similar manner as finance lease receivables.

(b) Notes receivable, other receivables and time deposits with a maturity of more than three months

Due to the short-term nature, it is assumed that the carrying amount of notes receivable, other receivables and time deposits with a maturity of more than three months approximates the fair value.

(c) Public and corporate bonds and other investments

The Company’s non-life insurance subsidiary primarily holds debt securities for investment purposes. For public and corporate bonds and other investments whose fair value can be measured using market prices, the fair value is calculated based on such market prices.

(d) Loans receivable

Loans receivable are mainly provided to the associates and the joint ventures. The fair value is determined in a similar manner as finance lease receivables.

(iii) Financial assets measured at FVTPL

Equity securities

The Group holds unlisted shares for investment purposes.

The Group does not hold any shares for the purpose of trading.

Other investments

Other investments include trust beneficiary interests, investment partnerships, and silent partnership funds, etc.

See Note 18 “Fair value of financial instruments (3) fair value measurements”.

(iv) Financial assets measured at FVTOCI

Equity securities

The Group holds listed and unlisted shares for policy purposes.

See Note 18 “Fair value of financial instruments (3) fair value measurements”.

(v) Derivative financial assets

See Note 18 “Fair value of financial instruments (3) fair value measurements” and Note 19 “Derivatives and hedging activities”.

(vi) Fair value of financial assets measured at FVTOCI by issuer

The fair value of major equity instruments designated as at FVTOCI is as follows.

(Millions of yen)

March 31, 2019	
Issuer	Amount
Mitsubishi UFJ Lease & Finance Company Limited	¥15,046
Sompo Holdings, Inc.	1,229
AEON CO., LTD.	1,043
The Mortgage Corporation of Japan, Limited	928
BOT Lease Co., Ltd.	604
Other (24 issuers)	1,919

(Millions of yen)

March 31, 2020	
Issuer	Amount
Mitsubishi UFJ Lease & Finance Company Limited	¥14,192
AEON CO., LTD.	1,560
The Mortgage Corporation of Japan, Limited	1,039
Sompo Holdings, Inc.	702
BOT Lease Co., Ltd.	638
Credit Information Center CORP.	574
Other (26 issuers)	1,597

(vii) Disposal of financial assets measured at FVTOCI

Equity instruments designated as FVTOCI that were disposed of during the years ended March 31, 2018, 2019 and 2020 were as follows:

(Millions of yen)

Year ended March 31, 2018			Year ended March 31, 2019			Year ended March 31, 2020		
Fair value at the disposal date	Accumulated gains	Dividend income	Fair value at the disposal date	Accumulated gains	Dividend income	Fair value at the disposal date	Accumulated gains	Dividend income
¥781	¥497	¥7	¥10	¥0	¥8	¥399	¥242	¥0

These instruments were sold primarily as a result of reviewing the business relationship with the issuers. For the years ended March 31, 2018, 2019 and 2020, in accordance with the Group's policy, accumulated gains, net of tax, of ¥344 million, ¥0 million and ¥168 million were reclassified from other comprehensive income to retained earnings.

During the years ended March 31, 2018, 2019 and 2020, no accumulated after tax losses were transferred from accumulated other comprehensive income to retained earnings related to equity instruments designated as at FVTOCI whose fair value decreased significantly from the acquisition cost.

(2) Details of financial liabilities and fair value

(Millions of yen)

	March 31, 2019		March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Lease liabilities	¥13,307	¥13,307	¥101,421	¥104,863
Borrowings and bonds	13,307	13,307	101,421	104,863
Financial liabilities measured at amortized cost				
Notes payable	1,823	1,823	1,879	1,879
Accounts payable	102,987	102,987	85,795	85,795
Trade and other payables	104,810	104,810	87,675	87,675
Short-term borrowings	762,581	762,581	582,432	582,432
Bonds	918,099	926,319	930,165	936,712
Long-term borrowings	1,424,063	1,428,584	1,467,031	1,473,008
Borrowings and bonds	3,104,745	3,117,485	2,979,629	2,992,152
Other payables	11,510	11,510	12,638	12,638
Accrued interest expenses	4,232	4,232	3,653	3,653
Deposits received	11,331	11,331	7,487	7,487
Financial guarantee contracts	1,330	1,330	1,176	1,176
Contract guarantees	30,977	30,582	29,926	29,773
Other	241	241	1,383	1,383
Other financial liabilities	48,113	47,718	43,626	43,474
Derivative financial liabilities				
Interest rate swaps	2,443	2,443	4,443	4,443
Currency swaps	7,936	7,936	2,540	2,540
Foreign exchange forward contracts	0	0	—	—
Other financial liabilities	10,380	10,380	6,984	6,984
Total financial liabilities	3,292,868	3,305,213	3,231,976	3,247,789

(i) Lease liabilities

The fair value of lease liabilities is measured at the present value of the remaining lease payments, discounted using the interest rate assumed to be applied when newly entering into a similar lease transaction.

Lease liabilities at March 31, 2019 are finance lease obligations recognized based on IAS 17 “Leases”.

(ii) Financial liabilities measured at amortized cost

(a) Notes payable, accounts payable, short-term borrowings, other payables, accrued interest expenses and deposits received

It is assumed that the carrying amount approximates the fair value as these liabilities are mostly settled within one year.

