Annual Securities Report

54th term (from April 1, 2017 to March 31, 2018)

Hitachi Construction Machinery Co., Ltd.

[Cover]

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Part I Information on the Company

I. Overview of the Company

1. Transition of the Key Financial Data

(1) Five-year financial data

(Millions of yen, unless otherwise stated)

	IFRS				
	50th term	51st term	52nd term	53rd term	54th term
As of the transition date and as of and years ended	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Revenue	802,988	815,792	758,331	753,947	959,153
Income before income taxes	60,252	58,953	24,517	23,859	95,612
Net income attributable to owners of the parent	35,747	26,023	8,804	8,022	60,004
Comprehensive income attributable to owners of the parent	54,409	45,782	(22,394)	7,876	58,437
Total equity attributable to owners of the parent	397,004	431,227	395,963	399,619	448,502
Total assets	1,101,114	1,064,673	926,628	1,012,208	1,089,796
Equity per share attributable to owners of the parent (Yen)	1,868.17	2,028.57	1,861.93	1,879.14	2,109.04
EPS attributable to owners of the parent Net income per share (Basic) (Yen)	168.30	122.44	41.41	37.72	282.16
Net income per share (Diluted) (Yen)	168.24	122.42	41.41	37.72	282.16
Equity attributable to owners of the parent ratio (%)	36.1	40.5	42.7	39.5	41.2
Profit on equity attributable to owners of the parent (%)	9.6	6.3	2.1	2.0	14.1
Price earnings ratio (Times)	11.81	17.17	43.18	73.57	14.55
Net cash provided by operating activities	80,284	106,229	114,874	87,961	84,528
Net cash provided by (used in) investing activities	(41,172)	(17,976)	18,255	(74,610)	(37,562)
Net cash used in financing activities	(55,694)	(96,294)	(98,163)	(25,817)	(30,483)
Cash and cash equivalents at end of period	53,672	51,433	79,110	65,455	81,929
Employees (Number)	20,911	21,126	21,193	23,858	23,925
[The average number of temporary employees for the year]	[4,531]	[3,920]	[3,032]	[2,384]	[2,167]

(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.

3. During the fiscal year under review, the Company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the relevant key financial data for the 53rd term.

(Millions of yen, unless otherwise stated)

Fiscal year		Japan GAAP	
		50th term	51st term
As of and years ended		March 31, 2014	March 31, 2015
Net sales		802,988	815,792
Ordinary income		53,671	52,738
Net income attributable to owners of the parent		28,939	22,945
Comprehensive income		57,607	55,406
Net assets		447,640	490,996
Total assets		1,087,191	1,047,872
Net assets per share	(Yen)	1,827.59	1,975.73
Net income per share	(Yen)	136.24	107.95
Net income per share after adjustment for dilution	(Yen)	136.20	107.94
Equity ratio	(%)	35.7	40.1
Return on equity	(%)	7.7	5.7
Price earnings ratio	(Times)	14.59	19.47
Net cash provided by operating activities		92,324	109,303
Net cash used in investing activities		(36,724)	(13,549)
Net cash used in financing activities		(72,174)	(103,822)
Cash and cash equivalents at end of period		53,676	51,433
Employees	(Number)	20,911	21,126
[The average number of temporary employees for the year]		[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)

	50th term	51st term	52nd term	53rd term	54th term
As of and years ended	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Net sales	391,154	393,035	354,746	357,072	477,221
Ordinary income (loss)	16,548	8,749	(21,835)	13,883	51,569
Net income (loss)	(556)	3,860	(433)	17,209	46,287
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	224,425	217,006	202,394	216,277	252,936
Total assets	543,167	516,273	458,715	495,190	559,427
Net assets per share (Yen)	1,052.46	1,017.23	948.11	1,014.66	1,189.41
Dividends per share (Yen) [Of the above, interim dividends per share]	50.00 [25.00]	60.00 [30.00]	40.00 [30.00]	12.00 [4.00]	85.00 [36.00]
Net income (loss) per share (Yen)	(2.62)	18.16	(2.04)	80.92	217.66
Net income per share after adjustment for dilution (Yen)	–	18.16	–	80.92	217.66
Equity ratio (%)	41.2	41.9	44.0	43.6	45.2
Return on equity (%)	(0.2)	1.8	(0.2)	8.2	19.8
Price earnings ratio (Times)	–	115.75	–	34.29	18.86
Dividend payout ratio (%)	–	330.40	–	14.83	39.05
Employees (Number) [The average number of temporary employees for the year]	4,756 [1,040]	4,704 [839]	4,315 [651]	3,985 [381]	4,072 [384]

(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 is 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.

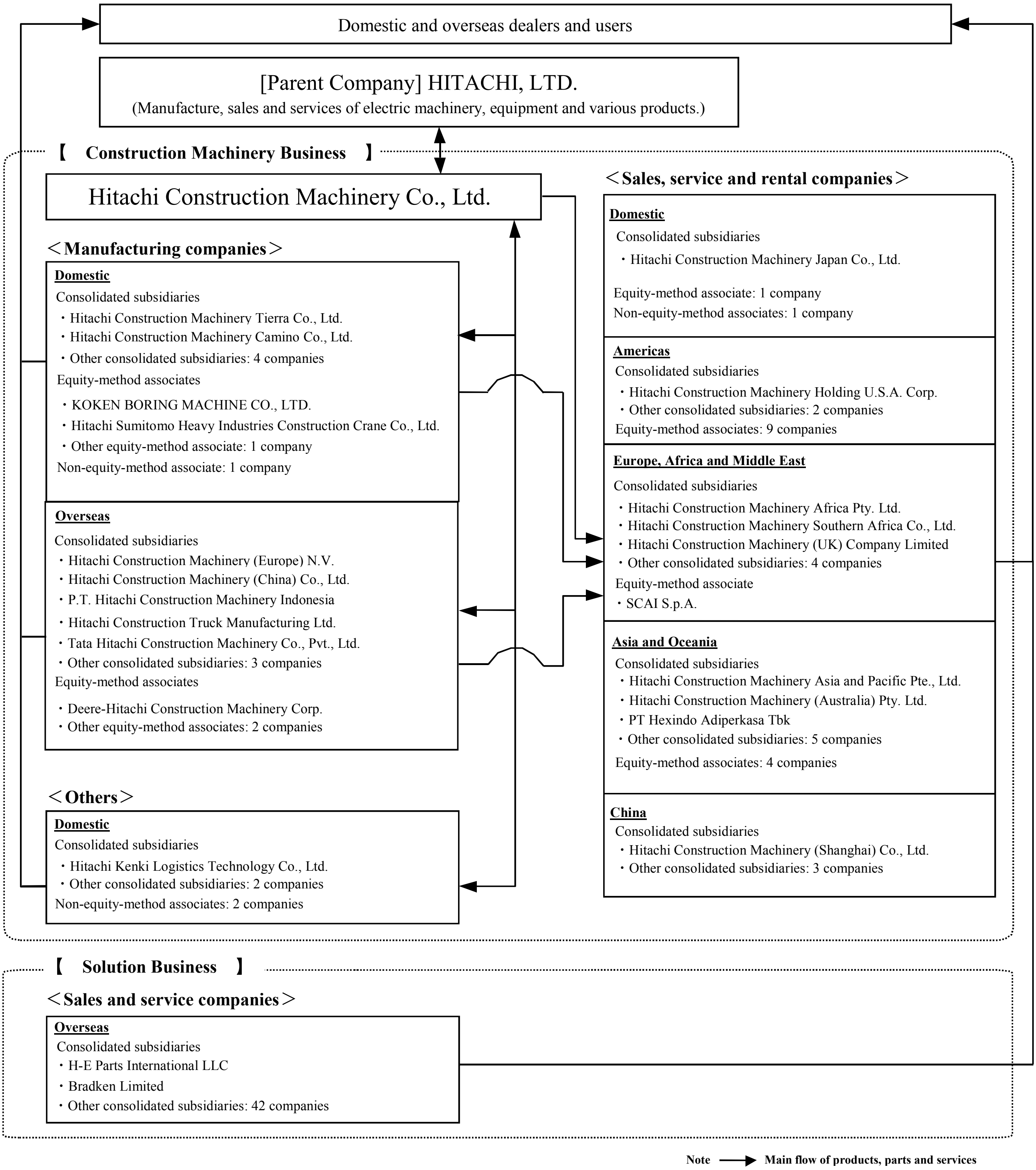
December 1955	Established Hitachi Construction Machinery Service Co., Ltd. as a subsidiary of Hitachi Ltd.
April 1965	Established (former) Hitachi Construction Machinery Co., Ltd. through incorporation of Hitachi Construction Machinery Service Co., Ltd. and the construction machinery sales divisions 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)
April 2017	Hitachi Construction Machinery Loaders America Inc. (Former KCMA Corporation) became a wholly owned subsidiary. (Currently a consolidated subsidiary)

