Annual Securities Report

53rd term (from April 1, 2016 to March 31, 2017)

Hitachi Construction Machinery Co., Ltd.

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Part I Information on the Company

I. Overview of the Company

1. Transition of the Key Financial Data

(1) Five-year financial data

Millions of yen, unless otherwise stated

	IFRS				
	Transition date	50th term	51st term	52nd term	53rd term
As of the transition date and as of and years ended	April 1, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Revenue	–	802,988	815,792	758,331	753,947
Income before income taxes	–	60,252	58,953	24,517	23,859
Net income attributable to owners of the parent	–	35,747	26,023	8,804	8,022
Comprehensive income attributable to owners of the parent	–	54,409	45,782	(22,394)	7,876
Total equity attributable to owners of the parent	351,006	397,004	431,227	395,963	399,619
Total assets	1,086,411	1,101,114	1,064,673	926,628	999,601
Equity per share attributable to owners of the parent (Yen)	1,656.40	1,868.17	2,028.57	1,861.93	1,879.14
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	–	168.30	122.44	41.41	37.72
Net income per share (Diluted) (Yen)	–	168.24	122.42	41.41	37.72
Equity attributable to owners of the parent ratio (%)	32.3	36.1	40.5	42.7	40.0
Profit on equity attributable to owners of the parent (%)	–	9.6	6.3	2.1	2.0
Price earnings ratio (Times)	–	11.81	17.17	43.18	73.57
Net cash provided by operating activities	–	80,284	106,229	114,874	87,961
Net cash provided by (used in) investing activities	–	(41,172)	(17,976)	18,255	(74,610)
Net cash used in financing activities	–	(55,694)	(96,294)	(98,163)	(25,817)
Cash and cash equivalents at end of period	–	53,672	51,433	79,110	65,455
Employees (Number) [The average number of temporary employees for the year]	20,440 [5,186]	20,911 [4,531]	21,126 [3,920]	21,193 [3,032]	23,858 [2,384]

(Notes) 1. Revenue is presented exclusive of consumption taxes.

2. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") from the 51st term.

Millions of yen, unless otherwise stated

Fiscal year	Japan GAAP		
	49th term	50th term	51st term
As of and years ended	March 31, 2013	March 31, 2014	March 31, 2015
Net sales	772,355	802,988	815,792
Ordinary income	36,391	53,671	52,738
Net income attributable to owners of the parent	23,464	28,939	22,945
Comprehensive income	57,944	57,607	55,406
Net assets	416,671	447,640	490,996
Total assets	1,099,901	1,087,191	1,047,872
Net assets per share (Yen)	1,704.34	1,827.59	1,975.73
Net income per share (Yen)	110.77	136.24	107.95
Net income per share after adjustment for dilution (Yen)	110.75	136.20	107.94
Equity ratio (%)	32.8	35.7	40.1
Return on equity (%)	6.9	7.7	5.7
Price earnings ratio (Times)	18.31	14.59	19.47
Net cash provided by operating activities	59,965	92,324	109,303
Net cash used in investing activities	(37,080)	(36,724)	(13,549)
Net cash used in financing activities	(42,700)	(72,174)	(103,822)
Cash and cash equivalents at end of period	66,622	53,676	51,433
Employees (Number)	20,440	20,911	21,126
[The average number of temporary employees for the year]	[5,186]	[4,531]	[3,920]

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

2. Financial information based on Japan GAAP for the 51st term was not audited pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

(2) Non-consolidated financial data

Millions of yen, unless otherwise stated

		49th term	50th term	51st term	52nd term	53rd term
Fiscal year-end		March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Net sales		406,001	391,154	393,035	354,746	357,072
Ordinary income (loss)		942	16,548	8,749	(21,835)	13,883
Net income (loss)		6,230	(556)	3,860	(433)	17,209
Common stock		81,577	81,577	81,577	81,577	81,577
Number of shares issued	(Shares)	215,115,038	215,115,038	215,115,038	215,115,038	215,115,038
Net assets		230,966	224,425	217,006	202,394	216,277
Total assets		568,928	543,167	516,273	458,715	495,190
Net assets per share	(Yen)	1,086.32	1,052.46	1,017.23	948.11	1,014.66
Dividends per share [Of the above, interim dividends per share]	(Yen)	40.00 [20.00]	50.00 [25.00]	60.00 [30.00]	40.00 [30.00]	12.00 [4.00]
Net income (loss) per share	(Yen)	29.41	(2.62)	18.16	(2.04)	80.92
Net income per share after adjustment for dilution	(Yen)	29.41	–	18.16	–	80.92
Equity ratio	(%)	40.5	41.2	41.9	44.0	43.6
Return on equity	(%)	2.6	(0.2)	1.8	(0.2)	8.2
Price earnings ratio	(Times)	68.96	–	115.75	–	34.29
Dividend payout ratio	(%)	136.01	–	330.40	–	14.83
Employees [The average number of temporary employees for the year]	(Number)	4,530 [1,121]	4,756 [1,040]	4,704 [839]	4,315 [651]	3,985 [381]

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

2. "Net income per share after adjustment for dilution" for the 50th and 52nd terms are not presented because net loss was recorded for the terms while the Company had dilutive shares.

3. "Price earnings ratio" and "dividend payout ratio" for the 50th and 52nd terms are not presented because net loss was recorded for the terms.

2. History

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

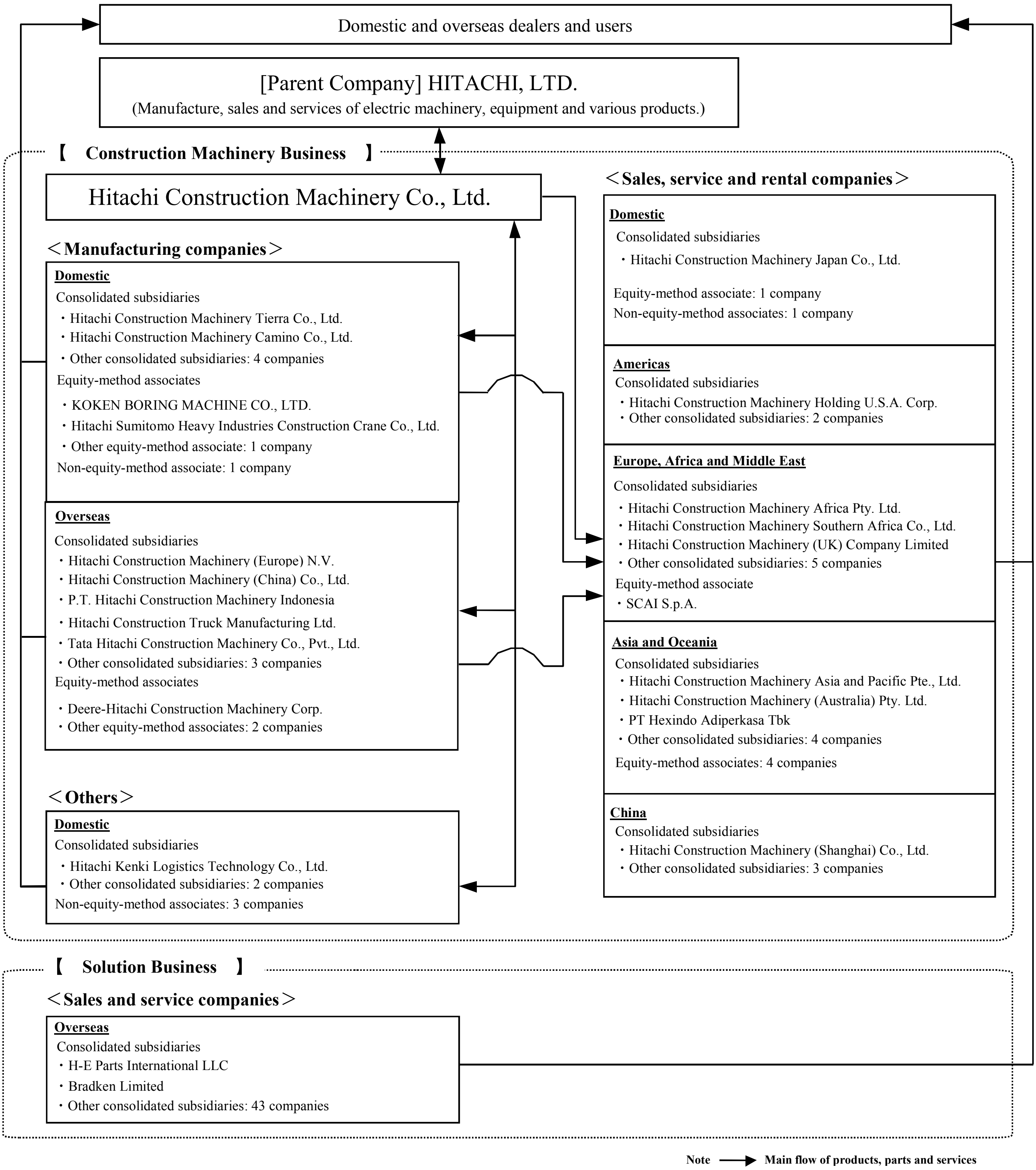
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions of Hitachi, Ltd.
November 1969	Split off Hitachi, Ltd.'s construction machinery manufacturing division from the Parent Company and established, with the Adachi and Tsuchiura works, Hitachi Construction Machinery Manufacturing Co., Ltd.
October 1970	Established Hitachi Construction Machinery Co., Ltd. through merger of Hitachi Construction Machinery Manufacturing Co., Ltd. and (former) Hitachi Construction Machinery Co., Ltd., with capital of ¥3.8 billion.
August 1972	Established Hitachi Construction Machinery (Europe) N.V. in the Netherlands. (Currently a consolidated subsidiary)
October 1973	Merged with Sagami Kogyo Co., Ltd. (capital stock of ¥50 million). Par value of shares was changed from ¥500 to ¥50. Capital increased to ¥3.85 billion.
March 1974	Incorporated Adachi Works into Tsuchiura Works in order to strengthen the manufacturing ability based on the Government policy of plant relocation.
July 1979	Established Hitachi Construction Machinery Camino Co., Ltd. (Currently a consolidated subsidiary)
December 1981	Listed on the Second Section of the Tokyo Stock Exchange.
August 1984	Established Hitachi Construction Machinery Asia and Pacific Pte. Ltd. in Singapore. (Currently a consolidated subsidiary)
June 1988	Established Deere-Hitachi Construction Machinery Corp. in the United States. (Currently an equity-method associate)
September 1989	Listed on the First Section of the Tokyo Stock Exchange.
January 1990	Acquired management rights of Hitachi Construction Machinery Tierra Co., Ltd. (Currently a consolidated subsidiary)
January 1990	Listed on the First Section of the Osaka Securities Exchange.
May 1991	Established P.T. Hitachi Construction Machinery Indonesia. (Currently a consolidated subsidiary)
December 1991	Acquired management rights of Niigata Material Co., Ltd. (Currently a consolidated subsidiary)
April 1995	Established Hitachi Construction Machinery (China) Co., Ltd. (Currently a consolidated subsidiary)
June 1997	Invested in P.T. Hexindo Adiperkasa Tbk in Indonesia. (Currently a consolidated subsidiary)
October 1998	Acquired management rights of Hitachi Construction Truck Manufacturing Ltd. in Canada. (Currently a consolidated subsidiary)
July 2002	Established Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (Currently an equity-method associate)
June 2005	Acquired management rights of TCM Corporation.
April 2007	Acquired management rights of Yamanashi Hitachi Construction Machinery Co., Ltd.
December 2007	Established Hitachi Construction Machinery Leasing (China) Co., Ltd. in China. (Currently a consolidated subsidiary)
April 2008	Established Hitachi Construction Machinery Japan Co., Ltd. (Former Hitachi Construction Machinery REC Co., Ltd.) (Currently a consolidated subsidiary)
September 2008	Established P.T. HEXA FINANCE INDONESIA. (Former P.T. Hitachi Construction Machinery Finance (Indonesia)).
October 2008	Merged Hitachi Kenki FineTech Co., Ltd. into the Company.
July 2009	Acquired management rights of Shintohoku Metal Co., Ltd. (Currently a consolidated subsidiary)
July 2009	Acquired management rights of Wenco International Mining Systems Ltd. in Canada. (Currently a consolidated subsidiary)
December 2009	TCM Corporation became a wholly owned subsidiary through an exchange of shares.
March 2010	Acquired management rights of Tata Hitachi Construction Machinery Co., Pvt., Ltd. in India. (Currently a consolidated subsidiary)
April 2010	Acquired the wheel loader business of TCM Corporation through absorption-type company split.

October 2010	Established Hitachi Construction Machinery Africa Pty. Ltd. in South Africa. (Currently a consolidated subsidiary)
March 2011	Established Hitachi Construction Machinery Middle East Corp. FZE in UAE. (Currently a consolidated subsidiary)
April 2011	Established LLC Hitachi Construction Machinery Eurasia in Russia. (Former Hitachi Construction Machinery Eurasia Manufacturing LLC) (Currently a consolidated subsidiary)
December 2011	Hitachi Construction Machinery Tierra Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)
April 2012	Merged Hitachi Kenki Business Frontier Co., Ltd. into the Company.
April 2012	Spun off and transferred the Company’s sales/service business in Japan to Hitachi Construction Machinery Japan Co., Ltd.
August 2012	Transferred all shares of TCM Corporation.
October 2012	Merged Tsukuba Tech Co., Ltd. into the Company.
April 2013	Hitachi Kenki Logistics Technology Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)
May 2013	Transferred all shares of Yamanashi Hitachi Construction Machinery Co., Ltd.
March 2014	Shintohoku Metal Co., Ltd. became a wholly owned subsidiary. (Currently a consolidated subsidiary)
March 2015	Transferred 70% of shares of P.T. HEXA FINANCE INDONESIA owned by the Company. (Currently an equity-method associate)
October 2015	KCM Corporation became a wholly owned subsidiary. (Currently a consolidated subsidiary)
January 2016	Niigata Material Co., Ltd. became a wholly owned subsidiary through an exchange of shares. (Currently a consolidated subsidiary)
April 2016	Spun off and transferred the Company’s wheel loader development/manufacturing business to KCM Corporation.
October 2016	Liquidated Hitachi Construction Machinery Trading Co., Ltd.
December 2016	H-E Parts International LLC became a wholly owned subsidiary. (Currently a consolidated subsidiary)
March 2017	Bradken Limited became a consolidated subsidiary through takeover offer (Currently a consolidated subsidiary)
March 2017	Transferred a portion of shares of stock of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. held by the Company. (Currently an equity-method associate)

3. Description of Business

The consolidated group (hereinafter referred to as the “Group”) consists of the Company, its 85 consolidated subsidiaries and 17 associates. The Group’s business consists of two reportable segments as follows: The Construction Machinery Business primarily intends to provide customers with a series of total life cycle related to construction machinery such as the manufacture and sale of hydraulic excavators, ultra-large-sized hydraulic excavators, and wheel loaders, as well as the sale of parts related to these products. The Solution Business primarily intends to provide services, production, and distribution parts that are not included in the Construction Machinery Business.

The structure of the Group business is as follows:



4. Information on Subsidiaries and Associates

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
[Parent Company] Hitachi, Ltd. (Note 1) (Note 2) (Note 3)	Chiyoda-ku, Tokyo	458,791	Manufacture, sales and service of electric machinery, equipment and various products	50.9 [0.6]	The Company lends and borrows money and has land lease transactions with the entity. The Company also pays brand value royalty. 1 Director of the Company concurrently holds position of directors or officers.
[Consolidated subsidiaries] Hitachi Construction Machinery Tierra Co., Ltd. (Note 4)	Koka-city, Shiga	1,441	Construction Machinery Business	100.0	The entity manufactures and sells some of the Company's construction machinery products, and the Company purchases the products. The Company also lends and borrows money.
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	400	Construction Machinery Business	100.0	The entity manufactures some of the Company's construction machinery products. The Company lends money.
Hitachi Construction Machinery Japan Co., Ltd. (Note 4) (Note 5)	Soka-city, Saitama	5,000	Construction Machinery Business	100.0	The Company sells construction machinery products to the entity. The Company also lends and borrows money and leases land. 1 Director of the Company concurrently holds position of directors or officers.
KCM Corporation	Kako-gun, Hyogo	1,500	Construction Machinery Business	100.0	The entity manufactures some of the Company's construction machinery products. The Company lends money. 1 Director of the Company concurrently holds position of directors or officers.
Hitachi Construction Truck Manufacturing Ltd. (Note 4)	Guelph, Ontario, Canada	(Thousands of US dollars) 84,100	Construction Machinery Business	100.0	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products, and the Company purchases the products. The Company also lends money. 1 Director of the Company concurrently holds the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Hitachi Construction Machinery (Europe) N.V. (Note 4)	Oosterhout, The Netherlands	(Thousands of Euro) 70,154	Construction Machinery Business	98.9	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in Europe, and the Company sells the construction machinery products to the entity. 2 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery (China) Co., Ltd. (Note 4)	Hefei Anhui, China	(Thousands of RMB) 1,500,000	Construction Machinery Business	81.3	The entity manufactures, sells and provides services relating to some of the Company's construction machinery products in China, and the Company sells products to the entity. The Company also borrows money. 3 Directors of the Company concurrently hold the position of director or officer.
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	Pioneer Walk, Singapore	(Thousands of US dollars) 39,956	Construction Machinery Business	100.0	The entity organizes sales and services of construction machinery products of the Company in Southeast Asia and Oceania region, and the Company sells products to the entity. 1 Director of the Company concurrently holds position of director or officer.
P.T. Hitachi Construction Machinery Indonesia (Note 2)	Bekasi, Indonesia	(Thousands of US dollars) 17,200	Construction Machinery Business	82.0 (33.9)	The entity manufactures and sells some of the Company's construction machinery products and parts in the ASEAN region, and the Company provides guarantees in respect of loans. 1 Director of the Company concurrently holds position of director or officer.
Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	(Thousands of RMB) 66,224	Construction Machinery Business	54.4	The entity sells and provides services relating to construction machinery products of the Company in China, and the Company sells parts to the entity. 2 Directors of the Company concurrently hold the position of director or officer.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Hitachi Construction Machinery Leasing (China) Co., Ltd. (Note 2) (Note 4)	Shanghai, China	(Thousands of RMB) 1,103,578	Construction Machinery Business	85.3 (24.5)	The entity leases construction machinery products of the Company in China. 2 Directors of the Company concurrently hold the position of director or officer.
Tata Hitachi Construction Machinery Co., Pvt., Ltd.	Bangalore, Karnataka, India	(Millions of Indian Rupees) 1,143	Construction Machinery Business	60.0	The entity manufactures and sells construction machinery products of the Company in India. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery (Australia) Pty. Ltd.	Greystanes, New South Wales, Australia	(Thousands of Australian Dollars) 22,741	Construction Machinery Business	80.0	The entity sells and provides services relating to construction machinery products of the Company in Australia, and the Company sells parts to the entity. 1 Director of the Company concurrently holds the position of director or officer.
Hitachi Construction Machinery Holding U.S.A. Corp. (Note 4)	Kernersville, North Carolina, U.S.A.	(Thousands of US dollars) 1,000	Construction Machinery Business	100.0	The entity sells and provides services relating to construction machinery products and parts of the Company in the U.S.
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	(US dollars) 1	Solution Business	100.0	The Company lends money. 2 Directors of the Company concurrently holds the position of director or officer.
Bradken Limited (Note 4)	Newcastle, New South Wales, Australia	(Thousands of Australian Dollars) 653,215	Solution Business	68.62	1 Director of the Company concurrently holds the position of director or officer.
69 other consolidated subsidiaries	–	–	–	–	–

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
[Equity-method associates] KOKEN BORING MACHINE CO., LTD. (Note 1)	Toshima-ku, Tokyo	1,165	Construction Machinery Business	25.6	The entity purchases products from the Company. The Company mutually cooperates with the entity in the environmental business.
Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.	Taito-ku, Tokyo	4,000	Construction Machinery Business	34.0	The entity manufactures and sells some of the Company's construction machinery products, and the Company sells parts to the entity.
Deere-Hitachi Construction Machinery Corp.	Kernersville, North Carolina, U.S.A.	(Thousands of US dollars) 108,800	Construction Machinery Business	50.0	The entity organizes manufacturing, sales and service of some of the construction machinery products of the Company in the Americas region. 1 Director of the Company concurrently holds the position of director or officer.
9 other associates	–	–	–	–	–

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

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

2. The percentages in parentheses under "Percentage of voting rights holding [held]" represent indirect ownership out of the total percentage noted above.

3. The Company participates in the cash pooling system of the Hitachi Group which aims at centralized management of funds, and the financial arrangements are made on a daily basis. Interest rates on deposits and borrowing of funds are decided considering the market interest rates. No collateral is provided.

4. The entity is the Specified Subsidiary.

5. Revenue of Hitachi Construction Machinery Japan Co., Ltd (excluding revenue from intercompany transactions within the Group) exceeds 10% of the consolidated revenue.

Major financial information	Hitachi Construction Machinery Japan Co., Ltd.	(Millions of yen)
	1) Revenue	176,290
	2) Income before income taxes	11,870
	3) Net income	8,574
	4) Total equity	22,242
	5) Total assets	105,078

5. Employees

(1) Consolidated basis

(As of March 31, 2017)

Name of segment	Number of employees
Construction Machinery Business	20,165 (1,969)
Solution Business	3,693 (415)
Total	23,858 (2,384)

(Notes) 1. The number of employees is the number of full-time employees.

2. The numbers in parentheses represent the average number of temporary employees for the year, which is not included in the number of employees.

3. An increase in the number of employees by 2,665 employees from March 31, 2016 is mainly the result of the Company making Bradken Limited and its subsidiaries consolidated subsidiaries of the Company in March 2017.

(2) The Company

(As of March 31, 2017)

Number of employees	Average age	Average length of service	Average annual salary
3,985 (381)	37.4	13.8 years	¥6,205,000

Name of segment	Number of employees
Construction Machinery Business	3,985 (381)
Total	3,985 (381)

(Notes) 1. The number of employees is the number of full-time employees.

2. Average annual salary includes bonuses and extra wages.

3. The numbers in parentheses represent the average number of temporary employees for the year, which is not included in the number of employees.

(3) Description of the labor union

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

II. Business Overview

1. Summary of Business Results

Any forward-looking statements in this report are based on the judgment of the Group as of March 31, 2017.

(1) Business results

The Group worked on securing profit by the establishment of a global management support scheme, expansion of its market share, cost reduction, and continued enhancement of operational efficiency by business/structural reform. In addition, we created the global research/development framework and strengthened the development marketing function to provide appropriate products by region and solutions for customers' life-cycle cost reduction. The Company acquired H-E Parts International LLC and its subsidiaries on December 21, 2016, and acquired Bradken Limited and its subsidiaries on March 20, 2017 and made them consolidated subsidiaries of the Company, for the enhancement of its value chain through strengthening of solution business. The Company transferred a portion of shares of stock of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., a consolidated subsidiary of the Company, to Sumitomo Heavy Industries, Ltd. and it became an equity-method associate of the Company on March 31, 2017.

As a result of these activities, despite an increase in sales volume thanks to the recovery in demand for hydraulic excavators, consolidated revenue for the year ended March 31, 2017 was ¥753,947 million, which represents 99% of the amount reported for the year ended March 31, 2016, due to foreign exchange effects. Operating income was ¥23,622 million, which represents 69% of the amount reported for the year ended March 31, 2016, due to booking of the restructuring cost in addition to the negative impact of the gain from the restructuring booked in the previous fiscal year. Income before income taxes was ¥23,859 million, which represent 97% of the amount reported for the year ended March 31, 2016. Net income attributable to owners of the parent was ¥8,022 million, which represent 91% of the amount reported for the year ended March 31, 2016.

Business results by segment are as follows:

In the year ended March 31, 2017, in addition to the construction machinery business, its traditional business, the Company newly added the businesses of H-E Parts International LLC and its subsidiaries, which have become consolidated subsidiaries of the Company from the third quarter, and Bradken Limited and its subsidiaries, which have become consolidated subsidiaries of the Company from the fourth quarter, as the solution business, and decided to report business results according to the two operating segments.

1) Construction Machinery Business

Global demand has increased approx. 10% year on year due to the recovery in demand, year on year, for hydraulic excavators in China, India, Asia, and Western Europe. We promoted enhancement of parts and service business through a globally launched service solution called "ConSite," which provides comprehensive support to the customers for their machines, as well as expansion of the parts supply network to enlarge sales and revenue. In Japan, for i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, the Company has been working to promote ICT hydraulic excavators and smart construction solutions.

As for mining machinery, demand for ultra-large-sized hydraulic excavators increased by approx. 10% year on year because of the recovery of commodity prices that could be seen from the middle of the fiscal year under review; however, demand for rigid dump trucks decreased by approx. 20% year on year. The decrease in ultra-large-sized machines was significant for both hydraulic excavators and rigid dump trucks. The Company is focusing on expanding sales of the AC-3 series rigid dump trucks especially the one for trolley use or high-altitude use equipped with an advanced vehicle body stability-assist function, in addition to offering a fleet management system for mining machinery and development of an autonomous haulage system to optimize mine operation, by bringing Hitachi Group's strengths. Furthermore, we have been working on establishment of a highly controlled customer support system to enlarge revenue from parts and service.

Consolidated revenue was ¥747,256 million, which represent 99% of the amount reported for the year ended March 31, 2016.