(b) Bonds and long-term borrowings

The fair value of bonds with market price is based on the market price, and the fair value of bonds without market price is determined by discounting the sum of principals and interests using an interest rate adjusted for the remaining term and credit risk of the bonds.

The fair value of long-term borrowings bearing floating interest rates is assumed to approximate the carrying amount because such interest rates reflect the market rates in a short time and the Group’s credit condition has not changed significantly since the execution of such borrowings.

The fair value of long-term borrowings bearing fixed interest rates is calculated by discounting the sum of principal and interest categorized according to certain periods using interest rates assumed to be applied to similar borrowings.

(c) Financial guarantee contracts

The carrying amount of financial guarantee contracts is measured at the higher of the amount of initial measurement net of accumulated amortization and the amount of expected credit losses, and the carrying amount is assumed to approximate the fair value.

(d) Contract guarantees

Contract guarantees are monetary obligations received from certain customers as credit enhancement for finance lease receivables and trade and other receivables, which are normally returned after the repayment of the corresponding receivables.

The fair value of contract guarantees with a maturity of one year or more is determined in a similar manner as the corresponding receivables by discounting the estimated amount to be returned using risk-free rates.

The fair value of contract guarantees expected to be returned within one year is assumed to approximate the carrying amount due to their short-term nature.

(iii) Derivative financial liabilities

Derivative financial liabilities are described in Note 18 “Fair value of financial instruments (3) fair value measurements” and Note 19 “Derivatives and hedging activities.”

(3) Fair value measurements

(i) Fair value hierarchy

Financial instruments measured at fair value on a recurring basis subsequent to initial recognition are classified into three different levels in the fair value hierarchy based on observable inputs used for measurement and their significance. In this classification, the fair value hierarchy is defined as follows:

Level 1:

Fair values based on the unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2:

Fair values measured using inputs other than those included in Level 1 that are observable either directly or indirectly

Level 3:

Fair values measured using significant inputs that are unobservable

When the fair value is measured using multiple inputs, the level of the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

For the years ended March 31, 2018, 2019 and 2020, there was no transfer between levels of the fair value hierarchy.

(ii) Financial assets measured at FVTPL or FVTOCI

Other financial assets whose fair value can be measured based on market price are classified as Level 1, and other financial assets classified as Level 1 include listed shares.

When an active market does not exist for other financial assets, the fair value is determined using market prices of similar other financial assets, non-distressed market prices of identical or similar other financial assets, observable interest rates and yield curves, credit spreads or other relevant information including default, and these investments are classified as Level 2.

When significant inputs used to measure fair value of financial instruments are unobservable, these investments are classified as Level 3. The Group determines fair value, depending on significance, by using prices quoted by counterparty financial institutions, a valuation model based on the investee's discounted future cash flows, earnings, profitability and net assets, a comparable industry analysis method and the method to discount future cash flows using interest rates applicable to a transaction with the same remaining period and conditions. Other financial assets classified as Level 3 include unlisted shares, trust beneficiary rights, investment partnerships, and silent partnership funds, etc.

(iii) Derivatives

Derivatives measured based on a model using non-distressed market prices, prices in inactive markets, observable interest rates and yield curves, futures or spot prices for foreign exchanges or commodities, are classified as Level 2.

Derivatives classified as Level 2 mainly include interest rate swaps, currency swaps, and foreign exchange forward contracts.

Fair values of derivative transactions are calculated based on prices quoted by counterparty financial institutions.

(iv) Finance lease receivables and lease liabilities

Finance lease receivables and lease liabilities are not measured at fair value on the consolidated statements of financial position, but their fair value is disclosed and classified as Level 2.

(v) Financial assets and financial liabilities measured at amortized cost

Financial assets and financial liabilities measured at amortized cost are not measured at fair value on the consolidated statements of financial position, but their fair value is disclosed and classified mainly as Level 2.

The financial instruments measured at fair value on a recurring basis are as follows.

(Millions of yen)

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Equity securities	¥18,095	¥—	¥5,985	¥24,080
Other investments	—	—	12,173	12,173
Derivative financial assets	—	6,616	—	6,616
Liabilities				
Derivative financial liabilities	—	10,380	—	10,380

(Millions of yen)

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Equity securities	¥17,058	¥—	¥6,566	¥23,625
Other investments	—	—	12,641	12,641
Derivative financial assets	—	19,366	—	19,366
Liabilities				
Derivative financial liabilities	—	6,984	—	6,984

Reconciliation of Level 3 financial instruments measured on a recurring basis is as follows.

(Millions of yen)

	Other financial assets		Total
	Equity securities	Other investments	
April 1, 2017	¥2,890	¥11,767	¥14,658
Profit or loss (Note 1)	—	434	434
Other comprehensive income (Note 2)	308	—	308
Purchase	154	3,107	3,262
Sales/redemption	(514)	(2,368)	(2,883)
Transfer to Level 3	—	—	—
Transfer from Level 3	—	—	—
Others	3	26	30
March 31, 2018	2,843	12,967	15,810
Profit or loss (Note 1)	183	224	408
Other comprehensive income (Note 2)	(167)	—	(167)
Purchase	3,128	2,342	5,470
Sales/redemption	(17)	(3,373)	(3,390)
Transfer to Level 3	—	—	—
Transfer from Level 3	—	—	—
Others	15	12	28
March 31, 2019	5,985	12,173	18,159
Profit or loss (Note 1)	35	111	146
Other comprehensive income (Note 2)	180	—	180
Purchase	398	2,509	2,907
Sales/redemption	(1)	(2,152)	(2,154)
Transfer to Level 3	—	—	—
Transfer from Level 3	—	—	—
Others	(31)	—	(31)
March 31, 2020	6,566	12,641	19,208

(Notes)

1. Gains and losses included in Profit or loss relate to financial assets measured at FVTPL. They are included in "Revenues" and "Cost of sales".
2. Gains and losses included in Other comprehensive income relate to financial assets measured at FVTOCI. They are included in "Financial assets measured at fair value through other comprehensive income".