3. Description of Business

The consolidated group (hereinafter referred to as the "Group") consists of the Company, its 84 consolidated subsidiaries and 25 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.
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. 4 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.
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. 3 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	100.0	1 Director of the Company concurrently holds the position of director or officer.
68 other consolidated subsidiaries	–	–	–	–	–
[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.

Entity name	Business location	Common stock, investments (Millions of yen, unless otherwise stated)	Principal business activities (*)	Percentage of voting rights holding [held] (%)	Relationship
Deere-Hitachi Construction Machinery Corp.	Kernersville, North Carolina, U.S.A.	(Thousands of US dollars) 108,800	Construction Machinery Business	50.0	The entity organizes manufacturing, sales and service of some of the construction machinery products of the Company in the Americas region. 1 Director of the Company concurrently holds the position of director or officer.
18 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	178,654
	2) Income before income taxes	9,581
	3) Net income	7,313
	4) Total equity	24,089
	5) Total assets	122,596

5. Employees

(1) Consolidated basis

(As of March 31, 2018)

Name of segment	Number of employees
Construction Machinery Business	20,312 (1,776)
Solution Business	3,613 (391)
Total	23,925 (2,167)

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

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

(2) The Company

(As of March 31, 2018)

Number of employees	Average age	Average length of service	Average annual salary
4,072 (384)	38.0	14.4 years	¥6,425,000

Name of segment	Number of employees
Construction Machinery Business	4,072 (384)
Total	4,072 (384)

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

2. Average annual salary includes bonuses and extra wages.

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

(3) Description of the labor union

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

II. Business Overview

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

Any forward-looking statements in this report are based on the judgment of the Group as of March 31, 2018.

(1) Management policy

The Group pursues business competitiveness and group management capabilities and aims to achieve further improvement in our corporate and shareholder value by enhancing our profitability and capabilities for generating cash flow.

To ensure our ability to achieve these objectives, 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.

(2) Operating environment and issues to be addressed

With respect to the business environment for the Group during the year ended March 31, 2018, demand for hydraulic excavators increased globally year on year except in the Middle East in construction machinery business. As for mining machinery, demand significantly grew year on year by the increased CAPEX of mining companies.

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." 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

(Note) The assumed foreign exchange rates for these targets are ¥100 for one US dollar, ¥110 for one euro, and ¥15 for one Chinese yuan.

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.

(3) Basic Policy on Control of the Company

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

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

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

2. 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, 2018.

(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 80% in the fiscal year under review, 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 ¥230,700 million in total as of March 31, 2018. 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.

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

1. Summary of Results of Operations

Any forward-looking statements in this report are based on the judgment of the Company as of March 31, 2018.

(1) Business results

The Group launched a new mid-term management plan, "CONNECT TOGETHER 2019," in April 2017. We are promoting the development of "Solution Linkage" utilizing ICT and IoT to offer solutions to customer's challenges on "safety," "productivity," and "life-cycle costs (total cost including fuel expenses, maintenance expenses and expenses for troubleshooting)." And, to expand the source of revenue besides new machine sales, we are expanding the value chain by enhancing the parts and service business for mining machines and facilities provided by H-E Parts International LLC and its subsidiaries and Bradken Limited and its subsidiaries, the Company's consolidated subsidiaries we acquired in the previous fiscal year. Additionally, we are working to enhance the structure and efficiency of our operations primarily by improving the global support system for our customers and dealers, while continuing to increase our market share and reduce costs.

As a result of these activities, consolidated revenue for the fiscal year under review was ¥959,153 million, which represents 127% of the amount reported for the previous fiscal year due to increased sales of construction machinery mainly in China and the consolidation of H-E Parts International LLC and its subsidiaries and Bradken Limited and its subsidiaries, while we saw a negative impact of the stock transfer of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., which became an equity-method affiliate of the Company during the previous fiscal year. Operating income was ¥95,737 million, which represents 405% of the amount reported for the previous fiscal year. Income before income taxes was ¥95,612 million, which represent 401% of the amount reported for the previous fiscal year. Net income attributable to owners of the parent was ¥60,004 million, which represent 748% of the amount reported for the previous fiscal year.

1) Construction Machinery Business

Demand for hydraulic excavators increased globally compared to the previous fiscal year except in the Middle East. We have 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. The newly launched "ConSite OIL" in October in Europe and Australia, is the first service in the industry to predict problems of engines and hydraulic equipment by remotely inspecting the condition of its oil by oil sensors installed in each machine. In Japan, for i-Construction promoted by the Ministry of Land, Infrastructure, Transport and Tourism, the Group has been working to promote smart construction by providing its workshop to customers at an ICT demonstration site that we established in Hitachi-Naka City of Ibaraki Prefecture and by offering solutions for an efficient construction process.

As for mining machinery, demand significantly grew compared to the previous fiscal year by the increased CAPEX of mining companies. The Company is focusing on expanding sales of the AC-3 series rigid dump trucks 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 ¥866,866 million, which represent 116% of the amount reported for the previous fiscal year.

2) Solution Business

This segment consists of H-E Parts International LLC and its subsidiaries and Bradken Limited and its subsidiaries, the Company's consolidated subsidiaries we acquired in the previous fiscal year. H-E Parts International LLC and its subsidiaries mainly provides services and solutions required for machinery and equipment for mining. Bradken Limited and its subsidiaries supply wear parts for fixed mining plants and mobile mining equipment, and also provide maintenance and servicing for them.

Consolidated revenue was ¥92,638 million, which represent 1,385% of the amount reported for the previous fiscal year because of the steady contribution to its revenue from solutions for mining machines in Australia and Latin America.