2) Solution Business

This segment consists of businesses of H-E Parts International LLC and its subsidiaries, and Bradken Limited and its subsidiaries. H-E Parts International LLC and its subsidiaries provide service and solution required for machinery or equipment for mining, quarrying, and construction, as well as the development, manufacturing and sale of associated parts mainly in Australia and the U.S. Bradken Limited and its subsidiaries engage in a wide range of businesses including a business for wear parts for mining equipment and machinery, and maintenance services for the aforementioned equipment and machinery, as well as manufacturing of casting parts for mining and infrastructure industries across the value chain globally.

Consolidated revenue was ¥6,691 million because of consolidation of H-E Parts International LLC and its subsidiaries during the third quarter of the fiscal year under review.

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year totaled ¥65,455 million, a decrease of ¥13,655 million from the beginning of the fiscal year. Statement and factors relating to each cash flow category are as follows:

(Net cash provided by operating activities)

Net cash provided by operating activities in the fiscal year included ¥14,190 million in net income, ¥30,680 million in depreciation, a ¥28,974 million decrease in inventories, a ¥20,580 million increase in accounts and notes payables as cash inflow, a ¥1,482 million increase in accounts and notes receivable, and a ¥4,754 million increase in finance lease receivables included as cash outflow.

As a result, net cash provided by operating activities during the fiscal year totaled ¥87,961 million.

(Net cash used in investing activities)

Net cash used in investing activities in the fiscal year amounted to ¥74,610 million. This is mainly due to a used ¥56,070 million from the acquisition of investments in securities and other financial assets (including investments in associates).

(Net cash used in financing activities)

Net cash used in financing activities in the fiscal year totaled ¥25,817 million. This was due mainly to an increase of ¥24,232 million in short-term borrowings, net, a decrease of ¥30,740 million in long-term borrowings and bonds, ¥10,867 million in dividends paid (including dividends paid to non-controlling interests), etc.

(3) Parallel disclosure

The differences between the main accounts in the consolidated financial statements prepared in accordance with IFRS and the corresponding accounts in the consolidated financial statements prepared in accordance with Japan GAAP have been provided as follows. Because the Company has not prepared the consolidated financial statements in accordance with Japan GAAP, the amounts of differences are stated in approximate amount.

(Goodwill)

Goodwill is amortized under Japan GAAP; however, amortization of goodwill is not permitted under IFRS. Due to this impact, “selling, general and administrative expenses” in the consolidated statements of income in the year ended March 31, 2017 under IFRS decreased by ¥500 million compared with the amount under Japan GAAP.

(Employee Benefit)

Under Japan GAAP, actuarial differences and prior service costs that are not recognized as expenses during the year are recognized in AOCI, and subsequently amortized in profit or loss over a certain period of time. Current service cost, interest cost and expected return on plan assets are recognized in profit or loss.

Under IFRS, any differences arising from remeasurement of defined benefit corporate pension plans and severance payment plans are recognized in OCI. Such remeasurement consists of actuarial differences on defined benefit obligations and profit from plan assets (excluding interest income associated with plan assets). Prior service costs are recognized immediately in profit or loss. Current service costs are recognized as incurred in profit or loss, and the net interest cost, measured by multiplying the net defined benefit obligations or assets by the discount rate, is recognized in profit or loss.

Due to this impact, “cost of sales” and “selling, general and administrative expenses” in the consolidated statements of income in the year ended March 31, 2017 under IFRS decreased by ¥1,600 million compared with the amount under Japan GAAP, whereas “remeasurements of defined benefit obligations” in the consolidated statements of comprehensive income in the fiscal year ended March 31, 2017 under IFRS decreased by ¥1,100 million compared with the amount under Japan GAAP.

(Income Taxes)

With respect to tax effects of unrealized gains and losses from intercompany sales transactions, deferred tax assets are calculated based on the effective tax rate applicable to the selling company under Japan GAAP, while based on the effective tax rate applicable to the purchasing company under IFRS.

Due to this impact, “share of profits of investments accounted for using the equity method” in the consolidated statements of income in the year ended March 31, 2017 under IFRS increased by ¥100 million compared with the amount under Japan GAAP, and “income tax expense” decreased by ¥800 million.

2. Production, Orders Received and Sales

(1) Production result

The production results for the year ended March 31, 2017 were as follows.

Segment name	Production output (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	659,912	95
Solution Business	6,178	–
Total	666,090	95

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

2. Amounts above are presented exclusive of consumption taxes.

(2) Orders received

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

(3) Sales results

Sales results for the year ended March 31, 2017 were as follows.

Segment name	Sales (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	747,256	99
Solution Business	6,691	–
Total	753,947	99

(Notes) 1. Amounts above are presented exclusive of consumption taxes.

2. There are no customers with sales exceeding 10% of the total sales.

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

Any forward-looking statements in this report are based on the judgment of the Group as of March 31, 2017.

(1) Management policy

The Group pursues business competitiveness and group management capabilities by advocating “trust and differentiation.” We aim to achieve further improvement in our corporate and shareholder value by enhancing our profitability and capabilities for generating cash flow.

To ensure our ability to achieve these objectives, we put strong emphasis on and share the Kenkijin Spirit (Note) as a group-wide value standard and code of conduct. We aim to achieve the 2020 VISION—“Close and Reliable Partner Anywhere on the Earth with Best Solutions through the Kenkijin Spirit”—by continuously providing reliable solutions. Accordingly, we contribute to the sustainable development of our customers and each region.

(Note) Kenkijin Spirit:
In pursuing our management policy, it is important to achieve the goals of the Group’s medium- to long-term vision and mid-term management plan while responding to the demands of society in areas such as compliance and corporate social responsibility (CSR). The actions of each individual employee (Kenkijin) are the driving force behind these efforts. If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee’s ideas and initiatives. The Kenkijin Spirit codifies these shared values and guiding principles to embody the attitude of a Kenkijin, and Kenkijin Spirit is built upon the three ideas of “Challenge (pioneering spirit),” “Customer (being individual customer orientated)” and “Communication (openness).”

(2) Operating environment and issues to be addressed

With respect to the business environment for the Group during the year ended March 31, 2017, global demand has increased approx. 10% year on year due to the recovery in demand, year on year, for hydraulic excavators in China, India, Asia, and Western Europe in construction machinery business. As for mining machinery, demand for ultra-large-sized hydraulic excavators increased by approx. 10% year on year because of the recovery of commodity prices that could be seen from the middle of the fiscal year under review; however, demand for rigid dump trucks decreased by approx. 20% year on year.

In this environment, the Group will promote the establishment of corporate structure with high adaptability to changes and the reaping of fruit of the growth strategy with the following three strategies at the core under the mid-term management plan “CONNECT TOGETHER 2019,” which starts from FY2017. The Group strives to earn unwavering trust from customers and build a solid position as one of the top three global manufacturers of construction machinery by continuing to provide “Reliable solutions” that exceed customers’ expectations in the entire value chain.

Specific numerical targets

Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 9%
Efficiency	Aim to achieve ROE of over 9%
Net D/E ratio	Aim to achieve 0.4 or less
Shareholder return	Aim to achieve consolidated dividend payout ratio of approx. 30% or more

Three management strategies

1) Strengthening of the after-sales business

The Group’s business is characterized by a long life cycle that starts with research, development and production and involves sale of new machinery and provision of rental and services to customers as well as handling of used machines at the time of renewal. The Group will improve customer satisfaction by offering more valuable services and solutions than ever to customers.

2) Enhancement of presence of wheel loaders and dump trucks

In addition to hydraulic excavators, which are the Group’s flagship product and have global and top-level product appeal, the Group also makes efforts to enhance competitiveness in aspects of development and sales capabilities for wheel loaders and dump trucks, aiming to achieve growth of these products as the second and third core products. For wheel loaders, the Group advances development of models that meet exhaust emission regulations, while increasing sales efficiency by vigorously promoting the enhancement of production efficiency and cost reduction and strengthening the global sales service structure on the sales side. For dump trucks, the Group focuses on expanding sales of models for high-altitude use that already have a product line and those for trolley use that enable low-fuel consumption and improvement of operating efficiency; puts AHS (Autonomous Haulage System) into full-scale commercial use; and further generates a synergy with H-E Parts International LLC and its subsidiaries and Bradken Limited and its subsidiaries, which are in charge of the mining area, as well as a synergy with Wenco International Mining Systems Ltd., which is a member of the Group and provides FMS (Fleet Management System).

3) Strengthening of development of ICT/IoT solutions

The Group accelerates the development of "Solution Linkage" ICT/IoT solutions that address the improvement of safety and productivity and a reduction in life cycle costs, which are challenges for customers, by leveraging a broad range of the Hitachi Group's advanced technologies and open innovation that integrates business partners' expert technologies.

As well as engaging in development for operational performance, higher fuel efficiency, etc. of machinery, the Group further evolves and offers solutions that contribute to efficiency of customers' entire construction process and optimization of site operation, and "ConSite" service solution that leads to stable operation of machinery and a reduction in life cycle costs.

4. Basic Policy on Control of the Company

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

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

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

5. Business Risks

The Group carries out its operations in regions throughout the world and executes its business in a variety of fields such as production, sales, finance, etc. Accordingly, the Group's business activities are subject to the effects of a wide range of factors such as market conditions, exchange rates and finance.

The Group has identified the following risks as its primary risks based on information available as of March 31, 2017.

(1) Market conditions

Under the Group's business activities, demand is heavily affected by public investment such as infrastructure development and private investment including the development of natural resources, real estates, etc. Consequently, we have a risk of decline in revenue due to low factory utilization or price decline by severe competition, resulting from significant demand decrease by sudden economic fluctuation in each region.

(2) Foreign currency exchange rate fluctuations

Since the sales of the Group derived from outside Japan account for 70% in the fiscal year under review, significantly exceeding the domestic sales, the risk of exchange rate fluctuations has increased. Appreciation of the Japanese yen against major currencies such as the US dollar, European euro, and other currencies of emerging countries would have a significant adverse impact on the Group's operational results. The Group strives to alleviate the effect of such fluctuations by enlarging the portion of local production, increasing parts import by international procurement, and having forward exchange contracts and conducting other hedging activities. However, there is no guarantee that our operational results are not adversely affected in the case that rates fluctuate beyond our projected range.

(3) Fluctuation in financial markets

The Group is currently working on improvement of the efficiency of its assets to reduce its interest-bearing debt; however, its aggregate short- and long-term interest-bearing debts were ¥248,700 million in total as of March 31, 2017. Although the Group has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase the interest expenses, thereby adversely affecting the Group's operational results. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of the Group's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may deteriorate the Group's operational results and financial condition.

(4) Procurement and production

Since the Group's costs for parts and materials account for a large portion of manufacturing costs, their procurement is exposed to fluctuations in commodity prices in the market for materials. Price increases in commodities including steel may increase the manufacturing costs.

Shortage of parts and materials causes difficulty in timely procurement and manufacture, and it may lower the Group's production efficiency. In an effort to reduce any adverse effect on its business as a result of an increase in material costs, the Group plans to reduce other costs via VEC (value engineering for customers) activities, and appropriately pass on the increase in material costs to the product prices. However, if the increases in material prices were to exceed the Group's expectations or a prolonged shortage of materials and parts were to occur, there is a risk that the Group's operational results may be adversely affected.

(5) Credit management

The Group's main products, construction machinery, are sold via sales financing, such as installment sales, finance leasing, etc. A specialized department for financing engages in credit management. Since many customers utilize sales financing, despite receivables are not concentrated overwhelmingly in certain customers, there is a risk for the occurrence of bad debt due to the deterioration of customers' financial condition may adversely affect the Group's revenue.

(6) Public laws and tax practices

The Group's business operations are required to comply with increasingly stringent political measures, official restrictions, tax practices, laws and regulations, etc. For example, in the numerous countries in which the Group operates, we are required to comply with restrictions or regulations such as authorizations for business operations and investments, as well as limitations and rules regarding imports and exports, and laws and regulations regarding patents, intellectual properties, consumers, the environment and recycling, conditions of employment, taxation, etc. If such existing regulations were to be amended or tightened, the Group may be required to incur increased costs and pay larger amounts of tax. There is a risk that such additional compliance costs may adversely affect the Group's revenue.

(7) Product liability

While the Group is making efforts to sustain and improve the quality and reliability of its operations and products based on stringent standards established internally by the Group, it may face product liability claims or become exposed to other liabilities if unexpected defects in its products result in accidents. If the costs of addressing such claims or other liabilities are not covered by the Group's existing insurance policies, we may be required to bear the cost thereto, which may decrease its revenue.

(8) Alliances and collaborative relationships

The Group has entered into various alliances and collaborative relationships with distributors, suppliers, and other companies in its industry to reinforce its international competitiveness. Through such arrangements, we are working to improve and extend its product development, production, sales, and service capabilities. The Group's failure to attain the expected results or the termination of such alliances or collaborative relationships may adversely affect the operational results.

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

The Group may obtain confidential information concerning its customers and individuals in the normal course of its business, and also holds confidential business and technological information. We maintain such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, or loss, the Group employs appropriate safety measures, including reasonable technological safety measures and establishment of rules to handle confidential information and information management capabilities. If a leak of confidential information occurred, there is a risk that the reputation of the Group may be damaged and customers may lose confidence in the Group. In addition, there is also a risk that our intellectual property may be infringed upon by a third party, or a third party may claim that the Group is liable for infringing on such third party's intellectual property rights.

(10) Impact of natural and man-made disasters

The Group conducts its business operations on a global scale and maintains business facilities for development, production, supply, and other business activities in many countries. There is a risk of occurrence of natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, or condemnation and interference by third parties in regions in which the Group operates. These natural and anthropogenic disasters may cause damage to its facilities from which recovery cannot be made in short term and disrupt operations, procurement of materials and parts or their production, and sales and services. There is a risk that such delays or disruptions may adversely affect our operational results.

6. Important Business Contracts, etc.

(1) Business alliance contracts

Name of contracting party	Name of counterparty	Country	Items under contract	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	KUBOTA Corporation	Japan	Hydraulic excavator	OEM supply	From May 6, 1976 to February 21, 1997 and it is automatically renewed for next 2 years
			Mini-sized excavator	OEM purchase	From April 19, 1995 to May 16, 2005 and it is automatically renewed for next 2 years
Hitachi Construction Machinery Co., Ltd.	TADANO LTD.	Japan	High elevation work vehicle	OEM complementary supply	2 years from January 11, 1999 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	Deere & Company	U.S.A.	Hydraulic excavator	OEM supply	8 years from February 10, 1983 and it is automatically renewed for next 5 years
Hitachi Construction Machinery Co., Ltd.	HOKUETSU INDUSTRIES CO., LTD.	Japan	Mini-sized excavator	OEM supply	From April 1, 2005 to March 31, 2007 and it is automatically renewed for next 2 years
Hitachi Construction Machinery Co., Ltd.	Bell Equipment Limited	South Africa	Articulated dump truck Sugarcane forest trimmer	OEM purchase	5 years from September 5, 2000 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	Deere-Hitachi Maquinas de Construcao do Brasil S.A.	Brazil	Hydraulic excavator	OEM supply	Indefinite periods from September 30, 2011.

(Note) The contract with Deere & Company for OEM purchase of backhoe loaders and bulldozers expired as of October 25, 2015. Although the Company negotiated with a view to extension of the contract, it decided to terminate the contract without any extension.

(2) Technical collaboration contracts

Name of contracting party	Name of counterparty	Country	Items under contract	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	Nakayama Iron Works, Ltd.	Japan	Crawler-mounted crusher	1. Joint development 2. Complementary supply of parts	1. 2 years from September 1, 1993 and it is automatically renewed for next 1 year 2. From July 25, 1995 to December 1, 1995 and it is automatically renewed for next 1 year
Hitachi Construction Machinery Co., Ltd.	Deere-Hitachi Maquinas de Construcao do Brasil S.A.	Brazil	Hydraulic excavator	Technology licensing	From September 30, 2011 to September 29, 2021

(Note) With regard to the contract with KCM Corporation for joint development of wheel loaders, since KCM Corporation succeeded the status of the Company under this contract as of April 1, 2016 in accordance with the agreement for absorption-type split entered into as of January 28, 2016, the contract was terminated as of April 1, 2016.

(3) Equity interest transfer contract

The Company resolved at the Board of Directors meeting held on December 21, 2016 to acquire all the equity interests of H-E Parts International LLC and H-E Parts Australian Holdings LLC held by H-E Parts Investors LLC, and entered into an equity interest transfer contract with H-E Parts Investors LLC on the same date.

(4) Share transfer contract

The Company resolved at the Board of Directors meeting held on February 27, 2017 to transfer 12,800 shares of stock in Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. held by the Company, and three companies, namely the Company, Sumitomo Heavy Industries, Ltd. and Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., entered into a share transfer contract and joint venture amendment agreement on the same date. As of March 31, 2017, above shares of stock were transferred to Sumitomo Heavy Industries, Ltd. Accordingly, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. became an equity-method associate of the Company.

(5) Other contract

Name of contracting party	Name of counterparty	Country	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	Hitachi, Ltd. [Parent Company]	Japan	Licensing on the use of Hitachi brand	5 years from April 1, 2015

7. Research and Development Activities

The Group actively promotes prompt development of new products and technologies primarily focusing on improved quality and reliability. Research and development activities, mainly led by the Technical Research Center of the Research & Development Div. in the Company, are conducted and closely assisted by research and development staff of the design, manufacturing and quality assurance divisions of each office and group companies within the development, production and procurement, and corporate quality assurance divisions. In addition, depending on the field of development technology, advanced research and development activities are undertaken through collaborative research and consignment research with Hitachi, Ltd. and universities in Japan and abroad, while promoting human resources development.

Research and development expenditures for the year ended March 31, 2017 totaled ¥19,304 million.

Research and development activities by segment are as follows:

(1) Construction Machinery Business

In addition to mainstay products such as hydraulic excavators and ultra-large-sized excavators, technologies to support anticipated emission regulations are being developed for mini-sized excavators, wheel loaders, and cranes, etc., and products that are clean energy-friendly and energy conservation-friendly are being developed, around the keyword "Low-carbon." We have released medium- and large-sized hydraulic excavators and wheel loaders that conform to the 2014 standards for exhaust emissions pursuant to Japan's Act on Regulation, Etc. of Emissions from Non-road Special Motor Vehicles (the Off-road Act.)

With respect to the scope of IT and automation technology, which is a new stream for the construction machinery industry, we have been promoting research and development for creating a new customer value by putting the whole construction machinery lifecycle into perspective such as preventive maintenance of machinery as well as installation support systems with the objective of improving working efficiency of machinery and cutting down construction and management costs for customers. ICT hydraulic excavator ZX200X-5B, which is a core machine for smart construction solutions provided by the Company, was developed and launched in November 2016. This model comes equipped with the Company's proprietary "machine control functions" and "machine guidance functions" that navigate the operator in an easy-to-understand manner. Through semi-automatic control of front work in real-time by using 3D (three dimensional) information on the position and orientation of the machinery calculated via a high-precision satellite positioning system as well as angle sensors on the front and body that reference the 3D layout data for the applicable construction site, efficient excavation without over-digging of the construction target surface is possible, which contributes to safety and productivity improvement in construction sites. In addition, we have been developing various technologies for automatic operation systems and autonomous driving of dump trucks to improve efficiency of mining operations. For enhanced safety, the "Fleet Awareness V2X" safe driving support system was developed in September 2016. As the Object Detect Assist Technology, the Company has developed the Stationary Mode, which incorporates camera image processing technology used in the AROUND VIEW MONITOR® with Moving Object Detection Technology developed jointly by NISSAN MOTOR CO., LTD. and Clarion Co., Ltd., as well as the Forward Mode, which incorporates millimeter wave radar technology developed by Hitachi, Ltd. and installed them into the Aerial Angle.

We offer construction machinery with unparalleled product appeal, by developing fundamental technologies for reduced vibrations and noise, enhanced safety, reduced burden on operators, productivity and quality improvement and cost reduction. We address various customer needs through "One Hitachi," utilizing system, control and IoT related technologies, which are the strength of the Hitachi Group, as well as offer the best solutions through open innovation activities in coordination with a variety of business partners.

* AROUND VIEW MONITOR is a trademark of NISSAN MOTOR CO., LTD.

For the Construction Machinery Business, research and development expenditures for the year ended March 31, 2017 totaled ¥19,304 million.

Major achievements in the year ended March 31, 2017 are as follows:

Hybrid wheel loader	ZW220HYB-5B
Ultrashort-rotary excavator	ZX20UR-5A
Hydraulic excavators	ZX240-6, ZX300-6, ZX330-6, ZX470-6, ZX530-6
Wheel loaders	ZW220-6, ZW310-6, ZW250-6
ICT hydraulic excavator	ZX200X-5B

(2) Solution Business

Not applicable.

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

(1) Significant accounting policies and estimates

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

Any forward-looking statements in this report are based on the judgment of the Group as of March 31, 2017.

1) Inventories

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

2) Property, plant and equipment and intangible assets

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

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

3) Trade receivables and other financial assets

Impairment loss on financial assets may be recognized when there is objective evidence of impairment after initial recognition and when the estimated future cash flows from the financial asset fall below their respective carrying amounts. In addition, impairment losses on trade receivables are recorded based on credit loss ratio and recoverable amounts calculated by taking into account past experience with consideration of potential risks associated with the business environment including specific business practices of the country or region in which the business is carried out. When there are expected losses that have not been reflected in the current carrying amount, or when the carrying amount is not recoverable due to deterioration in future market conditions or performance of customers, an impairment loss may be recognized.

4) Deferred tax assets

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

5) Retirement and severance benefit

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

(2) Analysis of operating results for the year ended March 31, 2017

1) Revenue

Revenue for the current year amounted to ¥753,947 million, a 0.6% decrease from the previous year.

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

Cost of sales for the current year was ¥583,021 million, a 0.7% increase from the previous year. The ratio of cost of sales to revenue increased by 1.0 percentage points to 77.3%.

Selling, general and administrative expenses were ¥142,661 million, an 8.7% decrease from the previous year.

3) Operating income

Operating income decreased by 30.6% from the previous year to ¥23,622 million. The ratio of operating income to revenue decreased by 1.4 percentage points to 3.1%.

4) Financial income and expenses

Financial income and expenses were a net income of ¥548 million, an increase in income of ¥10,317 million from the net loss of ¥9,769 million recorded in the previous year, primarily due to an increase in net foreign exchange income of ¥8,382 million to ¥664 million for the current year from the net loss of ¥7,718 million for the previous year.

5) Income before income taxes

Income before income taxes was ¥23,859 million, a 2.7% decrease from the previous year.

6) Income tax expense

Income tax expense for the current year amounted to ¥9,669 million, a 32.0% decrease from the previous year.

(3) Factors that have material effects on operating results

Please refer to 5. “Business Risks” for factors that have material effects on the operating results of the Group as well as effects of changes in political and economic environments in Japan and abroad and changes in demands.

(4) Capital resources and liquidity

Please refer to (2) “Cash flows” of 1. “Summary of Business Results,” for fund procurement and liquidity management of the Group.

III. Property, Plant and Equipment

1. Overview of Capital Investment

With respect to capital investment for the year ended March 31, 2017, the Group made investments mainly in Construction Machinery Business Segment to streamline domestic and overseas hydraulic excavators manufacturing bases as well as to maintain the sales/service facilities of the Group.

Consequently, total capital investment for the year ended March 31, 2017 amounted to ¥14,127 million. In the Construction Machinery Business Segment, part of a plant of a consolidated subsidiary in China was sold during the year ended March 31, 2017, and the resulting loss is included in impairment losses on property, plant and equipment of ¥3,883 million recorded in other expenses in the consolidated statements of income.

2. Major Property, Plant and Equipment

The Group has changed the disclosure method to one in which information on major property, plant and equipment is disclosed by segment from the year ended March 31, 2017. There are two reportable segments: the Construction Machinery Business Segment and the Solution Business Segment.

(1) Construction Machinery Business

1) The Company

(As of March 31, 2017)

Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Lease assets	Other	Total	
Tsuchiura Works/ Kasumigaura Works (Tsuchiura-city, Ibaraki and other) Notes 1, 2	Construction machinery manufacturing facility, etc. of hydraulic excavators, etc.	8,498	11,753	5,840 (4,947) [95]	3,036	1,741	30,868	3,057
Hitachinaka Works (Hitachinaka-city, Ibaraki) Note 1	Manufacturing facility, etc. of components, etc. for hydraulic excavators	7,550	6,511	1,980 (66) [148]	–	60	16,101	251
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	15,585	3,959	12,246 (495)	–	123	31,913	282
Headquarter (Taito-ku, Tokyo and other) Note 2	Facilities, etc. in the registered office of the Company	1,699	186	16,711 (625)	7	297	18,900	455

2) Domestic subsidiaries

(As of March 31, 2017)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Lease assets	Other	Total	
Tada Kiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,660	470	1,604 (30)	6	22	3,762	195
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini-sized excavator	1,378	1,866	399 (157)	44	187	3,874	576
KCM Corporation	Headquarter/ Factory (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loader	653	1,285	547 (130)	–	1,012	3,497	624
KCM Corporation	Factory (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loader	1,181	815	2,193 (269)	–	152	4,341	666

3) Overseas subsidiaries

(As of March 31, 2017)

Name of entity	Name of facilities (Location)	Facility details	Carrying amount (Millions of yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land (Area in thousands of m^2)	Lease assets	Other	Total	
P.T. Hitachi Construction Machinery Indonesia Note 1	Factory (Cibitung, Indonesia)	Assembly plant of construction machinery	3,156	2,389	– [194]	–	97	5,642	894
Hitachi Construction Machinery (China) Co., Ltd. Note 1	Headquarter/ Factory (Hefei Anhui, China)	Assembly plant of construction machinery	3,878	2,163	– [628]	–	–	6,041	2,080
Tata Hitachi Construction Machinery Co., Pvt., Ltd. Note 1	Factory (Kharagpur, India)	Assembly plant of construction machinery	4,619	4,823	– [1,012]	–	–	9,442	464
LLC Hitachi Construction Machinery Eurasia	Factory (Tver region, Russian Federation)	Assembly plant of construction machinery	3,930	2,376	5 (400)	–	45	6,356	216

(Notes) 1. Area in thousands of square meters of leased land is superscripted with [ ].