(vi) Valuation techniques and inputs

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs		
			March 31, 2018	March 31, 2019	March 31, 2020
Trust beneficiary interests	Discounted cash flow method	Discount rate	0.07–0.15%	0.04–0.10%	0.10–0.19%

The fair values of unlisted shares, investment partnerships, and silent partnership funds are calculated, depending on significance, by using a valuation model based on the investee's discounted future cash flows, earnings, profitability and net assets and a comparable industry analysis method.

(vii) Sensitivity analysis

For trust beneficiary interests classified as Level 3, the Group believes there is no significant change in the fair value due to changes in the unobservable inputs to other reasonably possible alternative assumptions.

The Group believes that there would be no significant change in the fair values of unlisted shares, investment partnerships and silent partnership funds classified as Level 3 due to changes in the unobservable inputs to other reasonably possible alternative assumptions.

(viii) Valuation process

Fair value measurement is performed by the finance department that is independent from the sales department in accordance with internal applicable rules, by adopting valuation models that can best reflect the nature of asset, characteristics and risks of individual financial instruments.

In addition, the finance department also monitors the trends of significant indicators that could have an effect on fair value fluctuation and verifies its consistency with price fluctuations. It is reviewed and approved by the executive officer in charge of finance and then reported to the board of executive officers and the board of directors.

19. Derivatives and hedging activities

The Group has early applied "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)" ("the Amendments") published in September 2019 from the year ended March 31, 2020 because there are hedge transactions that will be affected by interest rate benchmark reform. By applying the Amendments, the Group can consistently apply hedge accounting even during the period in which the uncertainty arises before existing interest rate benchmarks are replaced by alternative benchmark rates as a result of interest rate benchmark reform. Therefore, there is no effect on the Group's consolidated financial statements.

The Amendments include some exceptions and apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

The Amendments provide exceptions in relation to the following.

(i) Determining whether a forecast transaction (or a component thereof) is highly probable

(ii) Determining the timing to reclassify the amount accumulated in the cash flow hedge reserve to profit or loss

(iii) Assessing the economic relationship between the hedged item and the hedging instrument

(iv) Designating a component of an item as a hedged item

Exceptions are not provided with respect to the measurement and recognition of ineffectiveness caused by the difference in changes to fair value between the hedging instrument and the hedged item if cash flows of the hedging instrument is modified to be based on risk-free interest rates but those of the hedged item continues to be based on interest rate benchmarks (or vice versa).

The exceptions will continue to be applied unless the events specified below occur.

- The exception relating to the item above (i) ceases to apply at the earlier of (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and (b) when the hedging relationship that the hedged item is part of is discontinued.
- The exception relating to the above item (ii) ceases to apply at the earlier of (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and (b) when the entire amount accumulated in the cash flow hedge reserve has been reclassified to profit or loss.
- The exception relating to the above item (iii) ceases to apply to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument. If the hedging relationship is discontinued earlier than the dates specified in the above, the exception ceases to apply at the date of discontinuation.

When designating a group of items as the hedged item, the requirements for the end of application of the exceptions are separately applied to an individual item in that group.

The average term (maturity) and nominal amount of the hedging instruments included in the scope of the Amendments at March 31, 2020 are as follows.

(Millions of yen)

	Average term (maturity)	Nominal amount
Interest rate risk		
Paying 1-month GBP LIBOR / receiving GBP fixed rate	2.9 years	¥21,731
Paying 3-month GBP LIBOR / receiving GBP fixed rate	2.9 years	117,868
Total		139,599
Foreign exchange rate risk		
Currency swaps (Paying 3-month GBP LIBOR / receiving 3-month USD LIBOR)	2.4 years	8,799
Currency swaps (Paying 3-month GBP LIBOR / receiving 3-month EURIBOR)	1.8 years	2,893
Total		11,692

(1) Derivative transactions to which hedge accounting is applied

A fair value hedge is a hedge of the exposure to changes in the fair value of recognized assets and liabilities, or an unrecognized firm commitment. The Group uses currency swaps to hedge changes in the fair value of existing assets and liabilities. The Group also uses interest rate swaps to hedge changes in the fair value of borrowings with fixed interest payments if such borrowings are used to fund financial assets with variable interest rates.

A cash flow hedge is a hedge of the exposure to variability in future cash flows that could possibly affect profit or loss. The Group uses currency swaps and foreign exchange forward contracts to hedge the risk of changes in cash flows of forecast transactions, and uses interest rate swaps to hedge the exposure to risk of changes in cash flows related to borrowings with variable interest rates.