(2) Cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥81,929 million, an increase of ¥16,474 million from the beginning of the fiscal year under review. 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 under review included ¥69,222 million in net income, ¥37,832 million in depreciation and amortization, a ¥53,337 million increase in accounts and notes payables as cash inflow, a ¥27,497 million increase in accounts and notes receivable, a ¥24,664 million increase in inventories, and a ¥14,257 million increase in finance lease receivables included as cash outflow.

As a result, net cash provided by operating activities during the fiscal year under review totaled ¥84,528 million.

(Net cash used in investing activities)

Net cash used in investing activities in the fiscal year under review amounted to ¥37,562 million. This is mainly due to an outlay of ¥16,887 million for capital expenditure and an outlay of ¥21,416 million for 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 under review totaled ¥30,483 million. This was due mainly to a decrease of ¥33,864 million in short-term borrowings, net, an increase of ¥19,542 million in long-term borrowings and bonds, ¥11,464 million in dividends paid (including dividends paid to non-controlling interests), etc.

(3) Production, Orders Received and Sales

(1) Production result

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

Segment name	Production output (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	896,796	136
Solution Business	88,356	1,430
Total	985,152	148

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

2. Major reasons for the change in the “Solution Business” segment are the consolidation of H-E Parts and its consolidated subsidiaries in December 2016 and the consolidation of Bradken Limited and its consolidated subsidiaries in March 2017.

3. 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 fiscal year under review were as follows.

Segment name	Sales (Millions of yen)	Year-on-year comparison (%)
Construction Machinery Business	866,866	116
Solution Business	92,287	1,379
Total	959,153	127

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

2. Major reasons for the change in the “Solution Business” segment are the consolidation of H-E Parts and its consolidated subsidiaries in December 2016 and the consolidation of Bradken Limited and its consolidated subsidiaries in March 2017.

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

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

(1) Significant accounting policies and estimates

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

Any forward-looking statements in this report are based on the judgment of the Group as of March 31, 2018.

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 fiscal year under review

Operating results of the Group for the fiscal year under review are as described in 1. Summary of Results of Operations (1) Business results.

The status of achievement and progress in the mid-term management plan for three years starting from April 2017, which was formulated to promote the establishment of corporate structure with high adaptability to changes and the reaping of fruit of the growth strategy, is as follows:

Indicators	Targets for the year ending March 31, 2020	Results for the year ended March 31, 2018	Year-on-year change
Profitability	Aim to achieve income ratio of operation income less other income and other expenses of over 9%	9.8%	Up 6.0% pts
Efficiency	Aim to achieve ROE of over 9%	14.1%	Up 12.1% pts
Net D/E ratio	Aim to achieve 0.4 or less	0.33	Down 0.13
Shareholder return	Aim to achieve consolidated dividend payout ratio of approx. 30% or more	30.1%	–

(Note) The assumed foreign exchange rates for the targets of the year ending March 31, 2020 are ¥100 for one US dollar, ¥110 for one euro, and ¥15 for one Chinese yuan.
The Group will continue to strive so that each numerical target can be achieved even based on the market condition and exchange level assumed at the time of development of the mid-term management plan.

1) Revenue

Revenue for the fiscal year under review amounted to ¥959,153 million, a 27.2% increase from the previous fiscal year.

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

Cost of sales for the fiscal year under review was ¥695,316 million, a 19.3% increase from the previous fiscal year. The ratio of cost of sales to revenue decreased by 4.8 percentage points to 72.5%.

Selling, general and administrative expenses were ¥170,255 million, a 19.3% increase from the previous fiscal year.

3) Operating income

Operating income increased by 305.3% from the previous fiscal year to ¥95,737 million. The ratio of operating income to revenue increased by 6.9 percentage points to 10.0%.

4) Financial income and expenses

Financial income and expenses were a net loss of ¥4,480 million for the fiscal year under review, a decrease in income of ¥5,028 million from the net income of ¥548 million recorded in the previous fiscal year, primarily due to a decrease in net foreign exchange income of ¥2,316 million to the net loss of ¥1,652 million for the fiscal year under review from the net income of ¥664 million for the previous fiscal year.

5) Income before income taxes

Income before income taxes was ¥95,612 million, a 300.7% increase from the previous fiscal year.

6) Income tax expense

Income tax expense for the current year amounted to ¥26,390 million, a 172.9% increase from the previous fiscal year.

(3) Factors that have material effects on operating results

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

(4) Analysis of Financial Condition

(Note) During the fiscal year under review, the Company finalized the provisional accounting treatment for business combinations. Revision of the initial allocated amounts of acquisition cost is reflected in the results for the year ended March 31, 2017.

[Assets]

Current assets amounted to ¥597,829 million, an increase of 12.8%, or ¥67,630 million, from the previous fiscal year-end. This was due mainly to an increase of ¥35,139 million in trade receivables, and ¥20,101 million in inventories. Non-current assets amounted to ¥491,967 million, an increase of 2.1%, or ¥9,958 million, from the previous fiscal year-end. This was due mainly to an increase of ¥10,113 million in trade receivables, and ¥6,423 million in investments accounted for using the equity method, despite a decrease of ¥5,045 million in deferred tax assets.
As a result, total assets increased 7.7%, or ¥77,588 million, from the previous fiscal year-end to ¥1,089,796 million.

[Liabilities]

Current liabilities amounted to ¥366,422 million, a decrease of 8.5%, or ¥34,113 million, from the previous fiscal year-end. This was primarily due to a decrease of ¥83,991 million in bonds and borrowings despite an increase of ¥62,508 million in trade and other payables. Non-current liabilities increased by 35.4%, or ¥57,101 million, from the previous fiscal year-end to ¥218,344 million. This was mainly due to an increase of ¥65,955 million in bonds and borrowings.
As a result, total liabilities increased by 4.1%, or ¥22,988 million, from the previous fiscal year-end to ¥584,766 million.

[Equity]

Total equity increased by 12.1%, or ¥54,600 million, from the previous fiscal year-end to ¥505,030 million.

(5) Capital resources and liquidity

1) Cash flows

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

2) Capital requirements and financial policy

In order to finance working capital/capital investment and investments and loans for the reporting period and to ensure appropriate balance of long-term and short-term, and direct and indirect borrowings, the Group received long-term borrowings of ¥80,386 million and issued bonds of ¥10,000 million, while repaying short-term borrowings of ¥33,864 million and long-term borrowings of ¥50,844 million and redeeming bonds of ¥20,000 million.

In addition, the Group prepares and updates cash management plans in a timely manner, and maintains the commitment line and credit line to mitigate the liquidity risk while minimizing liquidity in hand to enhance capital efficiency.

(Information on differences in the main accounts in relation to the summary of results of operations)

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 fiscal year under review under IFRS decreased by ¥1,500 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 fiscal year under review under IFRS decreased by ¥1,500 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 under review under IFRS decreased by ¥1,000 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 fiscal year under review under IFRS increased by ¥300 million compared with the amount under Japan GAAP, and “income tax expense” decreased by ¥500 million.

4. Important Business Contracts, etc.

(1) Business alliance contracts

Name of contracting party	Name of counterparty	Country	Items under contract	Nature of the contract	Contract period
Hitachi Construction Machinery Co., Ltd.	KUBOTA Corporation	Japan	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.