2. Land of Tsuchiura Works is presented including the land of the product durability testing facilities of 4,277 thousand m^2 costing ¥522 million located in Tokachi district, Urahoro, Hokkaido. The land of the headquarter is presented including the land with an area of 536 thousand m^2 costing ¥16,434 million which is leased to Hitachi Construction Machinery Japan Co., Ltd. (for its headquarter, Kansai and Shikoku branch office and other bases).

3. It does not include construction in progress.

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

(2) Solution Business

There was no information on major property, plant and equipment to be disclosed for the year ended March 31, 2017.

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

(1) Significant capital investment, etc.

Not applicable.

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

Not applicable.

IV. Information on the Company

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

(1) Total number of shares, etc.

1) Total number of shares

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

2) Issued shares

Class	Number of shares issued as of March 31, 2017 (Shares)	Number of shares issued as of June 27, 2017 (Filing Date) (Shares)	Stock exchange on which the Company is listed	Description
Common stock	215,115,038	215,115,038	First Section of the Tokyo Stock Exchange.	Standard stock of the Company with full voting rights and no restrictions on rights. The number of shares per one unit is 100 shares.
Total	215,115,038	215,115,038	–	–

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

The Company has granted subscription rights to shares in accordance with the provisions of Articles 236, 238 and 239 of the Companies Act.

Subscription rights to shares granted upon a special resolution at the Annual Shareholder's Meeting held on June 25, 2007

	As of March 31, 2017	As of May 31, 2017
Number of subscription rights to shares (Shares)	3,320	Same as the left
Of which subscription rights to shares of treasury stock (Shares)	–	–
Class of shares to be issued upon exercise of subscription rights	Common stock The number of shares per one unit of shares is 100	Same as the left
Number of shares to be issued upon exercise of subscription rights (Shares)	332,000	Same as the left
Amount to be paid upon exercise of subscription rights (Yen)	4,930	Same as the left
Exercise period of subscription rights	From July 1, 2009 to June 25, 2017	Same as the left
Issue price and capitalization amount of shares when issuing shares upon exercise of subscription rights (Yen)	(Note)	Same as the left
Conditions on exercise of subscription rights	1 A person entitled to subscription rights shall be able to exercise such rights even after ceasing to be a Director or an Executive Officer or an employee of the Company, or a director of a consolidated subsidiary, under the conditions set forth in the grant agreement. 2 In the event of the death of the person entitled to subscription rights, a legal heir can exercise such rights within 2 years, under the conditions set forth in the grant agreement. 3 A person entitled to subscription rights shall not be able to transfer, pledge, or otherwise furnish such rights to a third party. 4 Other conditions on the exercise shall be as set forth in the grant agreement to be concluded between the Company and the grantees, in accordance with this resolution of the shareholder's meeting and the Board of Directors meeting.	Same as the left
Matters relating to transfer of subscription rights	The approval of the Board of Directors of the Company shall be required if transferring the subscription rights.	Same as the left
Matters concerning subrogation payment	–	–
Matters relating to grants of subscription rights to shares associated with reorganization	–	–

(Note) The issue price and capitalization amount are not stipulated for the issuance of shares upon exercise of subscription rights, because it was decided to appropriate the treasury stock.

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

Not applicable.

(4) Information on shareholder right plans

Not applicable.

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

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

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

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

(6) Composition of shareholders

(As of March 31, 2017)

Category	Stock condition (Number of shares of 1 unit 100 shares)								Number of shares less than one unit (shares)
	Government and municipality	Financial Institution	Financial instruments business operator	Other institution	Foreign corporations, etc.		Individual and others	Total	
					Other than individual	Individual			
Number of shareholders	–	59	31	421	484	13	26,552	27,560	–
Share ownership (units)	–	459,346	29,828	1,131,546	348,715	106	180,263	2,149,804	134,638
Ownership percentage of shares (%)	–	21.4	1.4	52.6	16.2	0.0	8.4	100.0	–

(Notes) 1. Of treasury stock of 2,454,022 shares, 24,540 units are included in the total units held by "Individual and others" and 22 shares are included in the "Number of shares less than one unit."

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

(7) Major shareholders

(As of March 31, 2017)

Name	Address	Share Ownership (Thousands of shares)	Ownership percentage to the total number of issued shares (%)
Hitachi, Ltd.	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	108,058	50.23
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	19,298	8.97
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	9,199	4.28
Japan Trustee Services Bank, Ltd. (trust account 9)	1-8-11 Harumi, Chuo-ku, Tokyo	4,116	1.91
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Triton Square Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	3,311	1.54
SOCIETE GENERALE PARIS MRC/OPT (Standing proxy: Societe Generale Securities Japan Limited)	17 cours Valmy 92987 Paris – La Défense Cedex France (1-1-1 Marunouchi, Chiyoda-Ku, Tokyo)	1,803	0.84
Japan Trustee Services Bank, Ltd. (trust account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	1,718	0.80
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	1776 Heritage Drive North Quincy, Massachusetts 02171, U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,547	0.72
Japan Trustee Services Bank, Ltd. (trust account 7)	1-8-11 Harumi, Chuo-ku, Tokyo	1,427	0.66
HSBC BANK PLC STATE OF KUWAIT INVESTMENT AUTHORITY, KUWAIT INVESTMENT OFFICE (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo branch, custody business division)	8 Canada Square, London, E14 5HQ (3-11-1, Nihonbashi Chuo-ku, Tokyo)	1,308	0.61
Total	–	151,784	70.56

(Notes) 1. The 2,454 thousand shares of treasury stock held by the Company are excluded from the number of shares held by the major shareholders above.

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

The Master Trust Bank of Japan, Ltd. (Trust Account)	19,298 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account)	9,199 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,116 thousand shares
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,311 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,718 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 7)	1,427 thousand shares

3. The amendment report for substantial shareholding report provided for public inspection as of October 6, 2016 states that Nomura Securities Co., Ltd. and its joint holders, Nomura Asset Management Co., Ltd., held the following shares as of September 30, 2016. However, since the Company has not been able to confirm the actual number of shares held by them as of March 31, 2017, they are not included in the above major shareholders.

The content of the amendment report is as follows:

Name	Address	Number of shares, etc. held (shares)	Ownership ratio of share certificates, etc. (%)
Nomura Securities Co., Ltd.	1-9-1 Nihonbashi, Chuo-ku, Tokyo	578,095	0.27
Nomura Asset Management Co., Ltd.	1-12-1 Nihonbashi, Chuo-ku, Tokyo	10,221,900	4.75
Total	–	10,799,995	5.02

(8) Information on voting rights

1) Issued shares

(As of March 31, 2017)

Classification	Number of shares (shares)	Number of voting rights	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury stock, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 2,454,000	–	–
Shares with full voting rights (others)	Common stock 212,526,400	2,125,264	–
Shares less than one unit	Common stock 134,638	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,264	–

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

2. The "Shares less than one unit" include 22 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of March 31, 2017)

Name of shareholder	Address	Number of shares held under own name (shares)	Number of shares held under the names of others (shares)	Total shares held (shares)	Ownership percentage to the total number of issued shares (%)
(Treasury stock) Hitachi Construction Machinery Co., Ltd.	2-16-1, Higashiueno, Taito-ku, Tokyo	2,454,000	–	2,454,000	1.14
Total	–	2,454,000	–	2,454,000	1.14

(9) Details of stock option plans

The Company has adopted a stock option plan.

Based on the provisions of Articles 236, 238 and 239 of the Companies Act, the issuance of subscription rights to shares to the Company's Directors, Executive Officers, employees and directors of consolidated subsidiaries as stock options was approved by the special resolution at the 43rd Annual Shareholder's Meeting held on June 25, 2007.

Overview of the plan is as follows:

Date of resolution	June 25, 2007
Individuals covered by the plan	1) Directors of the Company 9 2) Executive Officers of the Company 15 3) Employees of the Company 26 4) Directors of consolidated subsidiaries 33
Class of shares to be issued upon exercise of subscription rights	See "(2) Information on subscription rights to shares."
Number of shares to be issued upon exercise of subscription rights (Shares)	Same as above
Amount to be paid upon exercise of subscription rights (Yen)	Same as above
Exercise period of subscription rights	Same as above
Conditions on exercise of subscription rights	Same as above
Matters relating to transfer of subscription rights	Same as above
Matters concerning subrogation payment	Same as above
Matters relating to grants of subscription rights to shares associated with reorganization	Same as above

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

Class of shares, etc.

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

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

Not applicable.

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

Not applicable.

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

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

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury stock acquired during the year ended March 31, 2017	2,194	4,404,271
Treasury stock acquired during the current period (year ending March 31, 2018) up to the filing date of this annual securities report	731	1,934,301

(Note) The number of shares of treasury stock acquired during the current period up to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased during the period from June 1, 2017 to the filing date of this annual securities report.

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

Classification	Year ended March 31, 2017		Current period up to the filing date of this annual securities report	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Acquired treasury stock which was offered to subscribers	–	–	–	–
Acquired treasury stock which was cancelled	–	–	–	–
Acquired treasury stock which was transferred due to merger, share exchange and company split	–	–	–	–
Others	–	–	–	–
Total number of shares of treasury stock held	2,454,022	–	2,454,753	–

(Note) The "Total number of shares of treasury stock held" for the current period up to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased or sold during the period from June 1, 2017 to the filing date of this annual securities report.

3. Dividend Policy

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

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

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

Based on the above policy, the following dividends of surplus were decided for the year ended March 31, 2017.

Date of resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)
Resolution at the Board of Directors meeting held on October 27, 2016	851	4
Resolution at the Board of Directors meeting held on May 22, 2017	1,701	8

4. Changes in Share Prices

(1) Highest and lowest share prices in each of the recent 5 years

Fiscal year	49th term	50th term	51st term	52nd term	53rd term
Year-end	March 2013	March 2014	March 2015	March 2016	March 2017
Highest (Yen)	2,250	2,899	2,780	2,302	2,934
Lowest (Yen)	1,203	1,837	1,799	1,475	1,377

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

(2) Highest and lowest share prices in each of the recent 6 months

Month	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Highest (Yen)	2,233	2,418	2,626	2,783	2,735	2,934
Lowest (Yen)	1,976	2,037	2,403	2,510	2,526	2,602

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

5. Directors and Executive Officers

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

Directors and Executive Officers include 21 males and 1 female. (The ratio of female Directors and Executive Officers is 4.5% of the total.)

(1) Directors

Position	Responsibility	Name	Date of birth	Career summary		Term of office	Share Ownership (thousands of shares)
Outside Director	Nominating Committee Member Audit Committee Member	Kazushige Okuhara	January 27, 1948	4/1970	Joined Fuji Heavy Industries Ltd. (Currently called Subaru Corporation)	(Note 1)	1
				6/1993	Regional Manager of Regional Management Dept., Domestic Sales Div. (Chugoku, Shikoku and Kyusyu)		
				10/1999	Senior Managing Director, TOKYO SUBARU Inc.		
				6/2001	Corporate Vice President, Senior General Manager of Japan Region, Subaru Sales & Marketing Div., Chief General Manager of Subaru Parts & Accessories Div. and General Manager of Customer Service Center, Fuji Heavy Industries Ltd.		
				6/2003	Corporate Senior Vice President, Chief General Manager of Subaru Japan Sales & Marketing Div. and Chief General Manager of Subaru Marketing Div.		
				4/2005	Corporate Senior Vice President, General Manager of Human Resources Dept.		
				6/2006	Director of the Board, Corporate Executive Vice President, General Manager of Human Resources Dept.		
				6/2006	President, Chairman of the Business Reforms Promotion Committee, Subaru System Service Co., Ltd. (Currently called SUBARU IT CREATIONS CORPORATION)		
				6/2010	Representative Director of the Board and Deputy President, Fuji Heavy Industries Ltd.		
				6/2011	Representative Director of the Board and President, Subaru Kosan Co., Ltd.		
				6/2013	Retired from Subaru Kosan Co., Ltd.		
				6/2016	Outside Director, the Company (to present)		
Outside Director	Nominating Committee Member Audit Committee Member Compensation Committee Member	Haruyuki Toyama	March 23, 1959	4/1982	Joined the Bank of Japan	(Note 1)	2
				1/2000	Alternate Executive Director for Japan, International Monetary Fund		
				8/2004	General Manager, Okayama Branch		
				7/2006	Deputy Director General, Payment and Settlement Systems Dept.		
				3/2009	Director General, Financial Markets Dept.		
				5/2011	General Manager for the Americas		
				11/2012	Director General, International Dept.		
				8/2014	Retired from the Bank of Japan		
				3/2015	Registered as an attorney-at-law admitted in Japan		
				6/2015	Outside Director, the Company (to present)		

Position	Responsibility	Name	Date of birth	Career summary		Term of office	Share Ownership (thousands of shares)
Outside Director	Nominating Committee Member Audit Committee Member Compensation Committee Member	Junko Hirakawa	October 9, 1947	4/1973	Registered as an attorney-at-law admitted in Japan	(Note 1)	–
				2/1979	Registered as an attorney-at-law admitted in New York, United States of America		
				7/1997	Established Hirakawa, Sato & Kobayashi (Currently called City-Yuwa Partners) Partner of Hirakawa, Sato & Kobayashi (to present)		
				6/2006	Auditor, The Japan Association of Charitable Organizations (to present)		
				6/2011	Outside Director, Tokyo Financial Exchange Inc. (to present)		
				6/2012	Outside Statutory Auditor, Sumitomo Forestry Co., Ltd.		
				6/2014	Outside Director, Sumitomo Forestry Co., Ltd. (to present)		
				6/2015	Outside Director, the Company (to present)		
Director	Nominating Committee Member	Tatsuro Ishizuka	December 23, 1955	4/1978	Joined Hitachi, Ltd.	(Note 1)	–
				4/2009	Senior Officer, General Manager of Hitachi Works, Power Systems Group		
				4/2011	Vice President and Executive Officer, President & CEO, Power Systems Company		
				4/2013	Senior Vice President and Executive Officer		
				4/2014	Representative Executive Officer, Executive Vice President and Executive Officer		
				4/2015	Deputy Chairman of the Board, Hitachi Europe Ltd.		
				4/2015	Chairman of the Board, Horizon Nuclear Power Ltd.		
				7/2016	Chairman of the Board, Hitachi Research Institute		
				3/2017	Retired from Hitachi Research Institute		
				4/2017	Representative Executive Officer, Chairman and Executive Officer, the Company (to present)		
				6/2017	Director (to present)		
Director	Audit Committee Member	Osamu Okada	December 27, 1954	4/1979	Joined the Company	(Note 1)	5
				10/2004	General Manager, Service Operation Dept., Marketing Group		
				4/2010	Director, Career Development Center		
				4/2012	Executive Officer		
				4/2013	Senior Adviser		
				6/2013	Director (to present)		
Director	–	Tetsuo Katsurayama	April 10, 1956	4/1981	Joined the Company	(Note 1)	3
				4/2012	Deputy General Manager, Finance Div., General Manager, Finance Dept., and General Manager, Foreign Exchange Center		
				4/2013	Executive Officer		
				4/2015	Vice President and Executive Officer		
				6/2015	Vice President and Executive Officer, Director (to present)		
				4/2017	General Manager, Finance Div. (to present)		

Position	Responsibility	Name	Date of birth	Career summary		Term of office	Share Ownership (thousands of shares)
Director	–	Yutaka Saito	December 11, 1954	4/1979	Joined Omika Works, Hitachi, Ltd.	(Note 1)	1
				4/2009	Senior Officer, Chief Strategy Officer of Information & Telecommunication Systems Group, Chief Technology Officer and General Manager of Strategy Planning & Development Office		
				10/2009	Senior Officer, President & CEO of Information & Control Systems Company		
				4/2010	Vice President and Executive Officer, President & CEO of Information & Control Systems Company and Deputy General Manager of Smart City Business Management Div.		
				4/2012	Senior Vice President and Executive Officer, President & CEO of Infrastructure Systems Group and Infrastructure Systems Company		
				4/2014	Representative Executive Officer, Executive Vice President and Executive Officer, President & CEO of Information & Telecommunication Systems Group and Information & Telecommunication Systems Company, and CEO of Platform Div.		
				6/2014	Outside Director, Hitachi Kokusai Electric Inc.		
				6/2014	Outside Director, Hitachi Transport System, Ltd.		
				4/2015	Representative Executive Officer, Executive Vice President and Executive Officer, President & CEO of Information & Telecommunication Systems Group and Information & Telecommunication Systems Company, Hitachi, Ltd.		
				6/2015	Outside Director, Chairman of the Board, Hitachi Kokusai Electric Inc.		
				4/2016	Representative Executive Officer, Executive Vice President and Executive Officer, Hitachi, Ltd. (to present) General Manager of IoT Business Promotion Div. (to present)		
				6/2016	Chairman of the Board, Hitachi Kokusai Electric Inc. (to present)		
				6/2016	Chairman of the Board, the Company		
				4/2017	Director (to present)		

Position	Responsibility	Name	Date of birth	Career summary		Term of office	Share Ownership (thousands of shares)
Director	–	Koji Sumioka	April 14, 1955	4/1979	Joined the Company	(Note 1)	8
				4/2009	President, Hitachi Construction Machinery (Shanghai) Co., Ltd.		
				4/2011	Vice President, Marketing Group		
				4/2012	Executive Officer		
					President and Director, Hitachi Construction Machinery Japan Co., Ltd.		
				4/2014	Vice President and Executive Officer		
				4/2015	Representative Executive Officer, Senior Vice President and Executive Officer		
				6/2015	Representative Executive Officer, Senior Vice President and Executive Officer, Director		
				4/2016	Representative Executive Officer, Executive Vice President and Executive Officer, Director (to present)		
				4/2017	President, Corporate Management Group, General Manager, Operations Management Div., General Manager, IT Promotion Div., General Manager, Business Process Innovation Div., and General Manager, Corporate Export Regulation Div. (to present)		
Director	Nominating Committee Member Compensation Committee Member	Kotaro Hirano	June 4, 1958	4/1981	Joined the Company	(Note 1)	7
				4/2013	Deputy General Manager, Production & Procurement Div.		
				4/2014	Executive Officer		
				4/2016	Vice President and Executive Officer		
				4/2017	Representative Executive Officer, President and Executive Officer (to present)		
				6/2017	Director (to present)		
Director	–	Hirotoyo Fujii	January 16, 1954	4/1977	Joined Hitachi, Ltd.	(Note 1)	–
				7/2004	General Manager of Human Capital Div. and Labor Planning Dept. of the same Div., Power and Electrical Systems Group		
				4/2008	Deputy General Manager, Operational Support Headquarters, Hitachi Information Systems, Ltd. (Currently called Hitachi Systems, Ltd.)		
				4/2010	Executive Officer		
				4/2011	Vice President and Executive Officer, Director		
				4/2016	Full-time Auditor		
				3/2017	Retired from Hitachi Systems, Ltd.		
				4/2017	Senior Vice President and Executive Officer, the Company (to present)		
					General Manager, Human Capital Div., and General Manager, Compliance & Risk Management Div. (to present)		
				6/2017	Director (to present)		
Total							27

(2) Executive Officers

Position	Responsibility	Name	Date of birth	Business experience		Term of office	Share Ownership (thousands of shares)
Representative Executive Officer, Chairman and Executive Officer	–	Tatsuro Ishizuka	See (1)			(Note 2)	See (1)
Representative Executive Officer, President and Executive Officer	–	Kotaro Hirano	See (1)			(Note 2)	See (1)
Representative Executive Officer, Executive Vice President and Executive Officer	President, Corporate Management Group, General Manager, Operations Management Div., General Manager, IT Promotion Div., General Manager, Business Process Innovation Div., and General Manager, Corporate Export Regulation Div.	Koji Sumioka	See (1)			(Note 2)	See (1)
Executive Vice President and Executive Officer	President, Marketing Group, General Manager, Marketing Div., General Manager, India Business Div., and General Manager, Africa Business Div.	Yasushi Ochiai	March 16, 1956	10/1989	Joined the Company	(Note 2)	5
				10/2010	General Manager, Marketing Div.		
				4/2011	Executive Officer		
				4/2013	Vice President and Executive Officer		
				4/2016	Senior Vice President and Executive Officer		
				4/2017	Executive Vice President and Executive Officer (to present)		
					President, Marketing Group, General Manager, Marketing Div., General Manager, India Business Div., and General Manager, Africa Business Div. (to present)		
Senior Vice President and Executive Officer	President, Development & Production Group and General Manager, Environment Policy Div.	Michifumi Tabuchi	November 16, 1958	4/1984	Joined the Company	(Note 2)	9
				4/2004	General Manager, Manufacturing Dept., Component Div., Tsuchiura Works		
				4/2012	President, Hitachi Construction Machinery (China) Co., Ltd.		
				4/2015	Executive Officer		
				4/2016	Vice President and Executive Officer		
				4/2017	Senior Vice President and Executive Officer (to present)		
					President, Development & Production Group and General Manager, Environment Policy Div. (to present)		
Senior Vice President and Executive Officer	General Manager, Human Capital Div., and General Manager, Compliance & Risk Management Div.	Hirotoyo Fujii	See (1)			(Note 2)	See (1)

Position	Responsibility	Name	Date of birth	Business experience		Term of office	Share Ownership (thousands of shares)
Vice President and Executive Officer	Vice President, Marketing Group, and General Manager, Service Solution Div.	Kenji Ota	November 30, 1956	4/1980 4/2011 4/2013 4/2015 4/2017	Joined the Company Deputy General Manager, Life Cycle Support Operations Div. Executive Officer Vice President and Executive Officer (to present) Vice President, Marketing Group, and General Manager, Service Solution Div. (to present)	(Note 2)	14
Vice President and Executive Officer	General Manager of Finance Div.	Tetsuo Katsurayama	See (1)			(Note 2)	See (1)
Vice President and Executive Officer	Vice President, Development & Production Group, General Manager, Research & Development Div., and General Manager, Client Solutions Div.	Hideshi Fukumoto	September 24, 1957	4/1982 4/2005 4/2011 4/2012 4/2014 4/2017	Joined Hitachi, Ltd. Director, Machinery Research Institute Director, Technology Strategy Office, Research and Development Div. Joined the Company Executive Officer Vice President and Executive Officer (to present) Vice President, Development & Production Group, General Manager, Research & Development Div., and General Manager, Client Solutions Div. (to present)	(Note 2)	2
Vice President and Executive Officer	General Manager, Corporate Strategy Div.	Naoyoshi Yamada	January 21, 1958	4/1982 4/2012 6/2013 10/2013 4/2016 4/2017	Joined the Ministry of International Trade and Industry Director-General, Tohoku Bureau of Economy, Trade and Industry Retired from the Ministry of Economy, Trade and Industry Joined the Company Executive Officer Vice President and Executive Officer (to present) General Manager of Corporate Strategy Div. (to present)	(Note 2)	–
Executive Officer	General Manager, China Business Div.	Takaharu Ikeda	October 5, 1958	4/1982 4/2014 4/2015 4/2016	Joined the Company General Manager, Strategy Planning Div. Executive Officer (to present) President, Hitachi Construction Machinery (Shanghai) Co., Ltd. (to present) General Manager, China Business Div. (to present)	(Note 2)	0
Executive Officer	President, Mining Group and General Manager, Mining Sales and Service Div.	Sonosuke Ishii	December 22, 1958	4/1982 8/2010 4/2011 4/2015 4/2017	Joined the Company President, Hitachi Construction Machinery Eurasia Sales LLC Vice President, Europe, Russia and CIS Business Div. President, Russia and CIS Business Div., Marketing Div., Marketing Group Executive Officer (to present) President, Mining Group and General Manager, Mining Sales and Service Div. (to present)	(Note 2)	–

Position	Responsibility	Name	Date of birth	Business experience		Term of office	Share Ownership (thousands of shares)
Executive Officer	Deputy General Manager, China Business Div.	Yusuke Kajita	October 7, 1961	4/1987	Joined the Company	(Note 2)	4
				4/2013	General Manager, Application, New Product & Construction Equipment Div., Development Div.		
				4/2016	Deputy General Manager, China Business Div., Marketing Div., Marketing Group (to present)		
					President, Hitachi Construction Machinery (China) Co., Ltd. (to present)		
				4/2017	Executive Officer (to present)		
Executive Officer	Vice President, Marketing Group, General Manager, America Business Div.	Moriaki Kadoya	November 8, 1958	4/1981	Joined the Company	(Note 2)	16
				4/2011	Deputy General Manager, Marketing Div.		
				4/2012	President, Hitachi Construction Machinery (Europe) N.V.		
				4/2014	Executive Officer (to present)		
				4/2017	Vice President, Marketing Group and General Manager, America Business Div. (to present)		
Executive Officer	General Manager, Japan Business Div.	Toshikazu Sakurai	August 5, 1957	4/1980	Joined the Company	(Note 2)	2
				10/2004	President and Director, REC Tohoku Co., Ltd.		
				4/2008	Director, Hitachi Construction Machinery REC Co., Ltd.		
				4/2012	Director, Hitachi Construction Machinery Japan Co., Ltd.		
				4/2015	General Manager, Japan Business Div. (to present)		
					President and Director, Hitachi Construction Machinery Japan Co., Ltd. (to present)		
				4/2016	Executive Officer (to present)		
Executive Officer	General Manager, Life Cycle Support Operations Div.	Katsuhiko Murakami	December 21, 1958	10/1979	Joined the Company	(Note 2)	1
				4/2013	General Manager, Customer Support Div., Life Cycle Support Operations Div., Marketing Div.		
				4/2015	General Manager, Customer Support Div., Life Cycle Support Operations Div., Marketing Group		
				4/2017	Executive Officer (to present)		
					General Manager, Life Cycle Support Operations Div. (to present)		
Executive Officer	Vice President, Development & Production Group, General Manager, Production & Procurement Div.	Tadashi Motoi	December 7, 1957	4/1980	Joined the Company	(Note 2)	4
				4/2008	Director, Production Management Center, Production Div.		
				4/2010	President, P.T. Hitachi Construction Machinery Indonesia		
				4/2013	Executive Officer (to present)		
				4/2015	Vice President, Development & Production Group, General Manager, Production & Procurement Div. (to present)		
Total							76

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder's Meeting for the year ended March 31, 2017 to the conclusion of the Annual Shareholder's Meeting for the year ending March 31, 2018.