When applying hedge accounting, in order to confirm the economic relationship between the hedged item and the hedging instrument, the critical terms of the hedged item and the hedging instrument are matched or are closely related and the Group assesses the effectiveness of hedging through qualitative assessment of whether or not the changes in cash flow or fair value of the hedged item and changes in the cash flow or fair value of the hedging instrument will offset. In addition, the Group establishes an appropriate hedge ratio based on the economic relationship between the hedged item and hedging instrument and the risk management policy. The ineffective portion of hedges recognized in profit or loss for the years ended March 31, 2018, 2019 and 2020 are immaterial.

The nominal amount and carrying amount of the hedging instruments at March 31, 2019 and 2020 are as follows. The carrying amount of the hedging instruments is included in “Other financial assets” and “Other financial liabilities” in the consolidated statements of financial position.

(Millions of yen)

	March 31, 2019					
	Carrying amount		Nominal amount	Within 1 year	After 1 year but not more than 5 years	More than 5 years
	Asset	Liability				
Fair value hedges						
Interest rate risk						
Interest rate swaps	¥—	¥164	¥39,144	¥—	¥39,144	¥—
Foreign exchange rate risk						
Currency swaps	836	1,958	88,479	19,146	48,171	21,161
Cash flow hedges						
Interest rate risk						
Interest rate swaps	162	1,068	290,420	75,675	212,859	1,884
Foreign exchange rate risk						
Currency swaps	5,616	5,977	344,070	156,371	180,940	6,758
Foreign exchange forward contracts	—	0	233	233	—	—

(Millions of yen)

	March 31, 2020					
	Carrying amount		Nominal amount	Within 1 year	After 1 year but not more than 5 years	More than 5 years
	Asset	Liability				
Fair value hedges						
Interest rate risk						
Interest rate swaps	¥425	¥—	¥35,996	¥—	¥35,996	¥—
Foreign exchange rate risk						
Currency swaps	6,539	784	108,795	28,517	57,651	22,627
Cash flow hedges						
Interest rate risk						
Interest rate swaps	5	3,462	354,960	98,635	253,165	3,159
Foreign exchange rate risk						
Currency swaps	12,396	1,755	314,815	160,868	148,387	5,560

The carrying amount of hedged items in fair value hedges at March 31, 2019 and 2020 is as follows.

(Millions of yen)

	Consolidated statements of financial position	March 31, 2019	March 31, 2020
Interest rate risk			
Interest rate swaps	Borrowings and bonds	¥38,975	¥36,419
Foreign exchange rate risk			
Currency swaps	Borrowings and bonds	87,793	115,072

The changes in the fair value of the hedging instruments and hedged items used as the basis for determining the ineffective portion of fair value hedges for the years ended March 31, 2018, 2019 and 2020 are as follows.

(Millions of yen)

Year ended March 31, 2018	Hedged items	Hedging instruments
Interest rate risk		
Interest rate swaps	¥748	¥(748)
Foreign exchange rate risk		
Currency swaps	1,660	(1,619)

(Millions of yen)

Year ended March 31, 2019	Hedged items	Hedging instruments
Interest rate risk		
Interest rate swaps	¥(684)	¥684
Foreign exchange rate risk		
Currency swaps	(627)	627

(Millions of yen)

Year ended March 31, 2020	Hedged items	Hedging instruments
Interest rate risk		
Interest rate swaps	¥(590)	¥590
Foreign exchange rate risk		
Currency swaps	(6,876)	6,876

Accumulated other comprehensive income (before net of related tax effects) related to hedging instruments designated as cash flow hedges at March 31, 2019 and 2020 is as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Interest rate risk		
Interest rate swaps	¥(1,058)	¥(3,189)
Foreign exchange rate risk		
Currency swaps	(946)	(2,896)
Foreign exchange forward contracts	0	(682)

The impact on the consolidated statements of profit or loss and consolidated statements of comprehensive income (before net of related tax effects) related to hedging instruments designated as cash flow hedges for the years ended March 31, 2019 and 2020 is as follows.

(Millions of yen)

	Year ended March 31, 2019		Year ended March 31, 2020	
	Changes in fair value of the hedging instruments recognized in other comprehensive income	Transfer to profit or loss (Note 1)	Changes in fair value of the hedging instruments recognized in other comprehensive income	Transfer to profit or loss (Note 1)
Interest rate risk				
Interest rate swaps	¥(1,159)	¥(11)	¥(2,029)	¥(101)
Foreign exchange rate risk				
Currency swaps	(1,370)	617	17,429	(19,378)
Foreign exchange forward contracts	0	1	(682)	0

(Notes)

1. The amount transferred to profit or loss is included in “Revenues” and “Cost of sales” on the consolidated statements of profit or loss.
2. Changes in the value of hedged items used as the basis for determining the ineffective portion of the hedge approximate changes in the fair value of the hedging instruments.

(2) Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting is not applied are as follows.

(Millions of yen)

	March 31, 2019			March 31, 2020		
	Nominal amount	Carrying amount		Nominal amount	Carrying amount	
		Asset	Liability		Asset	Liability
Interest rate swaps	¥14,880	¥—	¥1,210	¥14,880	¥—	¥980

20. Transfer of financial assets

The Group transfers certain financial assets including finance lease receivables and accounts receivable to structured entities established by third parties and other entities, aiming at diversified funding sources and stable funding. The structured entities raise funds to purchase these financial assets primarily through the issue of commercial paper and borrowings. These transfer transactions are similar to those generally conducted by other financial institutions.

In case of default by a debtor, investors in these structured entities only have recourse to the assets held by the structured entities and not to the other assets held by the Group. The Group does not provide non-contractual support to these structured entities and does not have any arrangements to provide implicit support to any of them.