(2) Technical collaboration contracts

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

(3) Other contract

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

5. Research and Development Activities

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

Research and development expenditures for the fiscal year under review totaled ¥24,571 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 and wheel loaders, etc., and products that are clean energy-friendly and energy conservation-friendly are being developed, with the keyword “Low-carbon.” We have released medium-sized hydraulic excavators, wheel loaders and road machinery that conform to Japan’s 2014 standards for exhaust emissions (the Off-road Act). A hybrid hydraulic excavator ZH200-6, which achieved a decrease in fuel consumption by approximately 12% in comparison with the previous model ZH200-5B, was launched in September 2017. ZH200-6 is equipped with a new-type hybrid engine with a built-in motor, which was jointly developed with TOYOTA INDUSTRIES CORPORATION, and a lithium-ion battery, which was jointly developed with Hitachi Automotive Systems, Ltd., combining technologies in the both fields of automobiles and industrial vehicles. The machine controller comprehensively controls the hybrid system comprised of the hydraulic system, engine, lithium-ion battery and electric motor and maximizes the performance of the machine. Hydraulic energy-saving system “TRIAS (Patent No. 5572586),” which was developed for hydraulic excavators that serves as the foundation for this system, won the Commissioner of the Japan Patent Office Award in the commendation for invention in the Kanto Area for FY2017 hosted by the Japan Institute of Invention and Innovation in November 2017.

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. As a result of this effort, ZX200X-6, new ICT hydraulic excavator of the ZAXIS-6 series, which is a core machine for ICT construction solutions, was launched in January 2018. This model comes equipped with the Company’s proprietary machine control function “Solution Linkage Assist” and enables efficient work without excessively excavating the targeted surface by semi-automatically controlling the machine’s front (boom, arm and bucket) in real time in accordance with designed values based on position information of the machine obtained from GNSS receiver and 3D (three-dimensional) information on bucket tips. ZX200X-6 supports i-Construction, which is promoted by the Ministry of Land, Infrastructure, Transport and Tourism.

As a new menu for “ConSite” service solution for reduction of life cycle costs, which is a challenge faced by customers, we developed “ConSite OIL,” which monitors information from the oil monitoring sensor for engine oil and hydraulic oil of working construction machinery, diagnoses the status of oil automatically and delivers a report to customers and service staff of dealers automatically. We have started offering this solution, which is the first in the construction machinery industry, in Europe and Australia since October 2017 ahead of the release all over the world. The solution is aimed at increasing the remote prognostic detection rate through sensing using ICT and IoT technologies.

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.

For the Construction Machinery Business, research and development expenditures for the fiscal year under review totaled ¥22,898 million.

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

Solution Linkage Cloud	
Service menu	ConSite OIL
Hydraulic excavators	ZX200-6, ZX120-6, ZX160LC-6
Reduced-tail-swing-excavators	ZX225US-6, ZX135US-6
Short-tail-swing-excavators	ZX225USR-6
Wheel-type hydraulic excavator	ZX125W-6
Hybrid excavator	ZH200-6
Wheel loaders	ZW140-6, ZW150-6, ZW180-6, ZW370-6, ZW100-6, ZW120-6
Tire roller	ZC220P-6
ICT hydraulic excavator	ZX200X-6

(2) Solution Business

In the business for mobile mining machinery, we optimize wear of sections of components through simulation analysis and service monitoring and develop advanced locking pins for consumables for buckets to increase safety, reduce the time for component replacement and reduce component costs. In addition, we also conduct development to expand our line of undercarriage products for electric rope excavators.

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

For the Solution Business, research and development expenditures for the fiscal year under review totaled ¥1,673 million.

III. Property, Plant and Equipment

1. Overview of Capital Investment

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

Consequently, total capital investment for the fiscal year under review amounted to ¥18,736 million.

2. Major Property, Plant and Equipment

The Group has changed the disclosure method to describe major property, plant and equipment by segment from the fiscal year under review. 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, 2018)

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 m²)	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.	8,486	9,394	5,840 (4,947) [95]	2,932	2,219	28,871	3,017
Hitachinaka Works (Hitachinaka-city, Ibaraki) Note 1	Manufacturing facility, etc. of components, etc. for hydraulic excavators	7,531	5,479	1,980 (66) [148]	–	104	15,094	262
Hitachinaka-Rinko Works (Hitachinaka-city, Ibaraki and other)	Manufacturing facility, etc. of components, etc. for hydraulic excavators	13,879	3,205	12,246 (495)	–	65	29,395	306
Headquarter (Taito-ku, Tokyo and other) Note 2	Facilities, etc. in the registered office of the Company	1,483	200	16,711 (625)	3	369	18,766	443

2) Domestic subsidiaries

(As of March 31, 2018)

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 m²)	Lease assets	Other	Total	
Tada Kiko Co., Ltd.	Factory (Suzumi, Funabashi-city)	Manufacturing factory of parts	1,562	429	1,604 (30)	3	20	3,618	236
Hitachi Construction Machinery Tierra Co., Ltd.	Headquarter/ Factory (Koka-city, Shiga)	Manufacturing factory of mini-sized excavator	2,769	1,925	306 (153)	54	225	5,279	553
KCM Corporation	Headquarter/ Factory (Kako-gun, Hyogo)	Manufacturing facility, etc. of wheel loader	660	1,204	699 (130)	–	415	2,978	671
KCM Corporation	Factory (Ryugasaki-city, Ibaraki)	Manufacturing facility, etc. of wheel loader	1,255	759	2,193 (269)	–	145	4,351	730

3) Overseas subsidiaries

(As of March 31, 2018)

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	2,749	1,628	– [194]	111	–	4,488	1,163
Hitachi Construction Machinery (China) Co., Ltd. Note 1	Headquarter/ Factory (Hefei Anhui, China)	Assembly plant of construction machinery	3,433	1,585	– [628]	–	–	5,018	2,169
Tata Hitachi Construction Machinery Co., Pvt., Ltd. Note 1	Factory (Kharagpur, India)	Assembly plant of construction machinery	4,412	4,497	– [1,012]	30	–	8,940	530
LLC Hitachi Construction Machinery Eurasia	Factory (Tver region, Russian Federation)	Assembly plant of construction machinery	2,939	1,402	4 (400)	21	–	4,366	306

(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 fiscal year under review.

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

(1) Significant capital investment, etc.

Not applicable.

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

Not applicable.

IV. Information on the Company

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

(1) Total number of shares, etc.

1) Total number of shares

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

2) Issued shares

Class	Number of shares issued as of March 31, 2018 (Shares)	Number of shares issued as of June 26, 2018 (Filing Date) (Shares)	Stock exchange on which the Company is listed	Description
Common stock	215,115,038	215,115,038	First Section of the Tokyo Stock Exchange.	Standard stock of the Company with full voting rights and no restrictions on rights. The number of shares per one unit is 100 shares.
Total	215,115,038	215,115,038	–	–

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

1) Details of stock option plans

Not applicable.

2) Information on shareholder right plans

Not applicable.

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

Not applicable.

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

Not applicable.