2. The term of Executive Officers is from April 1, 2017 to March 31, 2018.

3. Kazushige Okuhara, Haruyuki Toyama and Junko Hirakawa are Outside Directors.

6. Corporate Governance, etc.

(1) Corporate governance

The Company firmly recognizes that it acts not only to improve its business performance but also to serve as a useful corporate citizen in society. Our commitment to fair and transparent corporate behavior underpins our corporate governance. We believe this commitment will in turn lead to greater corporate value and improved shareholder value.

The Company has adopted a corporate organizational system of a company with nominating committee, etc. as defined in Article 2, paragraph 12 of the Companies Act, with the aim of ensuring fair and transparent management while building an operational system that facilitates the prompt and sound execution of management strategy. We have greatly strengthened our system of corporate governance through this separation of management oversight from business operations.

In addition, the Company's own corporate codes of conduct, based on that of Hitachi Ltd., guides our basic policy for corporate governance as one of the Hitachi Group companies, and serves as the foundation for the Hitachi brand and our CSR activities. We will foster the Hitachi Group's common values and share the same understanding of our corporate social responsibilities.

1) Description of the corporate organizations

As a company with nominating committee, etc. the Company thoroughly separates management oversight from business operations and further enhances prompt management decision-making and effectiveness of management oversight.

The Company has the following organizational structure:

a. Board of Directors (14 meetings were held in the year ended March 31, 2017)

The Board of Directors determines the basic management policy, and oversees business operations conducted by Executive Officers. Also, the decision-making authority on business matters based on such basic policy is significantly delegated to Executive Officers. As of the filing date of this annual securities report, out of 10 Directors constituting the Board of Directors, 5 Directors also served as Executive Officers while 3 were Outside Directors.

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

b. Committees

(i) Nominating Committee (3 meetings were held in the year ended March 31, 2017)

The Nominating Committee has the authority, etc. to determine proposals submitted to the shareholder's meetings for the election and dismissal of the Directors. As of the filing date of the annual securities report, it consists of 5 Directors including 3 Outside Directors.

(ii) Audit Committee (17 meetings were held in the year ended March 31, 2017)

The Audit Committee has the authority to audit of the execution of duties of Directors and Executive Officers and to determine proposals submitted to the shareholder's meeting for the election and dismissal, etc. of accounting auditors. As of the filing date, the Audit Committee consists of 4 Directors including 3 Outside Directors and 1 Director who is a full-time Audit Committee member.

(iii) Compensation Committee (3 meetings were held in the year ended March 31, 2017)

The Compensation Committee has the authority, etc. to determine compensation for individual Directors and Executive Officers. As of the filing date, the Compensation Committee consists of 3 Directors including 2 Outside Directors.

c. Executive Officer

In accordance with segregation of duties stipulated by resolutions at the Board of Directors meetings, Executive Officers make decisions on business matters and execute the business. Any matters that may affect the overall business are deliberated from various point of views in the Executive Officers Committee consisting of Executive Officers. Decisions at the Executive Officers Committee are reported to the Board of Directors meeting. As of the filing date, the Company has 17 Executive Officers. The Company stipulates in its Articles of Incorporation that the Company shall have not more than 30 Executive Officers.

2) Number of Directors

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

3) Resolution requirements for appointment of Directors

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

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

4) Matters determined by a resolution of the Board of Directors without resolution at the shareholder's meeting pursuant to the provisions of the Articles of Incorporation

a. Exemption from liability of Directors and Executive Officers

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

b. Decision for dividends of surplus

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

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

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

6) Internal control system and risk management system

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

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

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

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

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

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

- Executive Officers shall report to the Audit Committee without delay matters related to the Company and its subsidiaries that were brought up to or reported to the Executive Officers Committee.

- Results of internal audits of the Company and its subsidiaries performed by the internal audit department shall be reported to the Audit Committee without delay.

- When Executive Officers become aware of facts that may have adverse effects on the Company, they shall immediately report such facts to the Audit Committee.

- The compliance department, which is the secretariat of the "Compliance Reporting System," shall report to the Audit Committee the status of reporting using the Compliance Reporting System available for employees of the Company and its subsidiaries. Also, the Company stipulates in its regulations that there shall be no disadvantageous treatment to the whistleblower due to such reporting, and the compliance department thoroughly ensures its implementation of such regulations.

- Reports from Executive Officers and employees of the Company as well as directors, corporate auditors and employees of the subsidiaries shall be directed to the full-time member of the Audit Committee. The Audit Committee, by way of a resolution, shall appoint a member of the Committee to receive such reports.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- For any matters that may affect the Company and the Group, Executive Officers Committee regulations, etc. require such matters shall be deliberated from various points of view in the Executive Officers Committee and management meetings, etc. before a decision is made by an Executive Officer in charge.
- Performance of the Company and its subsidiaries is managed using a matrix framework, i.e., by each component unit responsible for its financial performance and by each component unit responsible for its managerial performance.
- Rules for internal audit shall be established and a system shall be implemented to audit each department in the Company and its subsidiaries regularly in order to understand the status of and improve business operations of the Company and its subsidiaries.
- The Audit Committee oversees the accounting auditors. Also, for ensuring the independence of accounting auditors from Executive Officers, the duties of the Audit Committee include receiving reports in advance about audit plans of accounting auditors and prior approval of the fees to be paid to the accounting auditors.
- A documented business process for matters to be reflected in financial reports shall be executed and examined by internal auditors, or external auditors when necessary, within the Company and its subsidiaries.
- The Company dispatches Directors and corporate auditors to subsidiaries and establishes a support desk to respond to inquiries from its subsidiaries regarding corporate matters including legal, accounting, and general administrative issues, research and development activities, and intellectual property management such as patents in order to operate properly and efficiently as the Group.

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

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

- Internal audits by the Internal Audit Office, other relevant departments of the Company and its subsidiaries are conducted to ensure compliance and to deter violations of laws and regulations. In addition, various committees may be established in accordance with regulations of the Company or a decision by relevant departments in order to achieve cross-functional management regarding compliance.
- The Company has implemented a "Compliance Reporting System" which enables employees of the Company and its subsidiaries to internally report any illegal activities, etc. to the relevant departments of the Company. Further, the compliance department in charge of this system carries out necessary investigations, etc., replies to the whistle-blower, and also ensures there is no disadvantageous treatment to the whistle-blower.
- As compliance education, the Company and its subsidiaries conduct training using educational materials such as handbooks, for the applicable laws and regulations related to their business activities.
- To ensure implementation and effectiveness of the overall internal control systems, Executive Officers, as their duties, establish various policies and company regulations with primary focus on compliance with laws and regulations applicable to operations of the Group, including information security, environmental matters, quality control, export control, and prohibition of anti-social transactions. Establishment, amendment or abolishment of regulations that stipulate matters relating to internal controls shall be approved by the Board of Directors. An Executive Officer shall be appointed to approve establishment and abolishment of other company regulations depending on their materiality.
- Policies and regulations, etc. that should be formulated as common across the Group are informed to the subsidiaries, and subsidiaries shall establish their own rules that are in conformity with such policies and regulations, etc.

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

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

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

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

7) Compensation to Directors and Executive Officers

a. Method of determination of policies

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

b. Description of the policy

Matters relating to both Directors and Executive Officers

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

Matters relating to Directors

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

• A monthly salary is determined by making additions reflecting committees to which the employee belongs and his or her position to the base salary on a full-time or part-time basis.

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

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

Matters relating to Executive Officers

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

• A monthly salary shall be the amount based on the general level according to job positions.

• Performance-based compensation is determined within a certain range, depending on the performance and achievements of individual roles.

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

Category	Total amount of compensation (Millions of yen)	Total amount for each type of compensation (Millions of yen)		Number of eligible Directors and Executive Officers
		Monthly salary	Year-end allowance and performance-based component	
Directors (excluding outside Directors)	27	23	4	2
Executive Officers	537	408	129	15
Outside Directors	50	46	4	6

(Notes) 1. Amounts are rounded to the nearest millions of yen.

2. The above table includes the compensation for 3 Directors who retired as of the conclusion of the 52nd Annual Shareholder's Meeting held on June 27, 2016, and 1 Director concurrently served as Executive Officer who retired on October 5, 2016, for the year ended March 31, 2017.

3. Directors who concurrently serve as Executive Officers receive only compensation as Executive Officers.

8) Overview of the limited liability agreement with Directors (excluding those who are Executive Directors, etc.)

In accordance with the provisions of Article 22 of the Articles of Incorporation, the Company enters into an agreement to limit the liability to compensate for damages caused to the Corporation, as stipulated in Article 423, paragraph 1 of the Companies Act, with each of the Directors (excluding those who are Executive Directors, etc.). The overview of the agreement is to limit the liability of Directors (excluding those who are Executive Directors, etc.) to the aggregate amount stipulated in each item under Article 425, paragraph 1 of the Companies Act.

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

9) Status of accounting audit

a. Certified Public Accountant who executed accounting audit

Names of CPAs, etc.		Audit corporation to which CPA belongs
Designated Limited Liability Partner Engagement Partner	Kiyomi Nakayama	Ernst & Young ShinNihon LLC
Designated Limited Liability Partner Engagement Partner	Seikou Ishimaru	Ernst & Young ShinNihon LLC
Designated Limited Liability Partner Engagement Partner	Takuya Tanaka	Ernst & Young ShinNihon LLC

(Note) 15 Certified Public Accountants and 27 other people are involved in the auditing work of the Company.

10) Internal audit, the audit by the Audit Committee

a. Internal audit

The Company has established the Internal Audit Office as a department in charge of internal audit. The Internal Audit Office consists of a general manager and 9 full-time staff. The Internal Audit Office regularly audits whether the operation of each department and group companies is being carried out accurately, legitimately and reasonably.

b. Audit by Audit Committee

The Audit Committee consists of 4 Directors (including 3 Outside Directors) appointed by a resolution of the Board of Directors.

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

c. Cooperation between Audit Committee and accounting auditors

Along with receiving the audit plan from the accounting auditor, the Audit Committee is also regularly informed of the results of the audits. It also exchanges opinions about the status of the internal control system that the accounting auditor has understood through audit, risk assessment and emphasized audit items.

d. Cooperation between Audit Committee and internal audit department

In addition to receiving the audit plan from the internal audit department, the Audit Committee is also regularly informed of the results of the audits. It also exchanges opinions about the status of the internal control system that was understood through audit, risk assessment and emphasized audit items to maintain and improve the audit system. In addition, the Audit Committee may instruct the internal audit department whenever necessary about specific offices to be audited and emphasized audit items, etc.

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

The internal audit department exchanges opinions with the accounting auditors about the status, etc. of audits and the internal control system to improve and enhance the internal control system.

f. Internal control department

The Company has established the J-SOX Committee as an organization which is responsible for internal control. The J-SOX Committee is a deliberative body to determine implementation policy and assessment of effectiveness of internal control, and carries out operation of the internal control system, internal control testing, effectiveness evaluation, reporting, in collaboration with the J-SOX Committee of the group companies.

g. Relationship between internal control department and accounting auditors

The J-SOX Committee, acts as a point of contact for internal control audits by the accounting auditor, and regularly receives explanations about the results of the audits, in response to audit of each step of the development, operation, and evaluation of internal control. When the accounting auditor reports any deficiencies and material weakness in internal control, the J-SOX Committee rectifies and improves internal control.

h. Relationship between internal control department and Audit Committee

The J-SOX Committee regularly reports the results of evaluation of internal control to the Audit Committee and exchanges opinions to maintain and improve the internal control system.

i. Relationship between internal control department and internal audit department.

The Company designates the Internal Audit Office, which is an internal audit department, as the Secretariat of the J-SOX Committee. The Internal Audit Office regularly conducts operational audits and internal control audits in all the divisions and group companies. The J-SOX Committee receives reports on the results of the internal control audit from the Internal Audit Office as the Secretariat, and improves and assists the internal control system.

11) Personal relationship, capital relationship, business relationship, or other relationship between Outside Director and the Company

There are 3 Outside Directors (Kazushige Okuhara, Haruyuki Toyama and Junko Hirakawa), and their positions concurrently held are described in IV. Information on the Company, 5. Directors and Executive Officers. Each of Outside Director has no personnel and business relationships, etc. with the Company regarding his or her independency as described in "14) Requirement for independence from the Company in appointing an Outside Director" below. In addition, there is no particular conflict of interest between each of Outside Directors and the Company.

12) Functions and roles played by Outside Directors in corporate governance

The Company separates management oversight from business operations and achieves prompt management with clear responsibilities, along with further strengthening the oversight functions of the Board of Directors by putting in place 3 committees, namely the Nominating Committee, Audit Committee, and Compensation Committee consisting of Directors of which the majority are Outside Directors, and has been formed as a company with nominating committee, etc., for realizing a highly objective and transparent management.

By appointing Outside Directors who are not from Hitachi, Ltd. and its group companies, and not from major trading partners of the Company, the Company believes that oversight of the executive operations of the Executive Officers can be further strengthened.

13) Election of and qualification for Outside Directors

The Company has appointed 3 Outside Directors in accordance with the requirement for independence from the Company in appointing an Outside Director as described in 14) below. The Company believes that Kazushige Okuhara, Haruyuki Toyama, and Junko Hirakawa achieve the further strengthening of the Board of Directors by utilizing abundant experience as the business manager of an international company, abundant experience and knowledge in the financial field, and abundant experience and knowledge as a legal expert, respectively, to supervise the execution of duties by Executive Offices from an independent standpoint.

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

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

• his or her immediate family member within the second degree of kinship is, or has been within the last 3 years, a Director or an Executive Officer of the Company or any of its subsidiaries;

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

Also, 3 Outside Directors mentioned above are registered as independent directors under the rules of the Tokyo Stock Exchange.

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

3 Outside Directors belong to the Audit Committee. Mutual cooperation with internal audit and accounting audit, as well as relationship with the internal control department are as described in 10) above.

16) Information on shareholdings

a. Equity securities held for purpose other than pure investment

Number of stock names: 22 stock names

Total amount recorded in the balance sheet: ¥10,081 million

b. Stock name, number of shares, amount recorded in the balance sheet, and purpose of holding regarding equity securities held for purposes other than pure investment

Specified investment securities

Year ended March 31, 2016

Stock name	Number of shares (Shares)	Balance sheet amount (Millions of yen)	Purpose of holding
KYB Corporation	8,920,000	2,970	Stable procurement of materials
Nippon Chuzo K. K.	7,652,000	765	Stable procurement of materials
Wakita & Co., LTD.	1,200,000	1,128	Strengthening of customers
Kanamoto Co., Ltd.	344,581	913	Strengthening of customers
IJT Technology Holdings Co., Ltd.	1,300,000	358	Stable procurement of materials
JFE Holdings, Inc.	150,000	227	Stable procurement of materials
NISHIO RENT ALL CO., LTD.	66,000	176	Strengthening of customers
NANYO Corporation	72,600	64	Strengthening of customers
NIPPAN RENTAL Co., Ltd.	18,000	32	Strengthening of customers

Year ended March 31, 2017

Stock name	Number of shares (Shares)	Balance sheet amount (Millions of yen)	Purpose of holding
KYB Corporation	8,920,000	5,174	Stable procurement of materials
Nippon Chuzo K. K.	7,652,000	834	Stable procurement of materials
Wakita & Co., LTD.	1,200,000	1,270	Strengthening of customers
Kanamoto Co., Ltd.	344,581	1,033	Strengthening of customers
IJT Technology Holdings Co., Ltd.	1,300,000	874	Stable procurement of materials
JFE Holdings, Inc.	150,000	286	Stable procurement of materials
NISHIO RENT ALL CO., LTD.	66,000	207	Strengthening of customers
NANYO Corporation	72,600	123	Strengthening of customers
NIPPAN RENTAL Co., Ltd.	18,000	33	Strengthening of customers

(2) Audit fees, etc.

1) Fees to Certified Public Accountants, etc.

Years ended March 31, 2016 and 2017

Category	2016		2017	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	75	9	76	8
Consolidated subsidiaries	41	–	50	–
Total	116	9	126	8

2) Other fees

(Year ended March 31, 2016)

Fees for audit services and fees for non-audit services paid by the Company and its consolidated subsidiaries to the Company's accounting auditor, Ernst & Young ShinNihon LLC Group (including Ernst & Young and its group firms which belong to the same network as Ernst & Young ShinNihon LLC) were ¥336 million and ¥132 million, respectively.

(Year ended March 31, 2017)

Fees for audit services and fees for non-audit services paid by the Company and its consolidated subsidiaries to the Company's accounting auditor, Ernst & Young ShinNihon LLC Group (including Ernst & Young and its group firms which belong to the same network as Ernst & Young ShinNihon LLC) were ¥301 million and ¥137 million, respectively.

3) Description of non-audit services provided by Certified Public Accountants, etc. to the Company

(Year ended March 31, 2016)

The Company has paid fees to Certified Public Accountants, etc. for advisory services, etc. on the acquisition of shares, which are not the services stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act.

(Year ended March 31, 2017)

The Company has paid fees to Certified Public Accountants, etc. for due diligence, etc. which are not the services stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act.

4) Policy for determining audit fees

Audit fees to be paid to accounting auditors are determined with the approval of the Audit Committee, taking into account the number of days required for auditing, etc.

V. Financial Information

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

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

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

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

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements of the Company for the fiscal year ended March 31, 2017 were audited by Ernst & Young ShinNihon LLC.

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

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

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

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

1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

1) Consolidated statements of financial position

Millions of yen

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and cash equivalents (note 20)	79,110	65,455
Trade receivables (notes 6, 21 and 22)	182,928	184,460
Inventories (notes 8 and 22)	248,564	232,365
Income taxes receivable	2,509	4,191
Other financial assets (note 21)	27,218	27,626
Other current assets	8,888	12,837
Subtotal	549,217	526,934
Assets held for sale	-	77
Total current assets	549,217	527,011
Non-current assets		
Property, plant and equipment (notes 4, 9 and 22)	276,293	292,143
Intangible assets (notes 4 and 10)	9,611	15,906
Goodwill (notes 4 and 10)	8,694	57,103
Investments accounted for using the equity method	18,726	23,126
Trade receivables (notes 6 and 21)	23,125	31,279
Deferred tax assets (note 11)	15,241	22,508
Other financial assets (note 21)	15,668	19,354
Other non-current assets	10,053	11,171
Total non-current assets	377,411	472,590
Total assets	926,628	999,601
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 21)	182,648	205,722
Bonds and borrowings (note 21)	111,888	153,883
Income taxes payable (note 11)	4,728	4,063
Other financial liabilities (note 21)	8,936	29,696
Other current liabilities	4,211	5,969
Total current liabilities	312,411	399,333
Non-current liabilities		
Trade and other payables (notes 12 and 21)	23,224	21,604
Bonds and borrowings (note 21)	106,007	94,818
Retirement and severance benefit (note 13)	16,855	16,768
Deferred tax liabilities (note 11)	6,057	7,620
Other financial liabilities (note 21)	32	577
Other non-current liabilities	5,226	8,451
Total non-current liabilities	157,401	149,838
Total liabilities	469,812	549,171
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	84,095	82,553
Retained earnings (note 14)	222,721	228,026
Accumulated other comprehensive income (note 15)	10,621	10,518
Treasury stock, at cost (note 14)	(3,051)	(3,055)
Total equity attributable to owners of the parent	395,963	399,619
Non-controlling interests	60,853	50,811
Total equity	456,816	450,430
Total liabilities and equity	926,628	999,601

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Years ended March 31, 2016 and 2017		Millions of yen
	2016	2017
Revenue (note 4)	758,331	753,947
Cost of sales	(578,734)	(583,021)
Gross profit	179,597	170,926
Selling, general and administrative expenses	(156,233)	(142,661)
Other income (note 17)	24,695	4,768
Other expenses (note 17)	(14,007)	(9,411)
Operating income	34,052	23,622
Financial income (note 18)	3,418	4,008
Financial expenses (note 18)	(13,187)	(3,460)
Share of profits of investments accounted for using the equity method	234	(311)
Income before income taxes	24,517	23,859
Income tax expense (note 11)	(14,217)	(9,669)
Net income	10,300	14,190
Net income attributable to:		
Owners of the parent	8,804	8,022
Non-controlling interests	1,496	6,168
Total net income	10,300	14,190
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 19)	41.41	37.72
Net income per share (Diluted) (yen) (note 19)	41.41	37.72

3) Consolidated statements of comprehensive income

Years ended March 31, 2016 and 2017		Millions of yen
	2016	2017
Net income for the year	10,300	14,190
Other comprehensive income		
Items that cannot be reclassified into net income		
Net gains and losses from financial assets measured at fair value through OCI (notes 15 and 21)	(2,354)	2,916
Remeasurements of defined benefit obligations (notes 13 and 15)	(4,316)	3,142
Other comprehensive income of equity-method associates (note 15)	(24)	1
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	(26,222)	(8,284)
Net gains and losses from cash flow hedges measured at fair value (notes 15 and 21)	195	(88)
Other comprehensive income of equity-method associates (note 15)	(3,727)	(206)
Other comprehensive income, net of taxes	(36,448)	(2,519)
Comprehensive income	(26,148)	11,671
Comprehensive income attributable to:		
Owners of the parent	(22,394)	7,876
Non-controlling interests	(3,754)	3,795

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity
Year ended March 31, 2016

Millions of yen

	Equity attributable to owners of the Company					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasure-ments of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Net gains and losses from cash flow hedges measured at fair value
Balance at beginning of year	81,577	84,315	226,332	185	7,490	(117)
Net income			8,804			
Other comprehensive income (note 15)				(4,337)	(2,338)	194
Comprehensive income	-	-	8,804	(4,337)	(2,338)	194
Acquisition of treasury stock (note 14)						
Sale of treasury stock (note 14)		9				
Increase/decrease by share exchange (note 14)		37				
Dividends to shareholders of the Company (note 16)			(12,755)			
Changes in ownership interests in subsidiaries without a loss of control		(266)				
Changes in the scope of consolidation						
Transfer to retained earnings			340	152	(492)	
Expiration of subscription rights						
Transaction with owners	-	(220)	(12,415)	152	(492)	-
Balance at end of year	81,577	84,095	222,721	(4,000)	4,660	77

Millions of yen

	Equity attributable to owners of the Company					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	34,601	42,159	(3,156)	431,227	66,675	497,902
Net income		-		8,804	1,496	10,300
Other comprehensive income (note 15)	(24,717)	(31,198)		(31,198)	(5,250)	(36,448)
Comprehensive income	(24,717)	(31,198)	-	(22,394)	(3,754)	(26,148)
Acquisition of treasury stock (note 14)		-	(6)	(6)		(6)
Sale of treasury stock (note 14)		-	40	49		49
Increase/decrease by share exchange (note 14)		-	71	108		108
Dividends to shareholders of the Company (note 16)		-		(12,755)	(2,224)	(14,979)
Changes in ownership interests in subsidiaries without a loss of control		-		(266)	156	(110)
Changes in the scope of consolidation		-		-		-
Transfer to retained earnings		(340)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	-	(340)	105	(12,870)	(2,068)	(14,938)
Balance at end of year	9,884	10,621	(3,051)	395,963	60,853	456,816

See accompanying notes to consolidated financial statements.