The Group's involvement with these structured entities regarding the transfer transactions includes mainly provision of liquidity enhancement and limited credit enhancement, collection agency service of receivables and receipt of fees related to collection of receivables.

(1) Consolidated structured entities for securitization

Certain financial assets are transferred to structured entities, which are consolidated subsidiaries of the Group, for securitization purposes. These structured entities are trusts which securitize financial assets such as finance lease receivables and accounts receivable.

At March 31, 2019 and 2020, the assets and liabilities held by the structured entities are as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Cash and cash equivalents	¥14,639	¥14,841
Trade and other receivables	103,602	76,812
Finance lease receivables	266,022	278,067
Total assets	384,265	369,721
Borrowings and bonds	315,318	311,219

(Note) Substantially all of the assets of the consolidated structured entities for securitization are used solely for repayments of liabilities of these structured entities.

(2) Nonconsolidated structured entities for securitization and other entities

(i) Interests in structured entities for securitization, which are not consolidated.

In certain securitization transactions involving financial assets, the Group uses structured entities set up by third party financial institutions. As these structured entities, which are managed by such financial institutions as part of their business also purchase a large amount of assets from other customers, the ratio of the financial assets transferred by the Group to the total assets of the structured entities is small. Accordingly, the Group's risk exposure related to these structure entities is immaterial.

Also, in the securitization of certain financial assets, the Group has established trusts upon investors' request and has subsequently sold interests in the trusts to investors. The Group holds limited interests in these trusts.

The Group may retain subordinated interests in the financial assets transferred to unconsolidated structured entities for securitization, mainly for the purpose of liquidity enhancement and limited credit enhancement, and/or repurchase the financial assets under limited certain circumstances.

At March 31, 2019 and 2020, the maximum exposures to loss associated with the Group's interests in the non-consolidated structured entities for securitization, are ¥23,057 million and ¥31,247 million, respectively, and they are included in the outstanding balances of subordinated interests and obligations to repurchase assets or the carrying amount of "Trade and other receivables" and "Finance lease receivables" which are transferred assets and are not derecognized in their entirety.

(ii) Transfer of financial assets to unconsolidated structured entities for securitization

(a) Transfer of financial assets derecognized in their entirety

The Group does not derecognize transferred financial assets when substantially all credit risks and economic value related to such financial assets are retained through subordinated interests.

At March 31, 2019 and 2020, the carrying amounts of transferred financial assets that continued to be recognized in their entirety and related liabilities are as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Carrying amount of transferred financial assets		
Trade and other receivables	¥114,563	¥106,629
Finance lease receivables	63,156	75,887
Total assets	177,719	182,516
Carrying amount of related liabilities		
Borrowings and bonds	143,838	146,580

(Note) Substantially all of the financial assets transferred by the Group are used solely for repayments of liabilities to the investors.

At March 31, 2019 and 2020, the fair value of the transferred financial assets whose investors do not have recourse to the Group's other assets, Cash and cash equivalents related to collections of the transferred financial assets, the fair value of related liabilities, and the net position are as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Fair value of transferred financial assets	¥178,203	¥183,442
Cash and cash equivalents related to collections of the transferred financial assets	3,520	5,212
Fair value of related liabilities	143,965	146,700
Net position	37,758	41,954

(b) Transfer of financial assets derecognized in their entirety

The Group derecognizes financial assets when substantially all credit risks and economic value related to the financial assets are transferred.

For the years ended March 31, 2018, 2019 and 2020, gains (losses) on transfers of Finance lease receivables and Trade and other receivables derecognized in their entirety are as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Revenues	¥332	¥165	¥48

During the years ended March 31, 2018, 2019 and 2020, gains (losses) recognized from the entity's continuing involvement of the Group in Trade and other receivables derecognized in their entirety are as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Revenues	¥1,500	¥1,086	¥1,528
Cost of sales	(63)	(6)	(49)
Gross profit	1,437	1,080	1,479

The Group retains obligations to provide servicing for financial assets derecognized in their entirety (service to collect principal and interest of transferred financial assets for commission), but servicing assets or liabilities are not recorded because the amounts of servicing expense and commission received are immaterial.

21. Revenues

(1) Disaggregation of revenues

(i) Revenues recognized from contracts with customers and other sources

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Revenue recognized from contracts with customers	¥172,216	¥164,958
Revenue recognized from other sources	281,036	299,062
Total	453,253	464,020

Revenue recognized from contracts with customers primarily includes revenue from sales of lease properties and other lease-related income such as maintenance. Revenue recognized from other sources includes lease revenue based on IFRS 16, interest revenue based on IFRS 9 and insurance income based on IFRS 4.

(ii) Relationship between disaggregated revenue and segment revenue

Year ended March 31, 2019

(Millions of yen)

	Reportable segments							Others	Total	Adjustments	Consolidated statement of profit or loss
	Japan										
	Account Solution	Vendor Solution	Europe	The Americas	China	ASEAN	Total				
Revenues											
Interest income from finance leases	¥3,695	¥13,247	¥1,035	¥8,489	¥10,689	¥2,944	¥40,101	¥773	¥40,875	¥3,874	¥44,749
Income from operating leases and other lease-related income	172,725	8,628	55,030	2,759	225	5,946	245,316	1,570	246,887	(6,395)	240,492
Interest income from installment sales and other loans receivable	9,325	1,649	29,375	13,859	7,199	6,873	68,284	1,270	69,555	(1,023)	68,532
Sales income of lease properties	15,850	1,109	30,994	130	55	1,286	49,428	195	49,624	(372)	49,251
Other	27,783	320	10,655	1,706	429	482	41,377	8,976	50,354	(127)	50,227
Total	229,381	24,956	127,091	26,945	18,600	17,534	444,509	12,787	457,297	(4,044)	453,253

Revenue recognized from contracts with customers primarily consists of ¥93,541 million attributable to the Account Solution (Japan) segment and ¥58,664 million attributable to the Europe segment.