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

Date	Change in the total number of issued shares (Thousands of shares)	Balance of the total number of issued shares (Thousands of shares)	Change in common stock (Millions of yen)	Balance of common stock (Millions of yen)	Change in 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 fiscal years.

(5) Composition of shareholders

(As of March 31, 2018)

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	–	63	49	384	541	13	22,515	23,565	–
Share ownership (units)	–	523,179	30,585	1,125,191	322,468	101	148,338	2,149,862	128,838
Ownership percentage of shares (%)	–	24.4	1.4	52.3	15.0	0.0	6.9	100.0	–

(Notes) 1. Of treasury stock of 2,457,970 shares, 24,579 units are included in the total units held by “Individual and others” and 70 shares are included in the “Number of shares less than one unit.”

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

(6) Major shareholders

(As of March 31, 2018)

Name	Address	Share Ownership (Thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury stock) (%)
Hitachi, Ltd.	1-6-6 Marunouchi, Chiyoda-ku, Tokyo	108,058	50.81
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	22,856	10.75
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	10,691	5.03
Japan Trustee Services Bank, Ltd. (trust account 9)	1-8-11 Harumi, Chuo-ku, Tokyo	4,751	2.23
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	2,908	1.37
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,968	0.93
Japan Trustee Services Bank, Ltd. (trust account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	1,787	0.84
Japan Trustee Services Bank, Ltd. (trust account 7)	1-8-11 Harumi, Chuo-ku, Tokyo	1,723	0.81
JP MORGAN CHASE BANK 385151 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo)	1,431	0.67
BNYM FOR GOLDMAN SACHS JAPAN (Standing proxy: MUFG Bank, Ltd.)	RUE MONTOYER 46 1000 BRUSSELS BELGIUM (Transaction Services Division, 2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	1,329	0.63
Total	–	157,501	74.06

(Notes) 1. The 2,458 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)	22,856 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account)	10,691 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,751 thousand shares
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	2,908 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,787 thousand shares
Japan Trustee Services Bank, Ltd. (Trust Account 7)	1,723 thousand shares

(7) Information on voting rights

1) Issued shares

(As of March 31, 2018)

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 2,457,900	–	–
Shares with full voting rights (others)	Common stock 212,528,300	2,125,283	–
Shares less than one unit	Common stock 128,838	–	Shares less than one unit (100 shares)
Number of issued shares	215,115,038	–	–
Total number of voting rights	–	2,125,283	–

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

2. The "Shares less than one unit" includes 70 shares registered in the name of the Company.

2) Treasury stock, etc.

(As of March 31, 2018)

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	2,457,900	–	2,457,900	1.14
Total	–	2,457,900	–	2,457,900	1.14

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

Class of shares, etc.

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

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

Not applicable.

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

Not applicable.

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

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

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury stock acquired during the year ended March 31, 2018	3,978	13,742,069
Treasury stock acquired during the period after the reporting period to the filing date of this annual securities report	305	1,239,355

(Note) The number of shares of treasury stock acquired during the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased during the period from June 1, 2018 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, 2018		Period after the reporting period to the filing date of this annual securities report	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Acquired treasury stock which was offered to subscribers	–	–	–	–
Acquired treasury stock which was cancelled	–	–	–	–
Acquired treasury stock which was transferred due to merger, share exchange and company split	–	–	–	–
Others	30	94,950	–	–
Total number of shares of treasury stock held	2,457,970	94,950	2,458,275	–

(Note) The "Total number of shares of treasury stock held" for the period after the reporting period to the filing date of this annual securities report does not include the number of shares less than one unit of shares purchased or sold during the period from June 1, 2018 to the filing date of this annual securities report.

3. Dividend Policy

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

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

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

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

Date of resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)
Resolution at the Board of Directors meeting held on October 25, 2017	7,656	36
Resolution at the Board of Directors meeting held on May 21, 2018	10,420	49

4. Changes in Share Prices

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

Fiscal year	50th term	51st term	52nd term	53rd term	54th term
Years ended	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Highest (Yen)	2,899	2,780	2,302	2,934	4,935
Lowest (Yen)	1,837	1,799	1,475	1,377	2,528

(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 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Highest (Yen)	3,935	4,125	4,130	4,935	4,905	4,665
Lowest (Yen)	3,300	3,620	3,615	4,180	4,170	3,875

(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 22 males and 1 female. (The ratio of female Directors and Executive Officers is 4.3% 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 6/1993 10/1999 6/2001 6/2003 4/2005 6/2006 6/2006 6/2010 6/2011 6/2013 6/2016	Joined Fuji Heavy Industries Ltd. (Currently called Subaru Corporation) Regional Manager of Regional Management Dept., Domestic Sales Div. (Chugoku, Shikoku and Kyusyu) Senior Managing Director, TOKYO SUBARU Inc. Corporate Vice President, Senior General Manager of Japan Region, Subaru Sales & Marketing Div., Chief General Manager of Subaru Parts & Accessories Div. and General Manager of Customer Service Center, Fuji Heavy Industries Ltd. Corporate Senior Vice President, Chief General Manager of Subaru Japan Sales & Marketing Div. and Chief General Manager of Subaru Marketing Div. Corporate Senior Vice President, General Manager of Human Resources Dept. Director of the Board, Corporate Executive Vice President, General Manager of Human Resources Dept. President, Chairman of the Business Reforms Promotion Committee, Subaru System Service Co., Ltd. (Currently called SUBARU IT CREATIONS CORPORATION) Representative Director of the Board and Deputy President, Fuji Heavy Industries Ltd. Representative Director of the Board and President, Subaru Kosan Co., Ltd. Retired from Subaru Kosan Co., Ltd. Outside Director, the Company (to present)	(Note 1)	2
Outside Director	Nominating Committee Member Audit Committee Member Compensation Committee Member	Haruyuki Toyama	March 23, 1959	4/1982 1/2000 8/2004 7/2006 3/2009 5/2011 11/2012 8/2014 3/2015 6/2015	Joined the Bank of Japan Alternate Executive Director for Japan, International Monetary Fund General Manager, Okayama Branch Deputy Director General, Payment and Settlement Systems Dept. Director General, Financial Markets Dept. General Manager for the Americas Director General, International Dept. Retired from the Bank of Japan Registered as an attorney-at-law admitted in Japan Outside Director, the Company (to present)	(Note 1)	2