Year ended March 31, 2017

Millions of yen

	Equity attributable to owners of the Company					
				Accumulated other comprehensive income		
	Common stock	Capital surplus	Retained earnings	Remeasure-ments of defined benefit obligations	Net gains and losses from financial assets measured at fair value through OCI	Net gains and losses from cash flow hedges measured at fair value
Balance at beginning of year	81,577	84,095	222,721	(4,000)	4,660	77
Net income			8,022			
Other comprehensive income (note 15)				3,051	2,913	(91)
Comprehensive income	-	-	8,022	3,051	2,913	(91)
Acquisition of treasury stock (note 14)						
Sale of treasury stock (note 14)						
Increase/decrease by share exchange						
Dividends to shareholders of the Company (note 16)			(2,978)			
Changes in ownership interests in subsidiaries without a loss of control		(1,275)				
Changes in the scope of consolidation					(8)	
Transfer to retained earnings			(6)		6	
Expiration of subscription rights		(267)	267			
Transaction with owners	-	(1,542)	(2,717)	-	(2)	-
Balance at end of year	81,577	82,553	228,026	(949)	7,571	(14)

Millions of yen

	Equity attributable to owners of the Company					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	9,884	10,621	(3,051)	395,963	60,853	456,816
Net income		-		8,022	6,168	14,190
Other comprehensive income (note 15)	(6,019)	(146)		(146)	(2,373)	(2,519)
Comprehensive income	(6,019)	(146)	-	7,876	3,795	11,671
Acquisition of treasury stock (note 14)		-	(4)	(4)		(4)
Sale of treasury stock (note 14)		-		-		-
Increase/decrease by share exchange		-		-		-
Dividends to shareholders of the Company (note 16)		-		(2,978)	(7,290)	(10,268)
Changes in ownership interests in subsidiaries without a loss of control	45	45		(1,230)	850	(380)
Changes in the scope of consolidation		(8)		(8)	(7,397)	(7,405)
Transfer to retained earnings		6		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	45	43	(4)	(4,220)	(13,837)	(18,057)
Balance at end of year	3,910	10,518	(3,055)	399,619	50,811	450,430

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Years ended March 31, 2016 and 2017		Millions of yen
	2016	2017
Net income	10,300	14,190
Depreciation	31,966	30,680
Amortization of intangible assets	3,481	3,284
Impairment losses	151	3,883
Gain on business restructuring	(21,611)	(933)
Income tax expense	14,217	9,669
Share of profits of investments accounted for using the equity method	(234)	311
Gain (loss) on sales of property, plant and equipment	(141)	(51)
Financial income	(3,418)	(4,008)
Financial expenses	13,187	3,460
(Increase) decrease in accounts and notes receivable	40,650	(1,482)
(Increase) decrease in finance lease receivables	11,741	(4,754)
(Increase) decrease in inventories	59,818	28,974
Increase (decrease) in accounts and notes payable	(14,654)	20,580
Increase (decrease) in retirement and severance benefit	825	2,704
Other	(13,169)	(3,152)
Subtotal	133,109	103,355
Interest received	2,994	2,573
Dividends received	463	593
Interest paid	(5,210)	(3,534)
Income taxes paid	(16,482)	(15,026)
Net cash provided by operating activities	114,874	87,961
Capital expenditures	(17,515)	(13,999)
Proceeds from sale of property, plant and equipment	576	1,998
Acquisition of intangible assets	(2,287)	(3,304)
Acquisition of investments in securities and other financial assets (including investments in associates) (note 20)	(4,013)	(56,070)
Sales of investments in securities and other financial assets (including investments in associates) (note 20)	32,184	(3,807)
Collection of long-term loan receivables	10,506	172
Payments for transfer of business	(1,810)	-
Other	614	400
Net cash provided by (used in) investing activities	18,255	(74,610)
Increase (decrease) in short-term borrowings, net	(46,226)	24,232
Proceeds from long-term borrowings and bond	19,735	39,143
Payments on long-term borrowings and bond	(50,921)	(69,883)
Payments on finance lease payables	(3,893)	(5,556)
Dividends paid to owners of the parent (note 16)	(12,743)	(3,005)
Dividends paid to non-controlling interests	(4,156)	(7,862)
Purchase of shares of consolidated subsidiaries from non-controlling interests	-	(2,882)
Other	41	(4)
Net cash used in financing activities	(98,163)	(25,817)
Effect of exchange rate changes on cash and cash equivalents	(7,289)	(1,189)
Net increase (decrease) in cash and cash equivalents	27,677	(13,655)
Cash and cash equivalents at beginning of period (note 20)	51,433	79,110
Cash and cash equivalents at end of period (note 20)	79,110	65,455

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of operations

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

(2) Basis of presentation

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

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

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

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

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

- note 3. *(a) Basis of consolidation*
- note 3. *(d) Financial instruments* and note 21. Financial instruments and related disclosures

The information regarding uncertainties arising from assumptions and estimates that could result in material adjustments in the subsequent consolidated financial statements is included in the following notes:

- note 3. *(i) Impairment of non-financial assets*
- note 3. *(j) Retirement and severance benefits* and note 13. Employee benefits
- note 3. *(l) Contingencies* and note 25. Commitments and contingencies
- note 3. *(m) Revenue recognition criteria*
- note 3. *(o) Deferred taxes and income taxes* and note 11. Deferred taxes and income taxes

(3) Summary of significant accounting policies

(a) Basis of consolidation

(i) Consolidated subsidiaries

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

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

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

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

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

(ii) Associates

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

Investments in associates are accounted for using the equity method. (hereinafter referred to as the "equity-method associate")

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

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

(b) Cash equivalents

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

(c) Foreign currency translation

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

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

(d) Financial instruments

The Group has early adopted IFRS 9 "Financial Instruments" (issued in November 2009, amended in October 2010) (IFRS 9).

(i) Non-derivative financial assets

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

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

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

Financial assets measured at amortized cost

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

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

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

FVTOCI financial assets

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

FVTPL financial assets

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

Impairment of financial assets measured at amortized cost

On a regular basis, but no less frequently than at the end of each quarterly reporting period, the Group evaluates financial assets measured at amortized cost for impairment. Impairment is deemed to have occurred when there is an objective evidence of impairment after initial recognition and when the estimated future cash flows from the financial assets falls below their respective carrying amounts. Objective evidence of impairment includes historical credit loss experience, existence of overdue payments, extended payment terms, negative evaluation by third party credit rating agencies, and deteriorated financial position and operating results, such as a capital deficit.

Impairment losses on debt securities are recognized when the carrying amount of the financial asset exceeds either its estimated future cash flows discounted by the initial effective interest rate or its estimated fair value using the observable market price, and measured as the difference.

Assessing impairment losses on trade receivables requires a considerable amount of judgment, involving historical experience and analysis, including the current creditworthiness of each customer. The Group measures an impairment loss based on the credit loss ratio calculated taking into consideration factors including historical experience or the estimate of collectible amount after assessing multiple potential risks associated with the country in which a debtor conducts business or business environment including special business customs particular to the region.

Impairment losses on debt instruments directly reduce the carrying amount of the assets, while the impairment losses on trade receivables indirectly reduce the carrying amount through the use of an allowance account. For trade receivables, account balances are generally written off against the allowance only after all means of collection have been exhausted and the potential for recovery is considered remote.

When subsequent events or circumstances decrease the amount of the impairment loss recognized, the impairment loss is reversed through profit or loss.

(ii) Non-derivative financial liabilities

The Group initially recognizes debt instruments on the date of issuance. All other financial liabilities are initially recognized at the transaction date on which the Group becomes a party to the agreement.

The Group derecognizes financial liabilities when extinguished, when the obligation in the contract is redeemed or the liability is discharged, cancelled or expires.

Non-derivative financial liabilities the Group holds include trade and other payables, bonds and borrowings, and other financial liabilities. They are initially recognized at fair value (less direct transaction costs), and bonds and borrowings are subsequently measured at amortized cost using the effective interest method. Interest accrued on these financial liabilities is included in financial expenses in the consolidated statements of income.

(iii) Derivatives and hedge accounting

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

The Group accounts for hedging derivatives as follows:

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

The Group follows the documentation requirements as prescribed by International Accounting Standards (IAS) 39 "Financial Instruments: Recognition and Measurement," which includes the risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and subsequently on a periodic basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or cash flows of the hedged items. Hedge accounting is discontinued if a hedge becomes ineffective.

(iv) Offsetting financial assets and liabilities

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

(e) Inventories

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

(f) Property, plant and equipment

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

Buildings and structures2 to 67 years
Machinery, equipment and vehicles 2 to 30 years
Tools, furniture and fixtures2 to 30 years

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

(g) Goodwill and other intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

Software 2 to 10 years
Others 2 to 20 years

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

(h) Leases

Decision on whether an arrangement is or contains a lease is made based on the substance of the arrangement at inception of the lease. Leases where all risks and rewards of ownership of the asset are substantially transferred to the lessee under the arrangement are classified as finance leases. Leases other than finance leases are classified as operating leases.

(i) Leases as lessee

Lease assets and liabilities under finance leases are initially recognized at the lower of the present value of minimum lease payments or fair value at inception of the lease. Depreciation of lease assets is recorded using the straight-line method over the shorter of the lease term or estimated useful life, except in the case where it is reasonably certain that the ownership will be transferred by the end of the lease term. Lease payments are allocated at a constant rate to the balance of lease liabilities and accounted for as a reduction in financial expenses and lease liabilities.

Lease payments under operating leases are recognized as expenses using the straight-line method over the lease term.

(ii) Leases as lessor

For finance leases, net investment in lease at inception of the lease is recorded as trade receivables, and unearned income is allocated over the lease term at a constant rate to the net investment in lease and recognized in the fiscal year to which the income is attributed.

Lease payments receivable under operating leases are recognized equally over the lease term.

(i) Impairment of non-financial assets

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

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

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

(j) Retirement and severance benefits

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

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

The present value of defined benefit obligations less the fair value of plan assets is presented as assets or liabilities.

(k) Provisions

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

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

(l) Contingencies

The Group discloses contingent liabilities in note 25. Commitments and Contingencies in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if an obligation does not meet the recognition criteria of provisions prescribed above in *(k) Provisions,* excluding those where the possibility of an outflow of resources is remote.

(m) Revenue recognition criteria

The Group recognizes revenue when it is certain that the economic benefits will flow to the Group and the amount of revenue can be measured reliably on the premise that there is persuasive evidence supporting the transaction.

Revenue from sale of goods, rendering of services and others is measured at fair value of the consideration received or receivable. Fair value is the amount after deduction of discounts, rebates and consumption tax. Revenue recognition criteria by significant category are as follows:

(i) Sale of goods

Revenue from the sale of goods is recognized when all of the following conditions are met.

- The significant risks and rewards of ownership of the goods have been transferred to the customer
- The Group has neither continuing managerial involvement nor effective control over the goods sold
- The amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group

(ii) Rendering of services

Revenue from the rendering of services is recognized when all of the following conditions are met.

- The stage of completion of the transaction at the end of the reporting period can be measured reliably
- The amount of revenue and the costs incurred for the transaction at the end of the reporting period can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group

(n) Government grants

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

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

(o) Deferred taxes and income taxes

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

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

(p) Earnings per share

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

(q) Business combinations

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

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

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

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

Notes to Consolidated Financial Statements

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

The following table lists the new accounting standards and interpretations issued or amended prior to the approval date of the consolidated financial statements that are not yet adopted by the Group as of the reporting date. The Group is currently evaluating the potential impact of adopting these new standards and amendments on its financial position and business performance.

IFRSs	Title	Mandatory effective date (Fiscal year beginning on or after)	To be adopted by the Group	Description of new standards and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	Revised accounting standard for revenue recognition and disclosure
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending March 31, 2019	Amendments for hedge accounting (amended in November 2013) Amendments for the classification and measurement of financial instruments, and adoption of expected loss impairment model for financial assets (amended in July 2014)
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revised lease definition and mainly lessee accounting

(s) Subsequent events

The Group has assessed events that occurred up to June 27, 2017, the filing date of this annual securities report.

Notes to Consolidated Financial Statements

(4) Segment information

(a) Reportable segment information

(i) Overview of business segments

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

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

The Company discloses its reportable segment as the Construction Machinery Business Segment and Solution Business Segment from this fiscal year as a result of the Company consolidating the H-E Parts International LLC and its group companies ("H-E Parts") and Bradken Limited and its group companies ("Bradken"), which compose the Solution Business Segment in this fiscal year. Details of H-E Parts and Bradken are in "(5) Business combination."

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

For the year ended March 31, 2016

The Group manufactured and sold hydraulic excavators, ultra-large-sized hydraulic excavators, and wheel loaders, and as well sold the parts related to these products. As such, there were no reportable segments requiring classification, and disclosure is therefore omitted.

For the year ended March 31, 2017

(Millions of yen)

	Reportable segment			Adjustments (*2)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
Outside customers	747,256	6,691	753,947	-	753,947
Intersegment transactions	-	-	-	-	-
Total revenues	747,256	6,691	753,947	-	753,947
Segment profit (*1)	23,066	556	23,622	-	23,622
Financial income	-	-	-	4,008	4,008
Financial expenses	-	-	-	(3,460)	(3,460)
Share of profits (losses) of investments accounted for using the equity method	(311)	-	(311)	-	(311)
Income before income taxes	22,755	556	23,311	548	23,859
Segment assets	869,218	139,696	1,008,914	(9,313)	999,601
Segment liabilities	496,489	61,995	558,484	(9,313)	549,171
Other items:					
Depreciation and amortization of intangible assets	(33,847)	(117)	(33,964)	-	(33,964)
Impairment losses	(3,883)	-	(3,883)	-	(3,883)
Gain on business restructuring	933	-	933	-	933
Business structure reform expenses	(479)	-	(479)	-	(479)
Investments accounted for using the equity method	23,126	-	23,126	-	23,126
Capital expenditure	33,910	59	33,969	-	33,969

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

(*2) Adjustments represent eliminations of intersegment transactions and corporate amounts not attributable to any particular operating segment.

(b) Information on products and services

The following tables show revenue from outside customers by product and service for the years ended March 31, 2016 and 2017.

Millions of yen

	2016	2017
Mining machinery	115,509	120,824
Construction machinery and others	642,822	633,123
Total	758,331	753,947

(c) Geographic information

The following table shows revenues attributed to geographic areas based on the location of the customers for the years ended March 31, 2016 and 2017.

Millions of yen

	2016	2017
Japan	232,800	225,986
The Americas	99,694	85,484
Europe	89,011	87,565
Russia-CIS, Africa, and Middle East	82,167	76,268
Asia and Oceania	200,854	207,181
China	53,805	71,463
Total	758,331	753,947

Revenues from outside customers attributable to any individual country and region other than Japan and China were not material for the years ended March 31, 2016 and 2017.

The following table shows the balances of property, plant and equipment, intangible assets and goodwill for each geographic area as of March 31, 2016 and 2017.

Millions of yen

	March 31, 2016	March 31, 2017
Japan	211,746	253,330
The Americas	1,667	17,400
Europe	12,572	11,621
Asia	48,041	49,265
Oceania	18,740	31,138
Other Areas	1,832	2,398
Total	294,598	365,152

The balances of property, plant and equipment, intangible assets and goodwill in any individual country and region other than Japan are not material as of March 31, 2016 and 2017.

(d) Significant customer information

There is no concentration of revenues to a specific customer for the year ended March 31, 2016 and 2017.

(5) Business combination

For the year ended March 31, 2016

The following significant business combination occurred during the year ended March 31, 2016.

(a) Purpose of business combination

On October 1, 2015, the Group acquired additional shares of KCM Corporation (hereinafter referred to as "KCM") from Kawasaki Heavy Industries, Ltd. (hereinafter referred to as "KHI") and made KCM a wholly owned subsidiary. KCM was formerly an equity-method associate of the Group. In addition, the Group assumed the business from KCMJ Corporation (hereinafter referred to as "KCMJ"), which was once a subsidiary of KCM.

Since October 2008, KHI and the Group have collaborated in the wheel loader business, including joint research and development of new models of wheel loaders to meet the Tier 4 exhaust emission regulations. KCM was incorporated in January 2009, and in April of the same year, the wheel loader business of KHI was spun off to KCM. With the Group's capital investment in KCM in June 2010, the joint development of new models of wheel loaders, the increase in production efficiency and the like accelerated. Global competition in the construction machinery industry has intensified. In order to enhance its competitiveness, the Group made KCM into a wholly owned subsidiary of the Company, to expand and strengthen the wheel loader business and to raise customer satisfaction by combining the technologies of the two companies and increasing production efficiency.

In addition, Hitachi Construction Machinery Japan Co., Ltd., which is a subsidiary of the Company, accepted the transfer of the sales and servicing business in Japan of wheel loaders and snow removal machines from KCMJ, which is a subsidiary of KCM, on the same day of transfer of KCM's shares of stock.

(b) Name of acquired company and its business

(i) Overview of share acquisition

Name of the acquired company:	KCM Corporation
Business contents of the acquired company:	Manufacturing, sales, and after-sales service of construction machinery, etc.
Acquired ratio of voting rights:	66.0%

(ii) Overview of business transfer

Name of transferor:	KCMJ Corporation
Name of transferee:	Hitachi Construction Machinery Japan Co., Ltd. (wholly owned subsidiary of the Company)
Contents of transferred business:	Domestic sales service business of wheel loaders and snow removal machines

(c) Consideration of the integration and fair value of assets acquired and liabilities assumed

Consideration of the share acquisition of KCM Corporation and fair value of assets acquired and liabilities assumed are as follows (Allocation of the acquisition cost attributable to the business combination to assets acquired and liabilities assumed has been completed.):

Millions of yen

	Amount
Cash and cash equivalents	118
Trade receivables	10,465
Other current assets	12,678
Non-current assets (excluding trade receivables and intangible assets)	4,720
Intangible assets	
Goodwill (non-deductible for tax purpose)	362
Other intangible assets	788
Total assets	29,131
Current liabilities	21,142
Non-current liabilities	3,207
Total liabilities	24,349
Cash and cash equivalents	3,156
Fair value of shares that the company had already had upon acquisition of control	1,626
Total consideration of acquisition	4,782

The goodwill consisted primarily of excess earnings and synergies with the existing operations.

Consideration of acceptance of transfer of business from KCMJ Corporation and fair value of assets acquired and liabilities assumed are as follows:

Millions of yen

	Amount
Cash and cash equivalents	0
Trade receivables	534
Other current assets	956
Non-current assets (excluding intangible assets)	1,782
Intangible assets	8
Total assets	3,280
Current liabilities	590
Non-current liabilities	880
Total liabilities	1,470
Cash and cash equivalents	1,810
Total consideration of acquisition	1,810

(d) Trade receivables acquired

Millions of yen

	Total amount and fair value of trade receivables on the contract	Of which, the amount expected to be unrecoverable
Accounts and notes receivable	10,475	10
Finance lease receivables	534	-
Total	11,009	10

(e) Expenses related to acquisition

Expenses related to the acquisition are ¥99 million and included in "Other expenses" on the consolidated statements of income.

(f) Gain and loss on step acquisition

A remeasurement of KCM Corporation shares held by the Company before the business combination at fair value results in ¥1,626 million, and the Company recognizes ¥141 million of loss on step acquisition, which is recorded in Other expenses on the consolidated statements of income.

(g) Revenue and net income of acquired company and transferred business

Revenue and net income generated for the acquisition date of the business combination to March 31, 2016 are ¥15,910 million and ¥1,227 million respectively.

(h) Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year

Pro forma information (unaudited information) about business performance on a consolidated basis for the fiscal year ended March 31, 2016 assuming the acquisition is completed as of April 1, 2015 is revenue of ¥777,247 million and net income of ¥10,660 million.

For the year ended March 31, 2017

Inclusion of H-E Parts International LLC and H-E Parts Australian Holdings LLC as consolidated subsidiaries following acquisition of their shares

On December 21, 2016, the Company acquired all the shares of H-E Parts International LLC and H-E Parts Australian Holdings LLC (collectively "H-E Parts") that are headquartered in Delaware, United States. H-E Parts provides service and solution required for machinery or equipment for mining, quarrying, and construction, as well as the development, manufacturing and sale of associated parts mainly in Australia and the U.S.

(a) Purpose of business combination

The Company has promoted its "GROW TOGETHER 2016" Mid-term Management Plan and proactively sought to streamline management, including establishing a global support framework, in order to flexibly adapt to changes in the operating environment.

The Company aims to provide highly efficient solution services at low cost tailored to the needs of construction sites, enhance the Company's value chain, and improve business stability and profitability through the acquisition of H-E Parts.

The Company also plans to expand its solution service business by leveraging the knowledge and expertise of H-E Parts.

(b) Name of acquired company and its business

(i) H-E Parts International LLC

Name of the acquired company: H-E Parts International LLC

Business contents of the acquired company: Provider of services related to mining and construction machinery, and the development, manufacturing and sales of associated parts.

Acquired ratio of voting rights: 100%

(ii) H-E Parts Australian Holdings LLC (*)

Name of the acquired company: H-E Parts Australian Holdings LLC

Business contents of the acquired company: Shareholding of its subsidiaries

Acquired ratio of voting rights: 100%

(*) H-E Parts Australian Holdings LLC was established as a special-purpose company to own units in HEP Australia Holdings Pty Ltd and was merged into H-E Parts International LLC immediately after the acquisition.

(Reference) Overview of the company owned by H-E Parts Australian Holdings LLC

Name of the company: HEP Australia Holdings Pty Ltd

Business contents of the company: Provider of services related to mining and construction machinery, and the development, manufacturing and sales of associated parts.

(c) Consideration of the integration and fair value of assets acquired and liabilities assumed

Consideration of the share acquisition of H-E Parts and fair value of assets acquired and liabilities assumed are as follows (as allocation of the acquisition cost has not been completed, amounts are provisional based on information currently available):

Millions of yen

Category	H-E Parts International LLC	H-E Parts Australian Holdings LLC	Total amount
Cash and cash equivalents	217	289	506
Trade receivables	1,922	2,637	4,559
Inventories	5,151	4,092	9,243
Property, plants, and equipment	597	804	1,401
Intangible assets	1,618	591	2,209
Goodwill	2,064	3,751	5,815
Other assets	621	626	1,247
Total assets	12,190	12,790	24,980
Trade and other payables	1,980	2,776	4,756
Bonds and borrowings	4,820	3,535	8,355
Other liabilities	345	363	708
Total liabilities	7,145	6,674	13,819
Consideration paid (cash)			19,812
Goodwill (non-deductible for tax expense)			8,651

The goodwill consisted primarily of excess earnings and synergies with existing operations.

(d) Trade receivables acquired

Millions of yen

Category	Total amount and fair value of trade receivables on the contract		Of which, the amount expected to be unrecoverable	
	H-E Parts International LLC	H-E Parts Australian Holdings LLC	H-E Parts International LLC	H-E Parts Australian Holdings LLC
Accounts and notes receivable	1,970	2,651	48	14
Total	1,970	2,651	48	14

(e) Expenses related to acquisition

Expenses related to the acquisition are ¥551 million and included in "Other expenses" on the consolidated statements of income.

(f) Revenue and net income of acquired company

Revenue generated for the acquisition date of the business combination to March 31, 2017 is ¥6,691 million and the net income is not disclosed because it has no material impact on the consolidated financial statements.

(g) Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year

Revenue and net income on a consolidated basis for the fiscal year ended March 31, 2017 assuming the acquisition is completed at the beginning of the fiscal year based on pro forma information (unaudited information) are ¥772,826 million and ¥14,737 million, respectively.

Inclusion of Bradken Limited as consolidated subsidiaries following acquisition of its shares

The Company commenced a share takeover offer (the "takeover offer") for all common shares issued in Bradken Limited (Australian Stock Exchange: BKN; Head office: Newcastle, Australia; Chairman: Phillip Arnall; "Bradken") on November 1, 2016. As a result of Bradken shareholders' acceptance of the takeover offer, Bradken became a consolidated subsidiary of the Company on March 20, 2017.

(a) Purpose of business combination

Demand for construction machinery and mining machinery has decelerated in China, Indonesia, Russia-CIS, and other emerging countries and has stagnated in advanced countries, and the market climate continues to be austere. Faced with these conditions, the Company has promoted its "GROW TOGETHER 2016" Mid-term Management Plan and proactively sought to streamline management, including establishing a global support framework, in order to flexibly adapt to changes in the operating environment.

In the future, the Company intends to pursue growth through alliances and acquisitions in its core business of manufacturing and distributing construction and mining machinery, together with the associated value chains. This will be combined with an ongoing focus on streamlining operations.

Bradken's business is wide-ranging across the value chain globally. Its operations include a mining equipment business, a business for wear parts in mining, and a maintenance service business, as well as a manufacturing business of metal casting parts for mining and infrastructure industries. The Company believes that the acquisition of Bradken will complement and bolster the parts service business in the Company's mining business and expects further improvement in business income stability and profitability through mutual utilization of a global network.

(b) Name of acquired company and its business

Name of the acquired company:	Bradken Limited
Business contents of the acquired company:	Metal casting and manufacture and distribution services for metal casting products
Percentage of voting equity interests acquired:	100% (Percentage of voting interests acquired for which consideration was paid as of March 31, 2017 was 68.62%.)

Notes to Consolidated Financial Statements

(c) Consideration of the integration and fair value of assets acquired and liabilities assumed

Consideration of the share acquisition of Bradken and fair value of assets acquired and liabilities assumed are as follows (as allocation of the acquisition cost has not been completed, amounts are provisional based on information currently available):

Millions of yen

Category	Total amount
Cash and cash equivalents	3,572
Trade receivables	8,349
Inventories	15,136
Property, plants, and equipment	30,488
Intangible assets	4,900
Goodwill	8,827
Deferred tax assets	4,803
Other assets	4,255
Total assets	80,330
Trade and other payables	13,729
Bonds and borrowings	31,427
Retirement and severance benefits	1,220
Other liabilities	1,235
Total liabilities	47,611
Consideration paid (*1)	58,614
Goodwill (non-deductible for tax expense) (*2)	25,895

(*1) The consideration of 68.62% of the shares acquired by March 31, 2017 is ¥40,336 million in cash. Although the takeover offer is still open as of March 31, 2017, since the Company proceeded with the squeeze-out procedure aiming to make Bradken a wholly owned subsidiary, the Company conducted an accounting treatment for a business combination as it was deemed that the Company substantially acquires 100% shares. The shares for which the payment was not completed as of March 31, 2017 was recognized as Other financial liabilities of ¥18,278 million.