Year ended March 31, 2020

(Millions of yen)

	Reportable segments							Others	Total	Adjustments	Consolidated statement of profit or loss
	Japan		Europe	The Americas	China	ASEAN	Total				
	Account Solution	Vendor Solution									
Revenues											
Interest income from finance leases	¥5,585	¥13,536	¥1,292	¥9,551	¥7,691	¥2,873	¥40,531	¥518	¥41,049	¥4,078	¥45,127
Income from operating leases and other lease-related income	179,269	8,593	63,605	2,617	88	5,400	259,575	781	260,356	(5,847)	254,509
Interest income from installment sales and other loans receivable	7,248	1,667	25,984	12,509	4,289	7,534	59,234	1,014	60,248	(1,231)	59,016
Sales income of lease properties	17,565	1,079	24,017	226	22	1,312	44,224	137	44,361	(346)	44,015
Other	29,071	296	17,690	4,542	96	480	52,178	9,524	61,703	(352)	61,351
Total	238,740	25,173	132,590	29,447	12,189	17,601	455,743	11,976	467,719	(3,699)	464,020

Revenue recognized from contracts with customers primarily consists of ¥94,228 million attributable to the Account Solution (Japan) segment and ¥53,534 million attributable to the Europe segment.

(i) Interest income from finance leases

See Note 3 "Summary of significant accounting policies (5) Leases (ii) Lessor" for the revenue recognition method relating to interest income from finance leases.

(ii) Income from operating leases and other lease-related income

See Note 3 "Summary of significant accounting policies (5) Leases (ii) Lessor" for the revenue recognition method relating to income from operating leases. Other lease-related income primarily include income related to maintenance.

The Group provides maintenance and other services attached to lease agreements with customers based on IFRS 15 and determines that the performance obligation is satisfied at the time the services are provided. The revenue is recognized based on cost incurred to satisfy the performance obligation relative to the expected total cost to satisfy the performance obligation. Furthermore, if payment is received from the customer prior to the satisfaction of the performance obligation, the amount is recognized as contract liabilities when received, and as the related performance obligation is satisfied, the contract liability is recognized as revenue generally within one year.

(iii) Interest income from installment sales and other loans receivable

Interest income from installment sales and other loans receivable is interest income calculated by using the effective interest method. For the revenue recognition method relating to interest income arising from installment sales and other loan receivable, see Note 3 "Summary of significant accounting policies (12) Revenue recognition" and Note 3 "Summary of significant accounting policies (4) Financial instruments (i) Non-derivative financial assets - Financial assets measured at amortized cost".

(iv) Sales income of lease properties

See Note 3 "Summary of significant accounting policies (12) Revenue recognition" for the revenue recognition method relating to sales income of lease properties.

(2) Contract balances

Contract balances are as follows.

(Millions of yen)

	April 1, 2018	March 31, 2019	March 31, 2020
Trade and other receivables	¥333,483	¥363,098	¥352,806
Contract liabilities	5,036	4,561	4,495

Of revenues recognized for the years ended March 31, 2019 and 2020, the amounts corresponding to contract liabilities as at the beginning of the respective years were immaterial.

Furthermore, "Contract liabilities" are presented in "Other liabilities" on the consolidated statements of financial position.

(3) Remaining performance obligations

With respect to long-term maintenance and other service contracts, the aggregate amount of the transaction prices allocated to unsatisfied performance obligations, and the periods in which of the related revenue is expected to be recognized, is as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Within 1 year	¥37,845	¥48,285
After 1 year but not more than 5 years	63,805	70,871
More than 5 years	2,329	3,267
Total	103,980	122,424

(4) Assets recognized from the costs to obtain or fulfill contracts with customers

There were no material assets recognized from costs to obtain or fulfill contracts with customers at March 31, 2019 and 2020. In addition, if the amortization period of assets that should be recognized is less than one year, the incremental cost of obtaining a contract is recognized as an expense when incurred as a practical expedient.

22. Cost of sales

The major components of cost of sales are as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Cost of sales			
Interest expenses arising from financial liabilities measured at amortized cost	¥30,240	¥38,316	¥39,543
Operating leases and lease related expenses	223,762	250,497	260,665
Other	18,422	24,045	27,494
Total cost of sales	272,425	312,859	327,703

23. Selling, general and administrative expenses

The major components of selling, general and administrative expenses are as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Employee benefit expenses	¥42,192	¥43,348	¥43,769
Welfare expenses	5,131	5,355	5,477
Rent expenses	3,939	4,147	2,278
Communication expenses	1,175	1,095	1,121
Outsourcing expenses	7,591	8,089	7,669
Provision (reversal) of allowance for doubtful accounts	6,134	28,171	12,033
Other	20,108	20,789	24,092
Total selling, general and administrative expenses	86,274	110,997	96,442

Included in Provision (reversal) of allowance for doubtful accounts for the year ended March 31, 2019, is a provision of ¥20,665 million which is due to significant increase of credit risk caused by inappropriate deals that were found in certain factoring transactions entered into by Hitachi Capital Factoring (China) Co., Ltd., a subsidiary of the Company. This was recognized within selling, general and administrative expenses in the consolidated statements of profit or loss.