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)	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		
				11/2012	Chairman of the Board, Horizon Nuclear Power Ltd.		
				4/2013	Senior Vice President and Executive Officer, Hitachi, Ltd.		
				4/2014	Representative Executive Officer, Executive Vice President and Executive Officer		
				4/2015	Deputy Chairman of the Board, Hitachi Europe 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	–	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		
				4/2017	General Manager, Finance Div. (to present)		
				4/2018	Senior Vice President and Executive Officer, Director (to present)		
Director	Audit Committee Member	Toshikazu Sakurai	August 5, 1957	4/1980	Joined the Company	(Note 1)	3
				4/2012	Director and General Manager of Rental Div., Hitachi Construction Machinery Japan Co., Ltd.		
				4/2015	General Manager, Japan Business Div., the Company		
					President and Director, Hitachi Construction Machinery Japan Co., Ltd.		
				4/2016	Executive Officer		
				4/2018	Adviser		
				6/2018	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 and Director, Hitachi Construction Machinery (Shanghai) Co., Ltd.		
				4/2011	Vice President, Marketing Group, the Company		
				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	Audit Committee Member	Koji Tanaka	January 22, 1952	4/1974	Joined Hitachi, Ltd.	(Note 1)	–
				4/2005	Senior Officer, Assistant to President, Power Systems Group		
				5/2006	Senior Officer, General Manager of Hitachi Works, Power Systems Group		
				4/2007	Vice President and Executive Officer, General Manager of Hitachi Works and Vice President, Power Systems Group		
				4/2009	Vice President and Executive Officer, President of Power Systems Group, General Manager of Renewable Energy & Smart Grid Division		
				4/2011	Representative Executive Officer, Executive Vice President and Executive Officer		
				4/2017	Representative Executive Officer, Executive Vice President and Executive Officer CEO, Nuclear Power Business Unit		
				4/2018	Advisor (to present)		
				6/2018	Director, the Company (to present)		
Director	Nominating Committee Member Compensation Committee Member	Kotaro Hirano	June 4, 1958	4/1981	Joined the Company	(Note 1)	9
				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)		

<table>
<tr><th>Position</th><th>Responsibility</th><th>Name</th><th>Date of birth</th><th colspan="2">Career summary</th><th>Term of office</th><th>Share Ownership (thousands of shares)</th></tr>
<tr><td rowspan="10">Director</td><td rowspan="10">–</td><td rowspan="10">Hirotoyo Fujii</td><td rowspan="10">January 16, 1954</td><td>4/1977</td><td>Joined Hitachi, Ltd.</td><td rowspan="10">(Note 1)</td><td rowspan="10">0</td></tr>
<tr><td>7/2004</td><td>General Manager, Human Capital Div. and Labor Planning Dept. of the same Div., Power and Electrical Systems Group</td></tr>
<tr><td>4/2008</td><td>Deputy General Manager, Operational Support Headquarters, Hitachi Information Systems, Ltd. (Currently called Hitachi Systems, Ltd.)</td></tr>
<tr><td>4/2010</td><td>Executive Officer</td></tr>
<tr><td>4/2011</td><td>Vice President and Executive Officer, Director</td></tr>
<tr><td>4/2016</td><td>Full-time Auditor</td></tr>
<tr><td>3/2017</td><td>Retired from Hitachi Systems, Ltd.</td></tr>
<tr><td>4/2017</td><td>Senior Vice President and Executive Officer, the Company (to present)</td></tr>
<tr><td></td><td>General Manager, Human Capital Div., and General Manager, Compliance & Risk Management Div. (to present)</td></tr>
<tr><td>6/2017</td><td>Director (to present)</td></tr>
<tr><td colspan="7">Total</td><td>28</td></tr>
</table>

(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 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)		
				4/2018	President, Marketing Group and General Manager, Africa Business Div. (to present)		
Senior Vice President and Executive Officer	General Manager, Finance Div.	Tetsuo Katsurayama	See (1)			(Note 2)	See (1)
Senior Vice President and Executive Officer	President, Development & Production Group, General Manager, Production & Procurement Div. 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 and Director, Hitachi Construction Machinery (China) Co., Ltd.		
				4/2015	Executive Officer, the Company		
				4/2016	Vice President and Executive Officer		
				4/2017	Senior Vice President and Executive Officer (to present)		
				4/2018	President, Development & Production Group, General Manager, Production & Procurement Div. 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, Development & Production Group, General Manager, Research & Development Div., General Manager, Construction Vehicle Equipment Div., and General Manager, Client Solutions Div.	Hideshi Fukumoto	September 24, 1957	4/1982	Joined Hitachi, Ltd.	(Note 2)	2
				4/2005	Director, Machinery Research Institute		
				4/2011	Director, Technology Strategy Office, Research and Development Div.		
				4/2012	Joined the Company		
				4/2014	Executive Officer		
				4/2017	Vice President and Executive Officer (to present)		
				4/2018	Vice President, Development & Production Group, General Manager, Research & Development Div., General Manager, Construction Vehicle Equipment Div., and General Manager, Client Solutions Div. (to present)		
Vice President and Executive Officer	General Manager, Corporate Strategy Div.	Naoyoshi Yamada	January 21, 1958	4/1982	Joined the Ministry of International Trade and Industry	(Note 2)	0
				4/2012	Director-General, Tohoku Bureau of Economy, Trade and Industry		
				6/2013	Retired from the Ministry of Economy, Trade and Industry		
				10/2013	Joined the Company		
				4/2016	Executive Officer		
				4/2017	Vice President and Executive Officer (to present)		
					General Manager, Corporate Strategy Div. (to present)		
Executive Officer	General Manager, Life Cycle Support Operations Div.	Takaharu Ikeda	October 5, 1958	4/1982	Joined the Company	(Note 2)	0
				4/2014	General Manager, Strategy Planning Div.		
				4/2015	Executive Officer (to present)		
					President and Director, Hitachi Construction Machinery (Shanghai) Co., Ltd.		
				4/2016	General Manager, China Business Div.		
				4/2018	General Manager, Life Cycle Support Operations Div. (to present)		
Executive Officer	President, Mining Group	Sonosuke Ishii	December 22, 1958	4/1982	Joined the Company	(Note 2)	1
				8/2010	President and Director, Hitachi Construction Machinery Eurasia Sales LLC		
				4/2011	Deputy General Manager, Europe and Russia Business Div., the Company		
				4/2015	General Manager, Russia and CIS Business Div.		
				4/2017	Executive Officer (to present)		
				4/2018	President, Mining Group (to present)		

Position	Responsibility	Name	Date of birth	Business experience		Term of office	Share Ownership (thousands of shares)
Executive Officer	General Manager, China Business Div.	Yusuke Kajita	October 7, 1961	4/1987	Joined the Company	(Note 2)	7
				4/2013	General Manager, Application, New Product & Construction Equipment Div.		
				4/2016	Deputy General Manager, China Business Div.		
					President and Director, Hitachi Construction Machinery (China) Co., Ltd. (to present)		
				4/2017	Executive Officer (to present)		
				4/2018	General Manager, China Business Div. (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 and Director, Hitachi Construction Machinery (Europe) N.V.		
				4/2014	Executive Officer, the Company (to present)		
				4/2017	Vice President, Marketing Group and General Manager, America Business Div. (to present)		
Executive Officer	General Manager, Marketing Div.	Masafumi Senzaki	July 16, 1965	4/1991	Joined the Company	(Note 2)	2
				4/2012	President and Director, Hitachi Construction Machinery Eurasia Manufacturing LLC		
				4/2017	General Manager, Russia and CIS Business Div.		
					President and Director, LLC Hitachi Construction Machinery Eurasia		
				4/2018	Executive Officer (to present)		
					General Manager, Marketing Div. (to present)		
Executive Officer	Deputy General Manager, America Business Div.	Masaaki Hirose	July 30, 1959	10/1990	Joined the Company	(Note 2)	–
				4/2008	Executive Vice President and Director, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd		
				4/2013	CEO and Director, PT Hexindo Adiperkasa Tbk		
				4/2017	Deputy General Manager, America Business Div., the Company (to present)		
					President and Director, Hitachi Construction Machinery Loaders America Inc. (to present)		
				4/2018	Executive Officer		
Executive Officer	General Manager, Russia and CIS Business Div.	Katsuhiko Murakami	December 21, 1958	10/1979	Joined the Company	(Note 2)	1
				4/2013	General Manager, Customer Support Div.		
				4/2017	Executive Officer (to present)		
				4/2018	General Manager, Europe, Russia and CIS Business Div. (to present)		
					President and Director, LLC Hitachi Construction Machinery Eurasia (to present)		
Executive Officer	General Manager, Europe and Middle East Business Div.	Makoto Yamazawa	February 15, 1960	4/1983	Joined the Company	(Note 2)	–
				2/2005	President and Director, Hitachi Construction Machinery (Malaysia) Sdn. Bhd.		
				4/2014	Deputy General Manager, Global Mining Div., the Company		
				4/2016	General Manager, Europe and Middle East Business Div. (to present)		
					President and Director, Hitachi Construction Machinery (Europe) N.V. (to present)		
				4/2018	Executive Officer (to present)		