(*2) The goodwill consisted primarily of excess earnings and synergies with existing operations.

(d) Trade receivables acquired

Millions of yen

Category	Total amount and fair value of trade receivables on the contract	Of which, the amount expected to be unrecoverable
Accounts and notes receivable	8,057	15
Finance lease receivables	307	-
Total	8,364	15

(e) Expenses related to acquisition

Expenses related to the acquisition are ¥1,009 million and included in “Other expenses” on the consolidated statements of income.

(f) Revenue and net income of acquired company

Information on the revenue and net income of the acquired company from the acquisition date to March 31, 2017 is not disclosed because it has no material impact on the consolidated financial statements.

(g) Revenue and net income of the Group assuming that the business combination is completed at the beginning of the fiscal year

Revenue and net income on a consolidated basis for the year ended March 31, 2017 assuming the acquisition is completed at the beginning of the fiscal year based on pro forma information (unaudited information) are ¥815,537 million and ¥8,037 million, respectively.

(6) Trade receivables

The components of trade receivables are as follows:

Millions of yen

	March 31, 2016	March 31, 2017
Accounts and notes receivable and electronically recorded monetary claims - operating	171,820	176,136
Finance lease receivables	44,338	49,873
Allowance for doubtful receivables	(10,105)	(10,270)
Total	206,053	215,739

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

Millions of yen

	March 31, 2016	March 31, 2017
Current assets	182,928	184,460
Non-current assets	23,125	31,279
Total	206,053	215,739

(7) Leases

(a) Lessee

The Company and certain consolidated subsidiaries use leased facilities and equipment, mainly including buildings, machinery and equipment and vehicles, under finance lease or operating lease. No restrictions were imposed by contingent rent payable and the escalation clause and lease agreements.

The following table shows the undiscounted amounts and present value of minimum lease payments under finance leases.

Millions of yen

	March 31, 2016		March 31, 2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	6,564	5,557	6,774	5,904
After 1 year but not more than 5 years	19,825	17,107	18,252	16,048
More than 5 years	9,066	4,293	7,655	3,640
Minimum lease payments, total	35,455		32,681	
Finance charges	(8,498)		(7,089)	
Present value of minimum lease payments, total	26,957		25,592	

Finance lease assets are principally assets acquired by subsidiaries to provide operating leases and included in other property, plant and equipment. The carrying amount of the finance lease assets as of March 31, 2016 and March 31, 2017 was ¥13,090 million and ¥11,352 million, respectively.

Future lease payments receivable under non-cancelable subleases as of March 31, 2016 and March 31, 2017 were ¥5,318 million and ¥6,096 million, respectively.

The following table shows the future minimum lease payments under non-cancelable operating leases.

Millions of yen

	March 31, 2016	March 31, 2017
Within 1 year	1,448	3,271
After 1 year but not more than 5 years	2,352	9,017
More than 5 years	886	5,751

Total minimum operating lease expenses for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Minimum operating lease expenses	9,875	10,550

(b) Lessor

Certain consolidated subsidiaries lease mainly construction machinery under finance and operating lease arrangements principally over the period of three to six years. No restrictions were imposed by contingent rent payable, the escalation clause and lease agreements.

The following table shows the amounts of gross investment in lease and present value of minimum lease payments receivable under finance leases.

Millions of yen

	March 31, 2016		March 31, 2017	
	Gross investment in lease	Present value of minimum lease payments receivable	Gross investment in lease	Present value of minimum lease payments receivable
Within 1 year	30,635	29,184	29,630	27,872
After 1 year but not more than 5 years	16,125	15,040	23,205	21,856
More than 5 years	118	114	151	145
Minimum lease payments receivable, total	46,878		52,986	
Unearned income	(2,540)		(3,113)	
Present value of minimum lease payments receivable	44,338		49,873	

The amounts of the allowance for uncollectable minimum lease payments receivable as of March 31, 2016 and 2017 are ¥2,116 million and ¥2,199 million, respectively.

The following table shows the future minimum lease payments receivable under non-cancelable operating leases.

Millions of yen

	March 31, 2016	March 31, 2017
Within 1 year	2,417	2,091
After 1 year but not more than 5 years	4,670	3,346
More than 5 years	49	15

Notes to Consolidated Financial Statements

(8) Inventories

The components of inventories are as follows:

Millions of yen

	March 31, 2016	March 31, 2017
Merchandise and finished goods	192,762	169,611
Work in process	27,192	31,397
Raw materials and supplies	28,610	31,357
Total	248,564	232,365

For the years ended March 31, 2016 and 2017, the amounts of inventories expensed and included as cost of sales were ¥560,983 million and ¥576,162 million, respectively. For the years ended March 31, 2016 and 2017, valuation losses recorded for inventories that were written down to net realizable value were ¥16,027 million and ¥5,262 million, respectively, and reversals of valuation losses were ¥713 million and ¥549 million, respectively.

(9) Property, plant and equipment

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

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Net carrying amount							
April 1, 2015	52,995	95,968	66,359	6,920	52,339	6,745	281,326
Acquisition	166	6,251	2,779	1,092	14,901	10,668	35,857
Sales and disposals	(61)	(311)	(549)	(114)	(2,110)	(18)	(3,163)
Depreciation	-	(6,675)	(11,373)	(2,916)	(11,002)	-	(31,966)
Impairment losses	(113)	(20)	-	-	-	-	(133)
Acquisitions and divestitures	1,245	1,577	1,283	367	785	169	5,426
Currency translation effect	(451)	(4,454)	(2,898)	(333)	(94)	(433)	(8,663)
Transfer from construction in progress	38	4,403	3,042	1,741	-	(9,224)	-
Other	(5)	(1,682)	(441)	(42)	(109)	(112)	(2,391)
March 31, 2016	53,814	95,057	58,202	6,715	54,710	7,795	276,293
Acquisition	13	307	2,397	825	17,061	9,526	30,129
Sales and disposals	(26)	(4,006)	(1,205)	(271)	(3,838)	(1,662)	(11,008)
Depreciation	-	(6,207)	(10,978)	(2,620)	(10,875)	-	(30,680)
Impairment losses	(515)	(719)	(463)	(5)	-	(2)	(1,704)
Acquisitions and divestitures	3,456	12,551	12,049	2,263	88	1,424	31,831
Currency translation effect	(131)	(176)	(154)	(106)	(130)	(237)	(934)
Transfer from construction in progress	26	7,871	3,370	1,817	6	(13,090)	-
Other	(788)	22	(918)	(152)	104	(52)	(1,784)
March 31, 2017	55,849	104,700	62,300	8,466	57,126	3,702	292,143

For the years ended March 31, 2016 and 2017, the amount of depreciation recognized is included in Cost of sales and Selling, general and administrative expenses in the consolidated statements of income. Impairment losses are included in Other expenses of the consolidated statements of income. The amount related to property, plant and equipment under construction is presented as construction in progress, and other property, plant and equipment are principally operating assets for leasing held by certain consolidated subsidiaries such as construction machinery.

Millions of yen

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Gross carrying amount							
March 31, 2016	53,917	181,241	199,022	57,151	126,615	7,795	625,741
March 31, 2017	56,897	199,107	237,646	62,947	124,534	3,704	684,835
Accumulated depreciation and impairment losses							
March 31, 2016	(103)	(86,184)	(140,820)	(50,436)	(71,905)	-	(349,448)
March 31, 2017	(1,048)	(94,407)	(175,346)	(54,481)	(67,408)	(2)	(392,692)

(10) Goodwill and other intangible assets

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

Millions of yen

	Goodwill	Software	Others	Total
Net carrying amount				
April 1, 2015	9,590	9,746	226	19,562
Purchases	-	2,278	9	2,287
Amortization	-	(3,421)	(60)	(3,481)
Impairment losses	(18)	-	-	(18)
Sales and disposals	-	(41)	(4)	(45)
Acquisitions and divestitures	362	336	460	1,158
Currency translation effect	(1,125)	(110)	12	(1,223)
Other	(115)	155	25	65
March 31, 2016	8,694	8,943	668	18,305
Purchases	-	3,300	4	3,304
Amortization	-	(3,204)	(80)	(3,284)
Impairment losses	-	-	-	-
Sales and disposals	-	(387)	(20)	(407)
Acquisitions and divestitures	49,188	451	6,658	56,297
Currency translation effect	(779)	(57)	(29)	(865)
Other	-	(349)	8	(341)
March 31, 2017	57,103	8,697	7,209	73,009

For the years ended March 31, 2016 and 2017, the amount of amortization recognized is included in Cost of sales and Selling, general and administrative expenses in the consolidated statements of income. Impairment losses are included in Other expenses in the consolidated statements of income.

Millions of yen

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2016	8,694	44,914	3,351	56,959
March 31, 2017	57,103	46,291	23,729	127,123
Accumulated amortization and impairment losses				
March 31, 2016	-	(35,971)	(2,683)	(38,654)
March 31, 2017	-	(37,594)	(16,520)	(54,114)

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

Research and development expenditures recognized as an expense for the years ended March 31, 2016 and 2017 were ¥18,834 million and ¥19,304 million, respectively, and they are included in Cost of sales and Selling, general and administrative expenses in the consolidated statements of income.

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

The Group tests goodwill acquired through business combination for impairment by comparing the carrying amount and the recoverable amount per CGU. Goodwill acquired through the acquisition of shares of H-E Parts and shares of Bradken of ¥49,188 million has not been allocated to CGU, as allocation of the acquisition cost attributable to the business combinations to assets acquired and liabilities assumed has not been completed.

The recoverable amount per CGU is calculated based on value in use. Value in use is calculated by the estimated future cash flows based on business plans approved by management, discounted at the discount rate which is derived from the weighted average cost of capital. The business plan used is based on external information, reflects historical experiences, and generally covers a maximum of five years. Estimated cash flows beyond the period covered by the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs.

The Group considers it unlikely that the carrying amount of goodwill allocated to each CGU as of March 31, 2017 would exceed the value in use even if the primary assumptions used for the impairment test changed within a reasonable range.

Certain intangible assets for which there is an indication of potential impairment are tested for impairment. As a result of the impairment test, impairment losses of ¥18 million were recognized in Other expenses for the year ended March 31, 2016. There was no impairment loss for the year ended March 31, 2017.

Notes to Consolidated Financial Statements

(11) Deferred taxes and income taxes

The components of income tax expense for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Income tax expense		
Current tax expense	13,511	13,790
Deferred tax expense	706	(4,121)
Temporary differences originated and reversed	(1,653)	(3,185)
Changes in write-down of deferred tax assets	2,359	(936)
Total	14,217	9,669

(Fiscal year ended March 31, 2016)

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 23.9%, an inhabitant tax of 16.3% and business tax of 6.3%. Based on these taxes, a combined statutory income tax rate is 33.1%. However, overseas subsidiaries are subject to a corporate tax, etc. in their locations. As for the Company and its domestic Japanese subsidiaries, the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Diet on 29 March, 2016, resulting in lower corporate tax rates effective from the fiscal year beginning on or after April 1, 2016. As a result, the combined statutory income tax rate to calculate deferred tax assets and liabilities has been changed from the previous fiscal year to 30.9% for temporary differences expected to be realized or settled during the year beginning on April 1, 2016 and the year beginning on April 1, 2017 and 30.6% for temporary differences expected to be realized or settled during the year beginning on or after April 1, 2018. The effect of those changes in tax rates is immaterial.

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

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

(Fiscal year ended March 31, 2017)

The Company and its domestic Japanese subsidiaries are subject to a national corporate tax of 23.4%, an inhabitant tax of 16.3% and business tax of 3.8%. Based on these taxes, a combined statutory income tax rate is 30.9%. However, overseas subsidiaries are subject to a corporate tax, etc. in their locations. As for the Company and its domestic Japanese subsidiaries, the "Act Partially Amending the Act Partially Amending the Consumption Tax Act to Make Fundamental Reform of the Taxation System for Securing Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act Partially Amending the Act Partially Amending the Local Tax Act and the Local Allocation Tax Act to Make Fundamental Reform of the Taxation System for Securing Stable Financial Resources for Social Security" (Act No. 86 of 2016) were enacted in the Diet on November 18, 2016. Accordingly, the effective date for the consumption tax rate increase to 10%, previously planned for April 1, 2017, was postponed to October 1, 2019. In line with this, the effective dates of the abolition of the special local corporation tax and concurrent restoration of the corporation business tax, revision of the local corporation tax rate, and revision of the corporate inhabitant tax rate (income tax basis) were all postponed from the fiscal year starting on or after April 1, 2017, to the fiscal year starting on or after October 1, 2019. Due to this postponement, reclassification in tax rates between national taxes and local taxes occurs. However, the effect of those changes in tax rates is immaterial, since effective statutory tax rates used for calculation of deferred tax assets and liabilities were unchanged.

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

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

percentage

	March 31, 2016	March 31, 2017
Combined statutory income tax rate	33.1	30.9
Unitary taxation system including foreign subsidiaries	4.9	2.2
Income not taxable for tax purpose, such as dividends received	(24.8)	(44.4)
Elimination of dividends received	37.0	56.4
Difference in statutory tax rates of foreign subsidiaries	(4.1)	(5.7)
Profit from sales of investments in subsidiaries	-	2.2
Change in write-down of deferred tax assets	9.6	(3.9)
Other, net	2.3	2.8
Effective income tax rate	58.0	40.5

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

Changes in deferred tax assets and liabilities are as follows:

Millions of yen

	April 1, 2015	Recognized in profit or loss	Recognized in OCI	Acquisitions, divestitures and others	March 31, 2016
Deferred tax assets					
Allowance for doubtful receivables	629	1,005	-	-	1,634
Accrued bonuses	2,644	(424)	-	-	2,220
Accrued expenses	3,534	580	-	-	4,114
Retirement and severance benefits	6,328	(4,409)	465	-	2,384
Net operating loss carryforwards	798	(122)	-	-	676
Unrealized profits of inventories	3,296	(2,263)	-	-	1,033
Unrealized gain on fixed assets	939	(357)	-	-	582
Other	4,953	3,750	(1,163)	638	8,178
Total deferred tax assets	23,121	(2,240)	(698)	638	20,821
Offset with deferred tax liabilities	(4,790)	(940)	150	-	(5,580)
Reported deferred tax assets	18,331	(3,180)	(548)	638	15,241
Deferred tax liabilities					
Investments in subsidiaries and investments in associates	(8,118)	3	(24)	-	(8,139)
Investments in securities	(3,483)	-	1,414	-	(2,069)
Other	(2,672)	1,531	-	(288)	(1,429)
Total deferred tax liabilities	(14,273)	1,534	1,390	(288)	(11,637)
Offset with deferred tax assets	4,790	940	(150)	-	5,580
Reported deferred tax liabilities	(9,483)	2,474	1,240	(288)	(6,057)
Net deferred tax assets	8,848	(706)	692	350	9,184

Millions of yen

	April 1, 2016	Recognized in profit or loss	Recognized in OCI	Acquisitions, divestitures and others	March 31, 2017
Deferred tax assets					
Allowance for doubtful receivables	1,634	(81)	-	5	1,558
Accrued bonuses	2,220	(363)	-	(51)	1,806
Accrued expenses	4,114	196	-	1,671	5,981
Retirement and severance benefits	2,384	493	(745)	540	2,672
Net operating loss carryforwards	676	2,674	-	111	3,461
Unrealized profits of inventories	1,033	1,276	-	-	2,309
Unrealized gain on fixed assets	582	(58)	-	-	524
Other	8,178	(443)	(223)	2,100	9,612
Total deferred tax assets	20,821	3,694	(968)	4,376	27,923
Offset with deferred tax liabilities	(5,580)	150	-	15	(5,415)
Reported deferred tax assets	15,241	3,844	(968)	4,391	22,508
Deferred tax liabilities					
Investments in subsidiaries and investments in associates	(8,139)	311	(313)	-	(8,141)
Investments in securities	(2,069)	-	(1,302)	15	(3,356)
Other	(1,429)	116	-	(225)	(1,538)
Total deferred tax liabilities	(11,637)	427	(1,615)	(210)	(13,035)
Offset with deferred tax assets	5,580	(150)	-	(15)	5,415
Reported deferred tax liabilities	(6,057)	277	(1,615)	(225)	(7,620)
Net deferred tax assets	9,184	4,121	(2,583)	4,166	14,888

The total temporary differences related to excess amounts over the tax basis of investments in subsidiaries and investments in associates for which deferred tax liabilities are not recognized are ¥27,196 million and ¥23,296 million, respectively, as of March 31, 2016 and 2017.

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

In assessing the realizability of deferred tax assets, the Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these deductible differences, etc. become deductible. Although realization is not assured, the Group carries out an assessment of the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed. Based on these factors, the Group believes it is more likely than not it will realize the benefits of these deductible differences as of March 31, 2017.

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

Millions of yen

	March 31, 2016	March 31, 2017
Deductible temporary differences	22,845	17,176
Tax loss carryforwards		
Expiring within 1 year	-	634
Expiring after 1 year but not more than 5 years	25,722	23,015
Expiring after 5 years	72,307	73,727
Total tax loss carryforwards	98,029	97,376

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

(12) Trade and other payables

The components of trade and other payables are as follows:

Millions of yen

	March 31, 2016	March 31, 2017
Accounts and notes payable and electronically recorded obligations - operating	112,599	131,634
Finance lease payables	26,957	25,592
Accounts payable-other	20,391	19,136
Accrued expenses	36,561	39,691
Other	9,364	11,273
Total	205,872	227,326

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

Millions of yen

	March 31, 2016	March 31, 2017
Current liabilities	182,648	205,722
Non-current liabilities	23,224	21,604
Total	205,872	227,326

(13) Employee benefits

(a) Retirement and severance benefits

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

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

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

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

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

The plans are managed by the Pension Fund of Hitachi Construction Machinery, which is legally independent from the Company. The Board of Representatives comprises an equal number of representatives selected by the Company and certain subsidiaries and representatives from the employee side. The proceedings of a Board of Representatives are decided by a majority vote of the members attending, except as otherwise required by laws and regulations, and in case of a tied vote, the chairman has the power to decide.
The actual management of the contributions is conducted by trustees in accordance with rules approved by the Board of Representatives. Instruction of specific securities to invest in, etc. by the representatives is prohibited by law. The Fund takes responsibility in managing the contributions safely and efficiently by establishing the basic management of the contributions and preparing the management guidance in line with the policy submitted to the trustees.

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

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

Changes in the present value of defined benefit obligations and the fair value of plan assets for the year ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Present value of defined benefit obligations at beginning of year	78,252	84,438
Service cost	4,203	5,171
Interest cost	1,072	864
Actuarial gain or (loss)	2,877	(2,827)
Benefits paid	(4,720)	(5,162)
Acquisitions and divestitures	2,992	6,377
Other	(238)	(830)
Present value of defined benefit obligations at end of year	84,438	88,031

Millions of yen

	2016	2017
Fair value of plan assets at beginning of year	67,626	67,733
Interest income	921	778
Employers' contributions	4,015	4,256
Employees' contributions	2	66
Benefits paid	(3,205)	(4,114)
Return on plan assets (excluding the amount recognized as interest income)	(1,971)	1,092
Acquisitions and divestitures	411	5,178
Other	(66)	(795)
Fair value of plan assets at end of year	67,733	74,194

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

Millions of yen

	March 31, 2016	March 31, 2017
Present value of defined benefit obligations (funded)	(70,738)	(74,494)
Fair value of plan assets	67,733	74,194
Funding position	(3,005)	(300)
Present value of defined benefit obligations (unfunded)	(13,700)	(13,537)
Net assets (liabilities) in the consolidated statements of financial position	(16,705)	(13,837)
Amount in the consolidated statements of financial position		
Liabilities	(16,855)	(16,768)
Assets (other non-current assets)	150	2,931

The components of actuarial gain or loss are as follows:

Millions of yen

	March 31, 2016	March 31, 2017
Arising from changes in financial assumptions	(3,416)	2,235
Arising from changes in demographic assumptions	92	331
Other	447	261

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

Percentage

	March 31, 2016	March 31, 2017
Discount rate	1.2	1.3

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

Millions of yen

	March 31, 2016	March 31, 2017
Increase by 0.5%	(6,662)	(6,863)
Decrease by 0.5%	6,798	7,293

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

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

Years

	March 31, 2016	March 31, 2017
Duration	15.3	15.6

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

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

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

The fair values of plan assets invested are as follows:

Millions of yen

	March 31, 2016		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	154	-	154
Hedge funds	-	3,778	3,778
Securitization products	-	514	514
Cash and cash equivalents	149	-	149
Life insurance general accounts	-	9,047	9,047
Commingled funds	-	53,484	53,484
Other	135	472	607
Total	438	67,295	67,733

Millions of yen

	March 31, 2017		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	4,615	-	4,615
Government bonds	1,026	-	1,026
Hedge funds	-	3,931	3,931
Securitization products	-	386	386
Cash and cash equivalents	1,813	-	1,813
Life insurance general accounts	-	8,692	8,692
Commingled funds	-	51,790	51,790
Other	1,062	879	1,941
Total	8,516	65,678	74,194

Commingled funds represent pooled institutional investments. As of March 31, 2016, commingled funds were approximately allocated to 22% in listed stocks, 52% in government bonds, 12% in corporate bonds and other debt securities and 14% in other assets. As of March 31, 2017, they were approximately allocated to 25% in listed stocks, 52% in government bonds, 12% in corporate bonds and other debt securities, and 11% in other assets.

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

For the purpose of maintaining balanced finance into the future, the bylaws of the Pension Fund of Hitachi Construction Machinery require recalculation of the contribution amounts at the end of fiscal year every five years.

Basic assumptions (expected interest rates, mortality rates, withdrawal rate, etc.) are reviewed to recalculate the appropriate level of contribution.

The amount of contributions expected to be paid by the Company and certain consolidated subsidiaries to the plan assets for the year ending March 31, 2018 is ¥4,363 million.

Contributions made to defined contribution plans and expensed in profit or loss of the Company and certain consolidated subsidiaries in the years ended March 31, 2016 and 2017 were ¥1,726 million and ¥1,714 million, respectively.

(b) Other employee benefit expenses

The aggregated amounts of employee benefit expenses including salary other than retirement and severance benefits recognized in the consolidated statements of income for the years ended March 31, 2016 and 2017 were ¥125,369 million and ¥109,225 million, respectively.

Notes to Consolidated Financial Statements

(14) Equity

(a) Common stock

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

Number of shares

	March 31, 2016	March 31, 2017
Total number of authorized shares	700,000,000	700,000,000

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

	Issued shares outstanding (Number of shares)
April 1, 2015	215,115,038
Change during the year	-
March 31, 2016	215,115,038
Change during the year	-
March 31, 2017	215,115,038

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock and were fully paid up.

The changes in treasury stock for the years ended March 31, 2016 and 2017 are as follows:

	Treasury stock (Number of shares)
April 1, 2015	2,537,814
Acquisition of treasury stock	3,014
Sales of treasury stock	(89,000)
March 31, 2016	2,451,828
Acquisition of treasury stock	2,194
Sales of treasury stock	-
March 31, 2017	2,454,022

(b) Surplus

(i) Capital surplus

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

(ii) Retained earnings

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

Notes to Consolidated Financial Statements

(15) Other comprehensive income (OCI)

Components of OCI for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Foreign currency translation adjustments		
OCI arising during the year	(26,184)	(7,897)
Reclassification adjustment	(38)	(67)
OCI before tax effect	(26,222)	(7,964)
Tax effects	-	(320)
OCI, net of tax effect	(26,222)	(8,284)
Remeasurements of defined benefit obligations		
OCI arising during the year	(4,848)	3,919
Reclassification adjustment	-	-
OCI before tax effects	(4,848)	3,919
Tax effect	532	(777)
OCI, net of tax effect	(4,316)	3,142
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the year	(3,613)	4,095
Reclassification adjustment	-	-
OCI before tax effect	(3,613)	4,095
Tax effect	1,259	(1,179)
OCI, net of tax effect	(2,354)	2,916
Net gains and losses from cash flow hedges measured at fair value		
OCI arising during the year	406	869
Reclassification adjustment	(109)	(1,007)
OCI before tax effect	297	(138)
Tax effect	(102)	50
OCI, net of tax effect	195	(88)
Other comprehensive income of equity-method associates		
OCI arising during the year	(1,772)	(227)
Reclassification adjustment	(1,992)	16
OCI before tax effect	(3,764)	(211)
Tax effect	13	6
OCI, net of tax effect	(3,751)	(205)
Total OCI		
OCI arising during the year	(36,011)	759
Reclassification adjustment	(2,139)	(1,058)
OCI before tax effect	(38,150)	(299)
Tax effect	1,702	(2,220)
OCI, net of tax effect	(36,448)	(2,519)

Notes to Consolidated Financial Statements

(16) Dividends

Dividends paid on common stock for the years ended March 31, 2016 and 2017 are as follows:

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors on May 22, 2015	Common stock	6,377	30	March 31, 2015	May 29, 2015
The Board of Directors on October 27, 2015	Common stock	6,378	30	September 30, 2015	November 30, 2015
The Board of Directors on May 23, 2016	Common stock	2,127	10	March 31, 2016	May 31, 2016
The Board of Directors on October 27, 2016	Common stock	851	4	September 30, 2016	November 30, 2016

Dividends on common stock whose record date falls in the year ended March 31, 2017 and the effective date falls in the next fiscal year are as follows:

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors on May 22, 2017	Common stock	1,701	8	March 31, 2017	May 31, 2017

(17) Other income and expenses

The main components of other income for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Gain on sales of property, plant and equipment	177	223
Proceeds from grants	434	121
Gain on business restructuring (Note)	21,611	933
Others	2,473	3,491
Total	24,695	4,768

(Note) Gain on business restructuring

Gain on business restructuring for the year ended March 31, 2016 is mainly recognized for the sales of the Company's entire shares in UniCarriers Holdings Corporation, an equity-method associate of the Group.