For the year ended March 31, 2020, the Group increased the amount of allowance for doubtful accounts to reflect the global spread of COVID-19. As a result, “Selling, general and administrative expenses” increased by ¥2,600 million.

24. Other income and expenses

The major components of other income and expenses are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Other income			
Casualty insurance income	¥175	¥475	¥261
Compensation for damage received	—	—	545
Gain on bargain purchase	—	—	535
Changes in fair value of contingent consideration	—	—	447
Other	548	547	289
Total other income	723	1,023	2,078

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Other expenses			
Extra retirement payments	¥1,413	¥112	¥—
Impairment losses	840	53	488
Other	733	548	367
Total other expenses	2,987	714	856

(Note) Impairment losses primarily consist of impairment on property, plant and equipment.

25. Earnings per share

Earnings per share attributable to equity owners of the parent are as follows.

Diluted earnings per share attributable to equity owners of the parent are not presented as there are no dilutive shares.

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Net earnings attributable to owners of the parent	¥32,057 million	¥19,363 million	¥30,693 million
Weighted average number of shares	116,886,292 shares	116,860,470 shares	116,853,475 shares
Earnings per share attributable to owners of the parent	¥274.26	¥165.69	¥262.67

26. Cash flow information

(1) Interest and dividends received and interest paid

Cash flows from operating activities include the following interest and dividends received and interest paid.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Interest and dividends received	¥67,434	¥69,963	¥60,438
Interest paid	(29,251)	(37,671)	(39,717)

(2) Changes in liabilities from financing activities

Year ended March 31, 2018

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds	Total
April 1, 2017	¥532,590	¥1,370,536	¥637,170	¥2,540,297
Changes arising from cash flows	106,400	1,196	156,880	264,477
Non-cash changes	(7,445)	8,919	(6,722)	(5,248)
Acquisitions through business combinations	537	12,930	440	13,907
Exchange differences	(7,983)	(3,935)	(7,192)	(19,111)
Other	—	(75)	30	(45)
March 31, 2018	631,544	1,380,652	787,328	2,799,525

Year ended March 31, 2019

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds	Total
April 1, 2018	¥631,544	¥1,380,652	¥787,328	¥2,799,525
Changes arising from cash flows	125,709	25,060	137,271	288,041
Non-cash changes	5,327	18,350	(6,500)	17,178
Acquisitions through business combinations	1,173	14,795	—	15,969
Exchange differences	4,154	3,562	(6,485)	1,230
Other	—	(7)	(14)	(21)
March 31, 2019	762,581	1,424,063	918,099	3,104,745

Year ended March 31, 2020

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds	Lease liabilities	Total
April 1, 2019	¥762,581	¥1,424,063	¥918,099	¥13,307	¥3,118,052
Cumulative effect of changes in accounting policy	—	—	—	83,627	83,627
Restated balance at beginning of year (April 1, 2019)	762,581	1,424,063	918,099	96,934	3,201,680
Changes arising from cash flows	(151,080)	72,730	32,398	(10,191)	(56,143)
Non-cash changes	(29,068)	(29,762)	(20,332)	14,677	(64,485)
Acquisitions through business combinations	—	1,017	—	—	1,017
Exchange differences	(29,068)	(30,775)	(20,263)	(123)	(80,231)
Recognition of lease liabilities	—	—	—	23,419	23,419
Termination of lease contracts	—	—	—	(8,617)	(8,617)
Other	—	(4)	(69)	—	(74)
March 31, 2020	582,432	1,467,031	930,165	101,421	3,081,051

27. Major subsidiaries

The consolidated financial statements of the Group include the financial statements of the following subsidiaries.

(%)