Position	Responsibility	Name	Date of birth	Business experience		Term of office	Share Ownership (thousands of shares)
Executive Officer	General Manager, Oceania Business Div.	David Harvey	January 10, 1960	1/1995	Joined Marubeni Construction and Mining Equipment (Currently Hitachi Construction Machinery (Australia) Pty. Ltd.)	(Note 2)	–
				10/1999	Director		
				4/2012	President and Director (to present)		
				4/2015	General Manager, Oceania Business Div., the Company (to present)		
					Chairman, CablePrice (NZ) Limited (to present)		
				4/2018	Executive Officer, the Company (to present)		
Total							66

(Notes) 1. The term of Directors is from the conclusion of the Annual Shareholder's Meeting for the year ended March 31, 2018 to the conclusion of the Annual Shareholder's Meeting for the year ending March 31, 2019.

2. The term of Executive Officers is from April 1, 2018 to March 31, 2019.

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

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 (12 meetings were held in the year ended March 31, 2018)

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 (4 meetings were held in the year ended March 31, 2018)

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, 2018)

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 5 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, 2018)

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 points of view 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 18 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 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)	34	30	4	3
Executive Officers	769	461	308	17
Outside Directors	44	41	4	3

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

2. The above table includes the compensation for 1 Director who retired as of the conclusion of the 53rd Annual Shareholder's Meeting held on June 26, 2017, for the fiscal year under review.

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) 17 Certified Public Accountants and 23 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 10 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 5 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: 21 stock names

Total amount recorded in the balance sheet: ¥9,905 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, 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

Year ended March 31, 2018

Stock name	Number of shares (Shares)	Balance sheet amount (Millions of yen)	Purpose of holding
KYB Corporation	892,000	4,505	Stable procurement of materials
Nippon Chuzo K. K.	718,921	950	Stable procurement of materials
Wakita & Co., LTD.	1,200,000	1,426	Strengthening of customers
Kanamoto Co., Ltd.	344,581	1,220	Strengthening of customers
IJT Technology Holdings Co., Ltd.	1,300,000	1,153	Stable procurement of materials
NISHIO RENT ALL CO., LTD.	66,000	215	Strengthening of customers
NANYO Corporation	72,600	172	Strengthening of customers
NIPPAN RENTAL Co., Ltd.	18,000	40	Strengthening of customers

(Note) KYB Corporation and Nippon Chuzo K. K. consolidated their shares at the ratio of ten shares to one share as of October 1, 2017.

(2) Audit fees, etc.

1) Fees to Certified Public Accountants, etc.

Category	Year ended March 31, 2017		Year ended March 31, 2018	
	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	76	8	80	18
Consolidated subsidiaries	50	–	39	–
Total	126	8	119	18

2) Other fees

(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.

(Year ended March 31, 2018)

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 ¥418 million and ¥82 million, respectively.

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

(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.

(Year ended March 31, 2018)

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.

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, 2018 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, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents (note 20)	65,455	81,929
Trade receivables (notes 6, 21 and 22)	184,460	219,599
Inventories (notes 8 and 22)	235,522	255,623
Income taxes receivable (note 11)	4,191	1,894
Other financial assets (note 21)	27,626	28,029
Other current assets	12,868	10,342
Subtotal	530,122	597,416
Assets held for sale	77	413
Total current assets	530,199	597,829
Non-current assets		
Property, plant and equipment (notes 4, 9 and 22)	297,843	299,987
Intangible assets (notes 4 and 10)	40,088	37,748
Goodwill (notes 4 and 10)	36,640	35,016
Investments accounted for using the equity method	23,126	29,549
Trade receivables (notes 6 and 21)	31,279	41,392
Deferred tax assets (note 11)	22,508	17,463
Other financial assets (note 21)	19,354	20,148
Other non-current assets	11,171	10,664
Total non-current assets	482,009	491,967
Total assets	1,012,208	1,089,796
Liabilities		
Current liabilities		
Trade and other payables (notes 12 and 21)	205,722	268,230
Bonds and borrowings (notes 20 and 21)	153,883	69,892
Income taxes payable (note 11)	4,063	11,000
Other financial liabilities (note 21)	29,696	11,584
Other current liabilities	7,171	5,716
Total current liabilities	400,535	366,422
Non-current liabilities		
Trade and other payables (notes 12 and 21)	21,604	18,839
Bonds and borrowings (notes 20 and 21)	94,818	160,773
Retirement and severance benefit (note 13)	16,768	17,341
Deferred tax liabilities (note 11)	19,025	11,314
Other financial liabilities (note 21)	577	2,354
Other non-current liabilities	8,451	7,723
Total non-current liabilities	161,243	218,344
Total liabilities	561,778	584,766
Equity		
Equity attributable to owners of the parent		
Common stock (note 14)	81,577	81,577
Capital surplus (note 14)	82,553	81,991
Retained earnings (note 14)	228,026	279,201
Accumulated other comprehensive income (note 15)	10,518	8,802
Treasury stock, at cost (note 14)	(3,055)	(3,069)
Total equity attributable to owners of the parent	399,619	448,502
Non-controlling interests	50,811	56,528
Total equity	450,430	505,030
Total liabilities and equity	1,012,208	1,089,796

See accompanying notes to consolidated financial statements.

2) Consolidated statements of income

Years ended March 31, 2017 and 2018 (Millions of yen)

	2017	2018
Revenue (note 4)	753,947	959,153
Cost of sales	(583,021)	(695,316)
Gross profit	170,926	263,837
Selling, general and administrative expenses	(142,661)	(170,255)
Other income (note 17)	4,768	6,658
Other expenses (note 17)	(9,411)	(4,503)
Operating income	23,622	95,737
Financial income (note 18)	4,008	2,910
Financial expenses (note 18)	(3,460)	(7,390)
Share of profits (losses) of investments accounted for using the equity method	(311)	4,355
Income before income taxes	23,859	95,612
Income tax expense (note 11)	(9,669)	(26,390)
Net income	14,190	69,222
Net income attributable to:		
Owners of the parent	8,022	60,004
Non-controlling interests	6,168	9,218
Total net income	14,190	69,222
EPS attributable to owners of the parent		
Net income per share (Basic) (yen) (note 19)	37.72	282.16
Net income per share (Diluted) (yen) (note 19)	37.72	282.16

3) Consolidated statements of comprehensive income

Years ended March 31, 2017 and 2018 (Millions of yen)

	2017	2018
Net income for the year	14,190	69,222
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)	2,916	1,444
Remeasurements of defined benefit obligations (notes 13 and 15)	3,142	(378)
Other comprehensive income of equity-method associates (note 15)	1	7
Items that can be reclassified into net income		
Foreign currency translation adjustments (note 15)	(8,284)	(2,425)
Net gains and losses from cash flow hedges measured at fair value (notes 15 and 21)	(88)	160
Other comprehensive income of equity-method associates (note 15)	(206)	(313)
Other comprehensive income, net of taxes	(2,519)	(1,505)
Comprehensive income	11,671	67,717
Comprehensive income attributable to:		
Owners of the parent	7,876	58,437
Non-controlling interests	3,795	9,280

See accompanying notes to consolidated financial statements.