Gain on business restructuring for the year ended March 31, 2017 is recognized for the sales of the Company's portion of shares of stock in Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., a consolidated subsidiary of the Group.

Notes to Consolidated Financial Statements

The main components of Other expenses for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Loss on sales of property, plant and equipment	36	172
Loss on disposal of property, plant and equipment	408	548
Impairment losses (*1)	151	3,883
Business structure reform expenses (*2)	10,070	479
Others	3,342	4,329
Total	14,007	9,411

(*1) Impairment losses

Impairment losses for the year ended March 31, 2017 were recognized, mainly because the carrying amount was reduced to the recoverable amount as a result of a decision made to pursue negotiation on the sale of part of a plant of a consolidated subsidiary in China. This sale was completed during the year ended March 31, 2017.

The recoverable amount of assets on which the impairment losses were recognized was measured at fair value less costs to sell (such as estimated sale value), and these assets are classified as Level 3 in the fair value hierarchy.

(*2) Business structure reform expenses

Business structure reform expenses recognized for the years ended March 31, 2016 and 2017 include a special severance payment and reemployment funding in the process of the early retirement incentive program.

(18) Financial income and financial expenses

Main components of financial income for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Interest income		
Financial assets measured at amortized cost	3,029	2,570
Dividend income		
FVTOCI financial assets	356	347
Gain on sales of financial instruments		
Financial assets measured at amortized cost	33	-
Foreign exchange gains	-	664
Other	-	427
Total	3,418	4,008

Main components of financial expenses for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Interest expenses		
Financial liabilities measured at amortized cost	5,408	3,386
Loss on sales of financial instruments		
Financial liabilities measured at amortized cost	-	5
Foreign exchange loss	7,718	-
Other	61	69
Total	13,187	3,460

Notes to Consolidated Financial Statements

(19) Earnings per share (EPS) information

The basis of computations of net income attributable to owners of the parent used to derive basic and diluted EPS for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

	2016	2017
Net income attributable to owners of the parent	8,804	8,022
Adjustments for dilutive effect	-	-
Diluted net income attributable to owners of the parent	8,804	8,022

Number of shares

	2016	2017
Weighted average number of shares on which basic EPS is calculated	212,616,017	212,662,072
Effect of dilutive securities	4,295	-
Number of shares on which diluted EPS is calculated	212,620,312	212,662,072

	2016	2017
EPS attributable to owners of the parent		
Net income per share (Basic) (yen)	41.41	37.72
Net income per share (Diluted) (yen)	41.41	37.72

	2016	2017
Outline of potential shares excluded from the calculation of diluted EPS attributable to owners of the parent because they have no dilutive effect	Subscription rights to shares issued based on the resolutions at the Annual Shareholder’s Meeting on June 26, 2006 and June 25, 2007. For description of the subscription rights to shares, please refer to “(2) Information on subscription rights to shares, etc.” under “IV. Information on the Company, 1. Information on the Company’s Stock, etc.”	Subscription rights to shares issued based on the resolutions at the Annual Shareholder’s Meeting on June 25, 2007. For description of the subscription rights to shares, please refer to “(2) Information on subscription rights to shares, etc.” under “IV. Information on the Company, 1. Information on the Company’s Stock, etc.”

Notes to Consolidated Financial Statements

(20) Cash and cash equivalents

The ending balance of cash and cash equivalents reported in the consolidated statements of financial position is consistent with that reported in the consolidated statements of cash flows.

Purchase of shares of subsidiaries accompanying changes in the scope of consolidation that is included in the acquisition of investments in securities and other financial assets (including investments in associates) in the consolidated statements of cash flows and effects on cash flows are as follows:

Millions of yen

	2016	2017
Amount of consolidation paid that is cash and cash equivalents	(3,156)	(60,148)
Amount of cash and cash equivalents of subsidiaries over which control was acquired	118	4,078
Balance: Purchase of shares of subsidiaries accompanying changes in the scope of consolidation	(3,038)	(56,070)

Purchase of shares of subsidiaries accompanying changes in the scope of consolidation in the years ended March 31, 2016 and 2017 is due to the additional acquisition of KCM Corporation shares by the Company and the acquisition of 100% of the shares of H-E Parts and 68.62% of the shares of Bradken by the Company, respectively.

Sales of shares of subsidiaries accompanying changes in the scope of consolidation that is included in the sales of investments in securities and other financial assets (including investments in associates) in the consolidated statements of cash flows and effects on cash flows are as follows:

Millions of yen

	2016	2017
Assets sold	-	26,822
Liabilities sold	-	(11,953)
Consideration received	-	2,672
Amount of assets at the time of loss of control that were cash and cash equivalents	-	(6,479)
Balance: Sales of investments in securities and other financial assets (including investments in associates)	-	(3,807)

Sale of shares of subsidiaries accompanying changes in the scope of consolidation in the year ended March 31, 2017 is due to the transfer of a portion of shares of stock of the Company's Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. to Sumitomo Heavy Industries, Ltd. by the Company.

Notes to Consolidated Financial Statements

(21) Financial instruments and related disclosures

(a) Financial risks

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

(i) Market risk

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

a. Interest rate risk

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

Interest rate sensitivity analysis

The sensitivity analysis for interest rate shown below indicates the impact on income before income taxes reported in the Company's consolidated statements of income, if interest rates increased by 1% on the financial instruments (floating-interest financial assets and liabilities measured at amortized cost, financial assets and liabilities measured at FVTPL and derivatives) held by the Company as of March 31, 2016 and 2017, while all other variables are held constant.

Millions of yen

	March 31, 2016	March 31, 2017
Impact on income before income taxes	60	(17)

b. Currency exchange risk

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

Currency exchange rate sensitivity analysis

The sensitivity analysis for major currency exchange rates shown below indicates the impact on income before income taxes reported in the Group's consolidated statements of income, if the Japanese yen depreciated by 1% on the foreign-currency denominated financial instruments held by the Company and its consolidated subsidiaries as of March 31, 2016 and 2017, while all other variables are held constant.

Millions of yen

	Currency	March 31, 2016	March 31, 2017
Impact on income before income taxes	US Dollar	(55)	(75)
	Euro	6	3

c. Equity instruments volatility risk

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

Equity instruments sensitivity analysis

The sensitivity analysis for equity instruments shown below indicates the impact on OCI, net of taxes reported in the consolidated statements of comprehensive income, if the market price of listed stock held by the Group as of

March 31, 2016 and 2017 fell by 10%, while all other variables are held constant.

Millions of yen

	March 31, 2016	March 31, 2017
Impact on OCI, net of taxes	(461)	(699)

(ii) Credit risk

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

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

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

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

With the exception of guarantee obligations, the maximum exposure of the Company and its consolidated subsidiaries to the credit risk equals the financial assets' carrying amount after impairment reported in the consolidated statements of financial position, if collateral held is not considered. The maximum exposure to the credit risk from guarantee obligations is disclosed in note 25. Commitments and contingencies.

The following table presents the contractual amount of financial assets by due dates, which are past due but not impaired as of March 31, 2016 and 2017.

Millions of yen

	March 31, 2016			
	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Accounts and notes receivable	6,359	2,328	786	2,190
Finance lease receivables	-	-	-	-
Other financial assets	-	-	-	-

Millions of yen

	March 31, 2017			
	Past due within 30 days	Past due between 31 and 90 days	Past due between 91 days and 1 year	Past due over 1 year
Accounts and notes receivable and electronically recorded monetary claims - operating	4,391	618	406	3,946
Finance lease receivables	-	-	-	-
Other financial assets	-	-	-	-

Financial assets listed above are not held as collateral or other credit enhancement as of March 31, 2016 and 2017.

The changes in the balance of allowance for doubtful receivables are as follows:

Millions of yen

	Accounts and notes receivable and electronically recorded monetary claims - operating	Finance lease receivables	Other financial assets	Total
At April 1, 2015	6,948	3,143	121	10,212
Impairment loss provision	4,489	1,312	320	6,121
Amounts written off	(962)	-	-	(962)
Reversal of impairment loss	(1,578)	(1,944)	(403)	(3,925)
Acquisitions and divestitures	10	-	-	10
Other	(918)	(395)	(18)	(1,331)
At March 31, 2016	7,989	2,116	20	10,125
Impairment loss provision	2,213	380	154	2,747
Amounts written off	(392)	-	(13)	(405)
Reversal of impairment loss	(1,618)	(187)	(181)	(1,986)
Acquisitions and divestitures	69	-	-	69
Other	(190)	(110)	21	(279)
At March 31, 2017	8,071	2,199	1	10,271

As of March 31, 2016 and 2017 the amount of trade receivables and other financial assets individually determined to be impaired based on the financial condition and delinquency, etc. of relevant customers were ¥6,203 million and ¥6,338 million, respectively, and the same amounts were recognized as allowance for doubtful receivables.

(iii) Liquidity risk

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

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

Millions of yen

	March 31, 2016				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables (excluding finance lease payables)	178,915	178,915	177,091	1,824	-
Short-term borrowings	52,038	52,391	52,391	-	-
Bonds	59,850	60,786	236	50,524	10,026
Long-term borrowings	106,007	109,805	61,403	45,469	2,933
Derivative liabilities					
Forward exchange contracts	356	356	356	-	-
Interest rate swaps	207	207	124	83	-
Currency swaps	-	-	-	-	-

Millions of yen

	March 31, 2017				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables (excluding finance lease payables)	201,734	201,734	199,818	1,916	-
Short-term borrowings	81,058	81,226	81,226	-	-
Bonds	59,902	60,548	20,236	40,312	-
Long-term borrowings	107,741	110,550	54,327	56,163	60
Derivative liabilities					
Forward exchange contracts	402	402	402	-	-
Interest rate swaps	91	91	-	91	-
Currency swaps	487	487	-	487	-

(Note 1) Information on finance lease payables is provided in (7) Leases.

(Note 2) The weighted average interest rate for short-term borrowings for the year ended March 31, 2017 is 0.19%, and the weighted average interest rate for long-term borrowings is 1.38%.

(Note 3) Guarantee obligations described in (25) Commitments and contingencies are not included as the performance of such guarantee obligations is remote.

The details on each bond issued are provided below.

Issuer	Name of bond	Issued	Millions of yen		Security	Interest rates (%)	Maturity date
			March 31, 2016	March 31, 2017			
The Company	Unsecured debenture #14	2012	19,969	19,988	Unsecured	0.46	November 29, 2017
The Company	Unsecured debenture #15	2014	29,915	29,942	Unsecured	0.319	June 14, 2019
The Company	Unsecured debenture #16	2014	9,966	9,972	Unsecured	0.487	June 16, 2021

(iv) Capital management

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

Net interest-bearing liabilities as of the transition date, March 31, 2016 and 2017 amounted to ¥138,785 million and ¥183,246 million, respectively.

The Group is not subject to any capital requirements except for the general rules such as the Japanese Companies Act.

(b) Fair value of financial instruments

(i) Fair value measurements

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

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

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

Other financial assets, other financial liabilities, derivative assets and derivative liabilities

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

Bonds and borrowings

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

(ii) Financial instruments measured at amortized cost

The carrying amounts and fair values of the financial instruments measured at amortized cost are as follows. Financial assets and financial liabilities whose carrying amount reasonably approximates the fair value are excluded. The fair value hierarchy is described in "(iii) Financial instruments measured at fair value in the consolidated statements of financial position" below.

Millions of yen

	March 31, 2016		March 31, 2017	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Assets				
Trade receivables (*1)	206,053	206,643	215,739	216,800
Liabilities				
Trade and other payables (*2)	(205,872)	(205,818)	(227,326)	(227,618)
Bonds and borrowings (*3)	(217,895)	(218,616)	(248,701)	(248,681)

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

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

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

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

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

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

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

Millions of yen

March 31, 2016	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	6,642	-	5,988	12,630
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	1,660	-	1,660
Other financial assets	-	-	579	579
Total financial assets	6,642	1,660	6,567	14,869
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	(563)	-	(563)
Total financial liabilities	-	(563)	-	(563)

Millions of yen

March 31, 2017	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	9,841	-	6,413	16,520
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	1,005	-	1,005
Other financial assets	-	-	675	675
Total financial assets	9,841	1,005	7,088	18,200
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	(980)	-	(980)
Total financial liabilities	-	(980)	-	(980)

The following tables present the changes in Level 3 instruments measured on a recurring basis for the years ended March 31, 2016 and 2017.

Millions of yen

	2016	2017
Balance at beginning of the year	7,985	6,567
Total gain/(loss)	(1,159)	1,006
Other comprehensive income	(1,159)	1,006
Purchased	76	153
Sold	(910)	(47)
Change brought about by acquisitions and divestitures	604	(97)
Other	(29)	(494)
Balance at end of the year	6,567	7,088

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

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

Millions of yen

Principal FVTOCI financial assets	March 31, 2016	March 31, 2017
KYB Corporation	2,970	5,174
ELLE Construction Machinery (China) Co., LTD.	627	1,427
Wakita & Co., LTD.	1,128	1,270
Kanamoto Co., Ltd.	913	1,033
IJT Technology Holdings Co., Ltd.	358	874

See (18) Financial income and financial expenses for dividends received from securities classified as FVTOCI financial assets.

Accumulated gains and losses on valuation of securities classified as FVTOCI financial assets are reclassified into retained earnings when derecognized during the fiscal year. The net gain (loss) reclassified, net of taxes, for the years ended March 31, 2016 and 2017 was ¥492 million and ¥(6) million, respectively.
These securities classified as FVTOCI financial assets were derecognized upon the disposal of shares after reviewing particular business relations.

Information on securities classified as FVTOCI financial assets that were derecognized for the years ended March 31, 2016 and 2017 include the following:

Millions of yen

	2016	2017
Fair value at the time of derecognition	1,246	477
Accumulated gains at the time of derecognition	683	(8)

(c) Derivatives and hedging activities

(i) Fair value hedge

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

(ii) Cash flow hedge

Foreign currency risk

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

Interest rate risk

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

As of March 31, 2017, the period in which the cash flows from the hedged items are expected to occur and in which they are expected to affect profit or loss is from April 2017 to November 2021.

The fair values of fair value hedges and cash flow hedges are as follows:

Millions of yen

	March 31, 2016		March 31, 2017	
	Asset	Liability	Asset	Liability
Fair value hedge				
Forward exchange contracts	1,334	(356)	640	(350)
Interest rate swaps	-	(1)	-	-
Currency swaps	-	-	179	(259)
Total	1,334	(357)	819	(609)
Cash flow hedge				
Forward exchange contracts	326	-	103	(52)
Interest rate swaps	-	(206)	-	(91)
Currency swaps	-	-	-	(182)
Total	326	(206)	103	(325)

The fair values of derivative assets and liabilities for which hedge accounting was not applied as of March 31, 2017 were ¥83 million for derivative assets, and ¥(46) million for derivative liabilities. There were no derivative assets and liabilities for which hedge accounting was not applied for the year ended March 31, 2016.

Profit or loss recognized related to fair value hedges for the years ended March 31, 2016 and 2017 are as follows:

Millions of yen

Recognized in profit or loss	Derivatives	2016	2017
Financial income	Forward exchange contracts	2,445	1,374
	Interest rate swaps	-	-
	Currency swaps	-	74
Total		2,445	1,448
Financial expenses	Forward exchange contracts	-	-
	Interest rate swaps	74	91
	Currency swaps	-	-
Total		74	91

The amounts recognized in the consolidated statements of comprehensive income and the consolidated statements of income for the years ended March 31, 2016 and 2017 related to cash flow hedges are detailed in the following tables: "Gain (loss) recognized in OCI, effective portion of derivatives designated as hedging instruments," and "Gain (loss) reclassified from OCI into profit or loss, effective portion of derivatives designated as hedging instruments."

Gain (loss) recognized in OCI, effective portion of derivatives designated as hedging instruments

Millions of yen

Derivatives	2016	2017
Forward exchange contracts	490	833
Interest rate swaps	(84)	36
Total	406	869

Gain (loss) reclassified from OCI into profit or loss, effective portion of derivatives designated as hedging instruments

Millions of yen

Derivatives	Recognized in profit or loss	2016	2017
Forward exchange contracts	Financial income and financial expenses	204	1,085
Interest rate swaps	Financial income and financial expenses	(95)	(78)
Total		109	1,007

(22) Pledged assets

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

Millions of yen

	March 31, 2016	March 31, 2017
Accounts and notes receivable	4,870	5,296
Inventories	5,136	8,948
Land	355	96
Buildings and structures	6,587	6,147
Other property, plant and equipment	34,102	37,911
Total	51,050	58,398

(23) Principal consolidated subsidiaries

The Company's consolidated financial statements for the years ended March 31, 2016 and 2017 include the consolidated subsidiaries listed below.

Name of subsidiary	Business location	Principal business activities (Note 1)	Ownership percentage (%)	
			March 31, 2016	March 31, 2017
Hitachi Construction Machinery Tierra Co., Ltd.	Koka-city, Shiga	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Camino Co., Ltd.	Higashine-city, Yamagata	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery Japan Co., Ltd.	Soka-city, Saitama	Construction Machinery Business	100.0	100.0
KCM Corporation	Kako-gun, Hyogo	Construction Machinery Business	100.0	100.0
Hitachi Construction Truck Manufacturing Ltd.	Guelph Ontario, Canada	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Europe) N.V.	Oosterhout, the Netherlands	Construction Machinery Business	98.9	98.9
Hitachi Construction Machinery (China) Co., Ltd.	Hefei Anhui, China	Construction Machinery Business	81.3	81.3
Hitachi Construction Machinery Asia and Pacific Pte. Ltd.	Pioneer Walk, Singapore	Construction Machinery Business	100.0	100.0
P.T. Hitachi Construction Machinery Indonesia	Bekasi, Indonesia	Construction Machinery Business	82.0	82.0
Hitachi Construction Machinery (Shanghai) Co., Ltd.	Shanghai, China	Construction Machinery Business	54.4	54.4
Hitachi Construction Machinery Leasing (China) Co., Ltd.	Shanghai, China	Construction Machinery Business	85.3	85.3
Tata Hitachi Construction Machinery Co., Pvt., Ltd	Bangalore, Karnataka, India	Construction Machinery Business	60.0	60.0
Hitachi Construction Machinery Holding U.S.A. Corp.	Kernersville, North Carolina, USA	Construction Machinery Business	100.0	100.0
Hitachi Construction Machinery (Australia) Pty. Ltd	Greystanes, New South Wales, Australia	Construction Machinery Business	80.0	80.0
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	Solution Business	-	100.0
Bradken Limited (Note 2)	Newcastle, New South Wales, Australia	Solution Business	-	100.0

(Notes) 1. In the column of principal business activities, the names of the Group's business segments are provided.

2. As described in (5) Business combination, the shares acquired for which the payment was completed by March 31, 2017 is 68.62%. However, as of March 31, 2017, since the Company proceeded with the squeeze-out procedure aiming to make Bradken a wholly owned subsidiary, the Company accounted for the business combination as it was deemed that the Company practically acquired 100% of Bradken's shares.

Notes to Consolidated Financial Statements

(24) Related party transactions

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

Millions of yen

	2016	2017
Monthly salary, year-end allowance and performance-linked compensation	643	614

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

Transaction between the Company and the Parent Company and other related parties and receivable and payable balances as of March 31, 2016 and 2017 are as follows:

For the year ended March 31, 2016

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayments of borrowings	21,578	-
		Depositing into the cash pooling system	9,732	9,732
		Interest on borrowings	82	-
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions, etc.	52,494	8,176

For the year ended March 31, 2017

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Withdrawal of funds	9,732	-
		Borrowing of funds	26,487	26,487
		Interest on deposits	2	-
		Interest on borrowings	21	-
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions, etc.	9,131	278

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

For the year ended March 31, 2016

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions, etc.	74,750	21,838
		Providing collateral	9,206	-

For the year ended March 31, 2017

Millions of yen

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Commission on outsourced payment transactions, etc.	2,992	365
		Providing collateral	10,934	-

Notes to Consolidated Financial Statements

(25) Commitments and contingencies

Guarantee obligations

The Group's guarantee obligations and guarantee commitment associated with borrowings from financial institutions as of March 31, 2016 and 2017 are as follows:

Millions of yen

	March 31, 2016	March 31, 2017
Guarantee obligations	12,070	9,566
Guarantee commitment	1,219	434
Total	13,289	10,000

(26) Subsequent events

Results of the share takeover offer for the acquisition of shares in Australian Corporation Bradken Limited

The Company commenced a takeover offer for all issued common shares in Bradken, which conducts metal casting and operates manufacturing and distribution services for metal casting products. The takeover offer commenced on November 1, 2016, following the determination of its implementation on October 3, 2016. The Company fulfilled the acquisition conditions, and made Bradken a consolidated subsidiary of the Group on March 20, 2017. The Company completed the takeover offer on April 7, 2017. The results are as follows:

(a) Outline of the takeover offer

i)	Tender offeror:	Hitachi Construction Machinery Co., Ltd.
ii)	Target company:	Bradken Limited
iii)	Type of shares acquired:	Common shares
iv)	Offer period:	From November 1, 2016 (Tuesday) through April 7, 2017 (Friday)
v)	Offer price:	AUD 3.25 per common share
vi)	Minimum acceptance threshold:	More than 35% of the issued and outstanding shares of Bradken on a fully diluted basis

(b) Outcome of the takeover offer

i)	Number of shares tendered:	193,741,575 shares
ii)	Ratio of shares tendered:	92.8%

(c) Outlook following the takeover offer

For the process of acquisition of shares of Bradken held by its minority shareholders (hereinafter referred to as the "squeeze-out") and the delisting of Bradken's shares, with which the Company proceeded without any delay after the completion of the takeover offer, procedures were completed by the filing date of this annual securities report.

(d) Impact on consolidated financial statements of the Company

As noted in "(5) Business combination," the Company accounted this transaction under the business combination as the Company deemed that 100% of Bradken's shares were acquired as of March 31, 2017.

(27) Approval of consolidated financial statements

The consolidated financial statements were approved on June 27, 2017 by Kotaro Hirano, President & CEO of the Company.

Notes to Consolidated Financial Statements

(2) Others

Quarterly information for the year ended March 31, 2017

Millions of yen, unless otherwise stated

	Three months ended June 30, 2016	Six months ended September 30, 2016	Nine months ended December 31, 2016	Year ended March 31, 2017
Revenue	161,032	334,937	507,006	753,947
Income before income taxes	1,470	3,645	9,407	23,859
Net income (loss) attributable to owners of the parent	(1,600)	2,265	2,528	8,022
Net income (loss) attributable to owners of the parent per share (Yen)	(7.52)	10.65	11.89	37.72

	First quarter (April 1 to June 30, 2016)	Second quarter (July 1 to September 30, 2016)	Third quarter (October 1 to December 31, 2016)	Fourth quarter (January 1 to March 31, 2017)
Net income (loss) attributable to owners of the parent per share (basic) (Yen)	(7.52)	18.17	1.24	25.83

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

1) Non-consolidated statements of financial position

Millions of yen

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	9,698	6,449
Notes receivable - trade	57	81
Electronically recorded monetary claims - operating (note 1)	-	806
Accounts receivable - trade (note 1)	104,023	100,310
Merchandise and finished goods	50,297	39,595
Work in process	12,852	10,088
Raw materials and supplies	1,298	1,400
Prepaid expenses	1,920	2,299
Deposit paid in subsidiaries and associates	9,732	-
Short-term loans receivable (note 1)	19,416	26,803
Accounts receivable - other (note 1)	18,480	19,424
Deferred tax assets	3,447	3,450
Others	1,900	935
Allowance for doubtful accounts	(430)	(617)
Total current assets	232,690	211,023
Non-current assets		
Property, plant and equipment		
Buildings	35,406	33,028
Structures	3,594	3,421
Machinery and equipment	25,706	21,546
Vehicles	2,142	1,176
Tools, furniture and fixtures	2,066	2,115
Land	40,053	36,777
Construction in progress	252	338
Total property, plant and equipment	109,219	98,400
Intangible assets		
Software	5,720	5,378
Others	124	110
Total intangible assets	5,844	5,488
Investments and other assets		
Investment securities	6,880	10,081
Shares of subsidiaries and associates	75,964	133,799
Investments in capital of subsidiaries and associates	17,532	18,942
Long-term loans receivable from subsidiaries and associates	-	7,697
Long-term prepaid expenses	867	1,130
Prepaid pension cost	7,943	7,521
Others	1,900	1,232
Allowance for doubtful accounts	(124)	(124)
Total investments and other assets	110,962	180,279
Total non-current assets	226,025	284,167
Total assets	458,715	495,190

See accompanying notes to financial statements.