Name	Location	March 31, 2019	March 31, 2020
		Ownership ratio	Ownership ratio
Hitachi Capital Servicer Corporation	Minato, Tokyo	100.00	100.00
Hitachi Capital Services Co., Ltd.	Minato, Tokyo	100.00	100.00
Hitachi Capital Auto Lease Corporation	Minato, Tokyo	51.00	51.00
Hitachi Triple Win Corp.	Minato, Tokyo	100.00	100.00
Sekisui Leasing Co., Ltd.	Osaka, Osaka	90.00	90.00
Hitachi Capital Insurance Corporation	Chiyoda, Tokyo	79.36	79.36
Hitachi Capital Community Corporation	Minato, Tokyo	100.00	100.00
PT HCD Properti Indonesia	Jakarta, Indonesia	—	63.45 (63.45)
Hitachi Capital Trust Corporation	Minato, Tokyo	100.00	100.00
Hitachi Capital NBL Corporation	Minato, Tokyo	100.00	100.00
Hitachi Green Energy Corporation	Minato, Tokyo	100.00	100.00
Hitachi Wind Power Ltd.	Minato, Tokyo	85.10	85.10
Hitachi Sustainable Energy Ltd.	Hitachi, Ibaraki	85.10	85.10
Hitachi Capital (UK) PLC	Surrey, UK	100.00	100.00
Hitachi Capital Polska Sp. z o.o.	Warsaw, Poland	100.00	100.00
Hitachi Capital Mobility Holding Netherlands B.V.	Groningen, the Netherlands	98.35	98.61
Hitachi Capital Mobility Netherlands B.V.	Groningen, the Netherlands	98.35 (98.35)	98.61 (98.61)
Maske Fleet GmbH	Niedersachsen, Germany	100.00	100.00
Maske Langzeit-Vermietung GmbH	Vienna, Austria	100.00 (100.00)	100.00 (100.00)
Hitachi Capital America Corp.	Connecticut, USA	100.00	100.00
Hitachi Capital Canada Corp.	Ontario, Canada	100.00 (100.00)	100.00 (100.00)
CLE Capital Inc.	Quebec, Canada	100.00 (100.00)	100.00 (100.00)
Hitachi Capital Management (China) Ltd.	Hong Kong, China	100.00	100.00
Hitachi Capital (Hong Kong) Ltd.	Hong Kong, China	100.00 (100.00)	100.00 (100.00)
Hitachi Capital Leasing (China) Co., Ltd.	Beijing, China	90.00 (90.00)	94.12 (94.12)
Hitachi Capital Factoring (China) Co., Ltd.	Shanghai, China	100.00 (100.00)	100.00 (100.00)
Hitachi Capital Asia Pacific Pte. Ltd.	Singapore	100.00	100.00
Hitachi Capital (Thailand) Co., Ltd.	Bangkok, Thailand	73.99 (73.99)	73.99 (73.99)

Name	Location	March 31, 2019	March 31, 2020
		Ownership ratio	Ownership ratio
Hitachi Capital Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00 (100.00)	100.00 (100.00)
PT. Arthaasia Finance	Jakarta, Indonesia	85.00 (85.00)	85.00 (85.00)
PT. Hitachi Capital Finance Indonesia	Jakarta, Indonesia	70.00 (70.00)	73.81 (73.81)

(Notes)

1. Figures in parentheses represent the percentage of indirect ownership.
2. In addition to the subsidiaries listed above, the Group also consolidates trusts used for the securitization of receivables.

28. Related party transactions

Significant transactions and balances of receivables and payables between the Group and its related parties are as follows.

(1) Entities having significant influence over the Group

The following transactions involve companies having significant influence over the Group, and the subsidiaries of such companies.

(Millions of yen)

	March 31, 2019	March 31, 2020
Accounts receivable	¥79,527	¥48,854
Accounts payable	32,621	30,846
Borrowings	373,623	249,407

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Revenues	¥22,850	¥23,525	¥25,829
Interest expense	6,356	7,857	7,622

The Group's accounts receivable, accounts payable and revenues are primarily attributable to leases and installment sales entered into with Hitachi, Ltd. and its group companies. The Group's borrowings and interest expense are primarily attributable to transactions with Mitsubishi UFJ Financial Group and its group companies.

(2) Management

Remuneration of the Company's directors is as follows.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Remunerations of management (short-term employee benefits)	¥528	¥602	¥639

29. Pledged assets

The Group pledged certain assets as collateral as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Cash and cash equivalents	¥13,270	¥4,803
Accounts receivable	384	274
Finance lease receivables	840	471
Operating leased assets	27,449	6,994
Other property, plant and equipment	1,917	1,687
Total	43,862	14,230

The balance of obligations corresponding to pledged assets is as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Borrowings	¥38,411	¥12,363
Total	38,411	12,363

30. Commitments and contingencies

(1) Financial guarantee contracts

The Group provides guarantees for customer obligations related to sales of affiliated loans, etc. (maximum term up to the year 2042). The outstanding balance of the loan guarantee liabilities is as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Loan guarantee liabilities	¥42,462	¥33,145

The Group is obligated to reimburse the holder of financial guarantee contracts for losses incurred if the specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

The Group receives collateral for certain guarantee liabilities.

At March 31, 2019 and 2020, these guarantee liabilities amounted to ¥1,330 million and ¥1,176 million, respectively.

(2) Loan commitments

The Company provides loan commitments to its customers and associates.

The undrawn amount of the total loan commitments provided is as follows.

(Millions of yen)

	March 31, 2019	March 31, 2020
Total loan commitments	¥41,400	¥41,600
Amount utilized	5,476	6,292
Balance available	35,923	35,307

As loans under the loan commitment agreements are subject to credit review of borrowers, the full amount may not be utilized.

31. Business combinations

There were no material business combinations during the years ended March 31, 2018, 2019 and 2020.

32. Subsequent event

Business Integration

The Company and Mitsubishi UFJ Lease & Finance Company Limited entered into the business integration agreement and the merger agreement on September 24, 2020, which are planned to be implemented and become effective on April 1, 2021, upon the approval to be granted at each of the extraordinary meetings of shareholders of the two companies planned to be held in late February 2021 and the receipt of necessary authorizations and approvals of relevant domestic and overseas authorities.

Report of Independent Auditors

To the Shareholders and the Board of Directors of
Hitachi Capital Corporation

We have audited the accompanying consolidated financial statements of Hitachi Capital Corporation, which comprise the consolidated statements of financial position as of March 31, 2019 and 2020, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended March 31, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Capital Corporation at March 31, 2019 and 2020, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young ShinNihon LLC

Tokyo, Japan

September 30, 2020