	As of March 31, 2016	As of March 31, 2017
	Millions of yen	
Liabilities		
Current liabilities		
Notes payable - trade	4	-
Electronically recorded obligations - operating (note 1)	6,056	16,580
Accounts payable - trade (note 1)	73,981	83,332
Short-term loans payable	-	8,500
Short-term loans payable to subsidiaries and associates	12,456	34,125
Current portion of long - term loans payable	35,000	5,000
Current portion of bonds	-	20,000
Lease obligations	97	97
Accounts payable - other (note 1)	9,331	9,253
Accrued expenses	12,894	10,733
Income taxes payable	301	567
Deposits received (note 1)	27,847	13,466
Unearned revenue	956	1,115
Others	517	569
Total current liabilities	179,441	203,337
Non-current liabilities		
Bonds payable	60,000	40,000
Long-term loans payable	5,000	22,741
Lease obligations	3,054	2,957
Provision for retirement benefits	4,602	5,050
Deferred tax liabilities	2,366	2,770
Asset retirement obligations	188	189
Others	1,671	1,869
Total non-current liabilities	76,880	75,576
Total liabilities	256,321	278,913
Net assets		
Shareholders' equity		
Common stock	81,577	81,577
Capital surplus		
Legal capital surplus	81,084	81,084
Other capital surplus	3,875	3,875
Total capital surplus	84,959	84,959
Retained earnings		
Legal retained earnings	2,169	2,169
Other retained earnings		
Reserve for special depreciation	92	62
Reserve for reduction entry	819	814
General reserve	12,952	12,952
Retained earnings brought forward	20,018	32,093
Total retained earnings	36,050	48,090
Treasury stock, at cost	(3,051)	(3,055)
Total shareholders' equity	199,535	211,571
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,961	4,182
Deferred gains or losses on hedges	132	26
Total valuation and translation adjustments	2,093	4,208
Subscription rights to shares	766	498
Total net assets	202,394	216,277
Total liabilities and net assets	458,715	495,190

See accompanying notes to financial statements.

2) Non-consolidated statements of income

Years ended March 31, 2016 and 2017	Millions of yen	
	2016	2017
Net sales (note 1)	354,746	357,072
Cost of sales (note 1)	336,472	326,191
Gross profit	18,273	30,881
Selling, general and administrative expenses (note 2)	63,234	56,335
Operating loss	(44,961)	(25,454)
Non-operating income		
Interest income (note 1)	182	227
Dividend income (note 1)	25,389	38,144
Foreign exchange gains	-	1,008
Miscellaneous income (note 1)	2,732	2,788
Total non-operating income	28,304	42,167
Non-operating expenses		
Interest expenses (note 1)	602	454
Foreign exchange losses	987	-
Miscellaneous loss (note 1)	3,589	2,375
Total non-operating expenses	5,178	2,829
Ordinary income (loss)	(21,835)	13,883
Extraordinary income		
Gain on sales of subsidiaries and associates' shares	30,388	2,680
Gain on sales of investment securities	221	-
Gain on exchange from business combination	299	-
Gain on liquidation of subsidiaries and associates	-	628
Gain on reversal of subscription rights to shares	-	267
Total extraordinary income	30,908	3,576
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	540	2,648
Impairment loss on investments in capital of associated companies	5,659	-
Loss on liquidation of subsidiaries and associates	-	8
Impairment loss	133	623
Business structure improvement expenses	4,646	-
Total extraordinary losses	10,978	3,279
Income (loss) before income taxes	(1,905)	14,180
Income taxes - current	(1,853)	(3,098)
Income taxes - deferred	381	69
Net income (loss)	(433)	17,209

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

Year ended March 31, 2016

Millions of yen

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreci-ation	Reserve for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of year	81,577	81,084	3,828	84,912	2,169	124	805	32,952	13,189	49,239
Changes of items during period										
Decrease by corporate division - split-off type				-						-
Dividends of surplus				-					(12,755)	(12,755)
Net income (loss)				-					(433)	(433)
Acquisition of treasury stock				-						-
Disposal of treasury stock			9	9						-
Increase by share exchanges			37	37						-
Reversal of reserve for special depreciation				-		(32)			32	-
Provision of reserve for reduction entry				-			14		(14)	-
Reversal of reserve for reduction entry				-						-
Reversal of general reserve				-				(20,000)	20,000	-
Expiration of subscription rights				-						-
Net changes of items other than shareholders' equity				-						-
Total changes of items during period	-	-	47	47	-	(32)	14	(20,000)	6,829	(13,188)
Balance at end of year	81,577	81,084	3,875	84,959	2,169	92	819	12,952	20,018	36,050

Millions of yen

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of year	(3,156)	212,571	3,760	(91)	3,669	766	217,006
Changes of items during period							
Decrease by corporate division - split-off type		-			-		-
Dividends of surplus		(12,755)			-		(12,755)
Net income (loss)		(433)			-		(433)
Acquisition of treasury stock	(6)	(6)			-		(6)
Disposal of treasury stock	40	49			-		49
Increase by share exchanges	71	108			-		108
Reversal of reserve for special depreciation		-			-		-
Provision of reserve for reduction entry		-			-		-
Reversal of reserve for reduction entry		-			-		-
Reversal of general reserve		-			-		-
Expiration of subscription rights		-			-		-
Net changes of items other than shareholders' equity		-	(1,799)	223	(1,576)		(1,576)
Total changes of items during period	105	(13,036)	(1,799)	223	(1,576)	-	(14,612)
Balance at end of year	(3,051)	199,535	1,961	132	2,093	766	202,394

Year ended March 31, 2017

Millions of yen

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreci-ation	Reserve for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of year	81,577	81,084	3,875	84,959	2,169	92	819	12,952	20,018	36,050
Changes of items during period										
Decrease by corporate division - split-off type				-		(3)			(2,189)	(2,192)
Dividends of surplus				-					(2,978)	(2,978)
Net income (loss)				-					17,209	17,209
Acquisition of treasury stock				-						-
Disposal of treasury stock				-						-
Increase by share exchanges				-						-
Reversal of reserve for special depreciation				-		(27)			27	-
Provision of reserve for reduction entry				-						-
Reversal of reserve for reduction entry				-			(5)		5	-
Reversal of general reserve				-						-
Expiration of subscription rights				-						-
Net changes of items other than shareholders' equity				-						-
Total changes of items during period	-	-	-	-	-	(30)	(5)	-	12,075	12,040
Balance at end of year	81,577	81,084	3,875	84,959	2,169	62	814	12,952	32,093	48,090

Millions of yen

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury stock, at cost	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of year	(3,051)	199,535	1,961	132	2,093	766	202,394
Changes of items during period							
Decrease by corporate division - split-off type		(2,192)			-		(2,192)
Dividends of surplus		(2,978)			-		(2,978)
Net income (loss)		17,209			-		17,209
Acquisition of treasury stock	(4)	(4)			-		(4)
Disposal of treasury stock		-			-		-
Increase by share exchanges		-			-		-
Reversal of reserve for special depreciation		-			-		-
Provision of reserve for reduction entry		-			-		-
Reversal of reserve for reduction entry		-			-		-
Reversal of general reserve		-			-		-
Expiration of subscription rights		-			-	(267)	(267)
Net changes of items other than shareholders' equity		-	2,221	(106)	2,115		2,115
Total changes of items during period	(4)	12,036	2,221	(106)	2,115	(267)	13,884
Balance at end of year	(3,055)	211,571	4,182	26	4,208	498	216,277

Notes to Non-Consolidated Financial Statements

Significant accounting policies

1. Valuation standards and valuation methods for securities
   (1) Investments in subsidiaries and associates
   Stated at cost based on the moving-average method.
   (2) Securities
   Securities with fair value
   Stated at fair value as of the end of the fiscal year. (Any changes in unrealized holding gain or loss, net of the applicable income taxes, are directly included in net assets, and the cost of securities sold is calculated by the moving-average method.)
   Securities without fair value
   Stated at cost based on the moving-average method.

2. Valuation standards and valuation methods for inventories
   (1) Merchandise and finished goods, raw materials and supplies
   Stated at cost based on the moving-average method.
   (2) Work in process
   Stated at cost based on the specific identification method.
   (In any case, the cost of inventories is written-down when their carrying amounts become unrecoverable.)

3. Depreciation and amortization method for non-current assets
   (1) Property, plant and equipment (excluding leased assets)
   Depreciated using the straight-line method.
   (2) Intangible assets (excluding leased assets)
   Amortized using the straight-line method.
   Software for internal use is amortized using the straight-line method over the usable period (5 years).
   (3) Leased assets
   Leased assets under finance lease transactions that are not deemed to transfer ownership are depreciated using the straight-line method over the period of the lease, with zero residual value.

4. Allowances and provisions
   (1) Allowance for doubtful accounts
   To prepare for bad debt losses from uncollectible receivables, general provision for doubtful accounts is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. Specific provision is provided based on the assessment of the collectability of individual receivables.
   (2) Provision for retirement benefits
   To prepare for the payment of retirement benefits to employees, the amount based on the estimated retirement benefit obligations and fair value of plan assets as of the end of the current fiscal year is recognized as provision for retirement benefits.

   Accounting for provision for retirement benefits and retirement benefit expenses are as follows:
   (i) The method to attribute expected benefits to periods of service
   In calculating retirement benefits obligations, expected benefit is attributed to periods of service up to the current fiscal year based on the benefit formula basis.
   (ii) The method of recognizing actuarial gains and losses and prior service costs as expenses
   Actuarial gains and losses are recognized as expenses from the next year of occurrence on a straight-line method over the average remaining service periods of employees expected in the year of occurrence.
   Prior service costs are recognized as expenses on a straight-line method over the expected average remaining service periods of employees from the year of occurrence.

Notes to Non-Consolidated Financial Statements

5. Accounting for deferred assets
   (1) Share issuance cost
   Share issuance costs are fully recognized as expenses when paid.
   (2) Bond issuance cost
   Bond issuance costs are fully recognized as expenses when paid.

6. Method of hedge accounting
   (1) Method of hedge accounting
   Deferral hedge accounting is applied.
   (2) Hedging instruments and hedged items
   The Company uses forward exchange contracts to mitigate foreign currency exchange risks associated with import and export transactions.
   In addition, the Company uses interest rate swaps corresponding to term of each long-term loan payable to fix the risk of cash flow fluctuation from long-term loan payable.
   (3) Hedging policy
   As currency related derivative transactions are mainly used to hedge the foreign exchange risk associated with sales contracts denominated in U.S. dollars, the use of derivatives is limited to the amount of accounts receivable and sales contracts denominated in foreign currencies.
   Through interest related derivative transactions, the Company aims to fix interest rate for each long-term loan payable at the prevailing market rate as of each fund procurement since the Company emphasizes obtaining long-term loans at stable interest rates.
   (4) Method of assessing hedge effectiveness
   Effectiveness of hedging activities is assessed by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges up to the time of assessment.

7. Accounting for consumption taxes
   Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

8. Valuation standard and valuation method for derivative financial instruments
   Derivative financial instruments are measured at fair value.

9. Translation of foreign currency-denominated assets and liabilities into yen
   Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rates as of the fiscal year-end. Foreign exchange gains and losses are recognized in profit or loss.

10. Consolidated tax return
    The Company adopted consolidated income tax return filing.

Additional information

Effective from the year ended March 31, 2017, the Company has applied the “Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016).

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated financial position

*1. Monetary claims and monetary debts to subsidiaries and associates as of March 31, 2016 and 2017

Millions of yen

	March 31, 2016	March 31, 2017
Short-term monetary claims	112,067	108,109
Short-term monetary debts	67,166	59,306

*2. Guarantee obligations

The Company provides guarantees and guarantee commitments in respect of loans of the following subsidiaries and associates from financial institutions as of March 31, 2016 and 2017.

(1) Guarantees

Millions of yen

March 31, 2016		March 31, 2017	
SCAI S.p.A.	2,554	SCAI S.p.A.	2,396
Marubeni Equipment Finance (Oceania) Pty Ltd.	3,008	Marubeni Equipment Finance (Oceania) Pty Ltd.	3,948
Other	861	Other	538
Total	6,423	Total	6,882

(2) Guarantee commitment

Millions of yen

March 31, 2016		March 31, 2017	
Marubeni Corporation	690	OKUBO GEAR Co., LTD	434
OKUBO GEAR Co., LTD	529		
Total	1,219	Total	434

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and associates for the years ended March 31, 2016 and 2017

Millions of yen

	2016	2017
Operating transaction		
Sales	288,219	240,938
Purchase	131,031	169,157
Non-operating transaction	29,246	41,690

*2. Main components of selling, general and administrative expenses and approximate ratio for the years ended March 31, 2016 and 2017

Millions of yen

	2016	2017
Packing and shipping expenses	9,814	8,664
Employees' salaries	9,258	7,332
Retirement benefit expenses	1,252	1,338
Subcontract expenses	4,012	5,025
Depreciation and amortization	2,268	2,053
R&D expenses	13,100	13,101
Brand value royalty	6,440	4,913
Approximate ratio (%)		
Selling expenses	35	33
Administrative expenses	65	67

Notes on securities
Investments in subsidiaries and associates as of March 31, 2016 and 2017 are as follows:

As of March 31, 2016

Millions of yen

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Investments in subsidiaries	624	5,551	4,927
Investments in associates	499	1,493	994
Total	1,123	7,044	5,921

As of March 31, 2017

Millions of yen

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Investments in subsidiaries	624	13,029	12,405
Investments in associates	499	1,396	897
Total	1,123	14,425	13,302

Notes to Non-Consolidated Financial Statements

(Note) Investments in subsidiaries and associates whose fair values are extremely difficult to determine as of March 31, 2016 and 2017 are as follows:

Millions of yen

Type of securities	March 31, 2016	March 31, 2017
Investments in subsidiaries	63,635	122,611
Investments in associates	11,206	10,065

Those securities are not included in the tables "Investments in subsidiaries and associates" above as of March 31, 2016 and 2017 as no quoted market price is available and it is extremely difficult to determine their fair values.

Notes to Non-Consolidated Financial Statements

Notes on income taxes

1. Components of deferred tax assets and deferred tax liabilities by major cause as of March 31, 2016 and 2017

Millions of yen

	March 31, 2016	March 31, 2017
Deferred tax assets (current)		
Accrued employee bonuses	1,056	1,006
Accrued expenses	2,509	1,894
Allowance for doubtful accounts	132	189
Write down of inventories	3,279	2,794
Others	196	257
Subtotal	7,172	6,140
Less: Valuation allowance	(1,906)	(2,113)
Total	5,266	4,027
Deferred tax liabilities (current)		
Insurance receivables	1,718	554
Others	101	23
Total	1,819	577
Net deferred tax assets (current)	3,447	3,450
Deferred tax assets (non-current)		
Net operating losses carryforward	3,134	4,022
Loss on valuation of shares of subsidiaries and associates	13,319	14,403
Write down of securities	69	69
Provision for retirement benefits	1,411	1,548
Impairment loss	22	12
Others	3,537	2,808
Subtotal	21,492	22,862
Less: Valuation allowance	(19,449)	(21,027)
Total	2,043	1,835
Deferred tax liabilities (non-current)		
Prepaid pension costs	2,433	2,304
Reserve for reduction entry	362	359
Reserve for special depreciation	41	28
Valuation difference on available-for-sale securities	865	1,846
Others	708	68
Total	4,409	4,605
Net deferred tax assets (liabilities) (non-current)	(2,366)	(2,770)

Notes to Non-Consolidated Financial Statements

2. Reconciliation between the effective statutory tax rate and the effective tax rate as a percentage of incomes after the application of tax effect accounting by major cause as of March 31, 2016 and 2017

	March 31, 2016	March 31, 2017
Effective statutory tax rates (%)	-	30.9
(Adjustments)		
Expenses not deductible for tax purposes, such as entertainment expenses	-	0.1
Income not taxable for tax purpose, such as dividend income	-	(74.7)
Withholding tax on dividends received by foreign subsidiaries	-	1.2
Inhabitant tax on per capita basis	-	0.2
Change in valuation allowance	-	14.3
Foreign tax credit	-	6.1
Other	-	0.5
Effective income tax rates after tax effect accounting	-	(21.4)

Tax rate reconciliation as of March 31, 2016 is omitted as loss before income tax was recorded for the year ended March 31, 2016.

3. Adjustments to deferred tax assets and deferred tax liabilities due to the change in corporate income tax rate

(Fiscal year ended March 31, 2016)
The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted at the Diet on March 29, 2016, resulting in lower corporate tax rates effective from the fiscal year beginning on or after April 1, 2016. As a result, the combined statutory income tax rate to calculate deferred tax assets and liabilities has been changed from the previous fiscal year to 30.9% for temporary differences expected to be realized or settled during the year beginning on April 1, 2016 and the year beginning on April 1, 2017 and 30.6% for temporary differences expected to be realized or settled during the year beginning on or after April 1, 2018. The effect of those changes in tax rates is immaterial.

(Fiscal year ended March 31, 2017)
The "Act Partially Amending the Act Partially Amending the Consumption Tax Act to Make Fundamental Reform of the Taxation System for Securing Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act Partially Amending the Act Partially Amending the Local Tax Act and the Local Allocation Tax Act to Make Fundamental Reform of the Taxation System for Securing Stable Financial Resources for Social Security" (Act No. 86 of 2016) were enacted in the Diet on November 18, 2016. Accordingly, the effective date for the consumption tax rate increase to 10%, previously planned for April 1, 2017, was postponed to October 1, 2019.
In line with this, the effective dates of the abolition of the special local corporation tax and concurrent restoration of the corporation business tax, revision of the local corporation tax rate, and revision of the corporate inhabitant tax rate (income tax basis) were all postponed from the fiscal year starting on or after April 1, 2017, to the fiscal year starting on or after October 1, 2019.
Effective statutory tax rates used for calculation of deferred tax assets and liabilities were unchanged. Although reclassification of tax rates between national taxes and local taxes occurs, the effect of those changes in tax rates is immaterial.

Notes to Non-Consolidated Financial Statements

Business combinations, etc.
Business combinations due to acquisition
Notes to this item are omitted because the details are identical to the content presented in “Business combination” in the “Notes to Consolidated Financial Statements.”

Transactions under common control
1. Outline of the transactions
   The Company resolved to succeed its wheel loader development and manufacturing business to KCM Corporation, a wholly owned subsidiary of the Company, through a corporate separation having the effective date of April 1, 2016 at the Board of Directors meeting held on January 28, 2016, and completed the succession on April 1, 2016.

   (1) Business activities succeeded
       Development and manufacturing of wheel loaders
   (2) Date of business combination
       April 1, 2016
   (3) Legal format of business combination
       It is an absorption-type company split with the Company being the split company and KCM Corporation being the successor company.
   (4) Name of company after business combination
       KCM Corporation
   (5) The purpose of the company split
       The Company and KCM Corporation has accelerated joint development of new models of wheel loaders and promoted a more efficient production system. However, because international competition in the construction machinery industry surrounding the Company is intensifying, the Company aims to enhance the development and manufacturing business of wheel loaders and increase customer satisfaction by concentrating this business into KCM Corporation to further merge the two companies’ technologies and improve the production efficiency.

2. Outline of accounting procedures applied
   The company split is accounted for as a transaction under common control, in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

3. Status of assets and liabilities succeeded

Millions of yen

Assets	Amount	Liabilities	Amount
Current assets	2,979	Current liabilities	4,311
Non-current assets	4,194	Non-current liabilities	670
Total	7,173	Total	4,981

Subsequent events
Outcome of share takeover offer for the acquisition of shares in Australian corporation Bradken Limited
The Company had commenced the share takeover offer for all issued common shares in Bradken, which conducts metal casting and operates manufacturing and distribution services for metal casting products on November 1, 2016, following the determination on its implementation on October 3, 2016. The Company fulfilled the acquisition conditions, and made Bradken a consolidated subsidiary of the Group on March 20, 2017. The Company has completed the takeover offer on April 7, 2017.
The outlines are as presented in “Subsequent Events” in the consolidated financial statements.

Notes to Non-Consolidated Financial Statements

4) Non-consolidated supplementary schedules

[Supplementary schedule of property, plant and equipment, etc.]

Millions of yen

Asset type	Balance as of April 1, 2016	Increase during current period	Decrease during current period	Depreciation and amortization during current period	Balance as of March 31, 2017	Accumulated depreciation
Property, plant and equipment						
Buildings	35,406	458	784 (0)	2,053	33,028	29,807
Structures	3,594	414	196 (1)	391	3,421	8,746
Machinery and equipment	25,706	805	833	4,132	21,546	78,305
Vehicles	2,142	273	450 (384)	789	1,176	2,426
Tools, furniture and fixtures	2,066	1,237	219	969	2,115	26,526
Land	40,053	-	3,276 (238)	-	36,777	-
Construction in progress	252	3,016	2,930	-	338	-
Total property, plant and equipment	109,219	6,203	8,688 (623)	8,335	98,400	145,809
Intangible assets						
Software	5,720	3,415	1,554	2,204	5,378	30,591
Others	124	-	6	7	110	2,154
Total intangible assets	5,844	3,415	1,560	2,211	5,488	32,745

(Notes) 1. Amount in the parentheses under "Decrease during current period" represents impairment loss included in the reported amount for each asset type.

2. Decrease during the current period includes property, plant and equipment that was succeeded in line with the absorption-type split to KCM Corporation as follows:

Buildings	¥711 million
Structures	¥182 million
Machinery and equipment	¥816 million
Vehicles	¥0 million
Tools, furniture and fixtures	¥197 million
Land	¥2,193 million
Construction in progress	¥44 million
Software	¥5 million
Others	¥5 million

3. The major component of decrease during the current period in "Land" is "sale of site for Mibu plant" of ¥840 million.

Notes to Non-Consolidated Financial Statements

[Supplementary schedule of provisions]

Millions of yen

Account	Balance as of April 1, 2016	Increase during current period	Decrease during current period	Balance as of March 31, 2017
Allowance for doubtful accounts	554	741	554	741

(Note) The “Decrease during current period” is the reversal of the balance of allowance for doubtful accounts as of March 31, 2016.

(2) Major property, plant, equipment and debt

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

(3) Others

There were no specific items to be disclosed for the year ended March 31, 2017.

VI. Overview of Operational Procedures for Shares of the Company

Fiscal year	From April 1 to March 31
Annual Shareholder's Meeting	Within three months after the day following each fiscal year-end date
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Purchase of shares less than one unit	
Office for handling business	(Special account) Head Office, Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Shareholder register administrator	(Special account) Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Forwarding office	—
Share purchase/additional purchase fee	No fee
Additional share purchase request handling stoppage period	The period starting 10 business days before the respective ends of March, June, September and December, up to each of those dates, and the period stipulated by the filing company
Method of public notice	Electronic public notice will be made. However, if it is impossible to publish public notices electronically because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nihon Keizai Shimbun. Electronic public notices will be posted on the Company's website at the following URL: https://www.hitachicm.com/global/jp/
Special benefits for shareholders	Not applicable.

(Notes) 1. A shareholder of the Company may not exercise any rights relating to shares less than one unit held by the shareholder other than the following rights:

(1) Right set forth in items of Article 189, paragraph 2 of the Companies Act

(2) Right to receive an allotment of shares for subscription or an allotment of share options for subscription in accordance with the number of shares held by the shareholder

(3) Right to request that the company sell to the shareholder such number of shares that, together with the number of shares less than one unit held by the shareholder, will constitute one share unit

2. Owing to a share exchange making the Company a wholly owning parent company in share exchange and TCM Corporation a wholly owned subsidiary in share exchange on the effective date of December 22, 2009, for shareholders recorded in the special account of TCM Corporation, Mitsubishi UFJ Trust and Banking Corporation had been the account management institution of the special account after the effective date. However, effective from June 27, 2017, the Company has changed the account management institution of the special account as follows:

Account management institution　Tokyo Securities Transfer Agent Co., Ltd.
3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo

VII. Reference Information of the Company

1. Information about Parent Company, etc. of the Company

   The Company does not have a parent company, etc. as prescribed in Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

   From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Shelf Registration Statement and Appendices, Shelf Registration Supplement and Appendices, and Amended Shelf Registration Statement thereof

Filed to Director-General of Kanto Local Finance Bureau on June 28, 2016

Filed to Director-General of Kanto Local Finance Bureau on February 27, 2017

Filed to Director-General of Kanto Local Finance Bureau on March 21, 2017

Filed to Director-General of Kanto Local Finance Bureau on March 28, 2017

(2) Annual Securities Report and Appendices, and Written Confirmation

52nd term (from April 1, 2015 to March 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on June 28, 2016

(3) Amendment Report of the Annual Securities Report, and Written Confirmation

52nd term (from April 1, 2015 to March 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on March 28, 2017

(4) Quarterly Securities Reports and Written Confirmations

1st quarter of the 53rd term (from April 1, 2016 to June 30, 2016)

Filed to Director-General of Kanto Local Finance Bureau on August 9, 2016

2nd quarter of the 53rd term (from July 1, 2016 to September 30, 2016)

Filed to Director-General of Kanto Local Finance Bureau on November 8, 2016

3rd quarter of the 53rd term (from October 1, 2016 to December 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on February 9, 2017

(5) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on June 28, 2016

Extraordinary Securities Report (results of the exercise of voting rights at the shareholder's meeting) based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on February 27, 2017

Extraordinary Securities Report (change in the representative director) based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item 9 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on March 21, 2017

Extraordinary Securities Report (change in the specified subsidiary) based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item 3 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(6) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 28, 2016

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

Not applicable.