4) Consolidated statements of changes in equity
Year ended March 31, 2017

(Millions of yen)

	Equity attributable to owners of the parent					
				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)						
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 parent					
	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)		-		-		-
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.

Year ended March 31, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
				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	82,553	228,026	(949)	7,571	(14)
Net income			60,004			
Other comprehensive income (note 15)				(283)	1,451	163
Comprehensive income	-	-	60,004	(283)	1,451	163
Acquisition of treasury stock (note 14)						
Sale of treasury stock (note 14)						
Dividends to shareholders of the Company (note 16)			(9,357)			
Changes in ownership interests in subsidiaries without a loss of control		(64)				
Changes in the scope of consolidation						
Transfer to retained earnings			30		(30)	
Expiration of subscription rights		(498)	498			
Transaction with owners	-	(562)	(8,829)	-	(30)	-
Balance at end of year	81,577	81,991	279,201	(1,232)	8,992	149

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Foreign currency translation adjustments	Total	Treasury stock, at cost	Total	Non-controlling interests	Total equity
Balance at beginning of year	3,910	10,518	(3,055)	399,619	50,811	450,430
Net income		-		60,004	9,218	69,222
Other comprehensive income (note 15)	(2,898)	(1,567)		(1,567)	62	(1,505)
Comprehensive income	(2,898)	(1,567)	-	58,437	9,280	67,717
Acquisition of treasury stock (note 14)		-	(14)	(14)		(14)
Sale of treasury stock (note 14)		-	0	0		0
Dividends to shareholders of the Company (note 16)		-		(9,357)	(3,999)	(13,356)
Changes in ownership interests in subsidiaries without a loss of control	(119)	(119)		(183)	419	236
Changes in the scope of consolidation		-		-	17	17
Transfer to retained earnings		(30)		-		-
Expiration of subscription rights		-		-		-
Transaction with owners	(119)	(149)	(14)	(9,554)	(3,563)	(13,117)
Balance at end of year	893	8,802	(3,069)	448,502	56,528	505,030

See accompanying notes to consolidated financial statements.

5) Consolidated statements of cash flows

Years ended March 31, 2017 and 2018		(Millions of yen)
	2017	2018
Net income	14,190	69,222
Depreciation	30,680	32,306
Amortization of intangible assets	3,284	5,526
Impairment losses	3,883	549
Gain on business restructuring	(933)	-
Income tax expense	9,669	26,390
Share of profits (losses) of investments accounted for using the equity method	311	(4,355)
Gain (loss) on sales of property, plant and equipment	(51)	(574)
Financial income	(4,008)	(2,910)
Financial expenses	3,460	7,390
(Increase) decrease in accounts and notes receivable	(1,482)	(27,497)
(Increase) decrease in finance lease receivables	(4,754)	(14,257)
(Increase) decrease in inventories	28,974	(24,664)
Increase (decrease) in accounts and notes payable	20,580	53,337
Increase (decrease) in retirement and severance benefit	2,704	(248)
Other	(3,152)	(17,667)
Subtotal	103,355	102,548
Interest received	2,573	2,548
Dividends received	593	1,179
Interest paid	(3,534)	(5,089)
Income taxes paid	(15,026)	(16,658)
Net cash provided by operating activities	87,961	84,528
Capital expenditures	(13,999)	(16,887)
Proceeds from sale of property, plant and equipment	1,998	4,603
Acquisition of intangible assets	(3,304)	(4,464)
Acquisition of investments in securities and other financial assets (including investments in associates) (note 20)	(56,070)	(21,416)
Sales of investments in securities and other financial assets (including investments in associates) (note 20)	(3,807)	469
Collection of long-term loan receivables	172	88
Other	400	45
Net cash used in investing activities	(74,610)	(37,562)
Increase (decrease) in short-term borrowings, net (note 20)	24,232	(33,864)
Proceeds from long-term borrowings and bond (note 20)	39,143	90,386
Payments on long-term borrowings and bond (note 20)	(69,883)	(70,844)
Payments on finance lease payables (note 20)	(5,556)	(4,700)
Dividends paid to owners of the parent (note 16)	(3,005)	(9,361)
Dividends paid to non-controlling interests	(7,862)	(2,103)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(2,882)	-
Other	(4)	3
Net cash used in financing activities	(25,817)	(30,483)
Effect of exchange rate changes on cash and cash equivalents	(1,189)	(9)
Net increase (decrease) in cash and cash equivalents	(13,655)	16,474
Cash and cash equivalents at beginning of period (note 20)	79,110	65,455
Cash and cash equivalents at end of period (note 20)	65,455	81,929

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:

- (3) *(a) Basis of consolidation*
- (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:

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

With respect to the accounting treatment for 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 in the consolidated statements of financial position, 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 previously recognized 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.

As non-derivative financial liabilities the Group holds 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 against changes in fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitments and the related derivatives are both recorded in profit or loss if the hedge is considered 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 structures 2 to 67 years
Machinery, equipment and vehicles 2 to 30 years
Tools, furniture and fixtures 2 to 30 years

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

(g) Goodwill and other intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

Software 2 to 10 years
Others 2 to 20 years

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

(h) Leases

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.

In the consolidated statements of financial position, 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

(iii) Construction contracts

If the progress of the construction can be reliably estimated, revenues are recognized using the percentage of completion method. Revenue under the percentage of completion method is calculated by the latest estimate of the total selling price multiplied by the ratio of the cost incurred to date to the latest estimated total cost of the construction. Any anticipated losses on fixed prices contracts are recognized as an expense when such losses are estimated.

If the outcome of a construction contract cannot be reliably estimated, revenue is recognized using the cost recovery method. Revenue under the cost recovery method is recognized only to the extent that the recoverability of costs incurred is highly probable, and costs are recognized as an expense in the period in which they are incurred.
When total contract costs are highly likely to exceed total revenue from the contract, the excess amount is recognized immediately as an expense.

(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 fiscal years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and OCI in the fiscal year that includes the enactment date. 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.

(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 March 31, 2018. The impact of adopting IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's financial position and business performance is immaterial. The Group is currently evaluating the potential impact of adopting IFRS 16 "Leases."

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 26, 2018, the filing date of this annual securities report.

Notes to Consolidated Financial Statements

(4) Segment information

(a) Reportable segment information

(i) Overview of reportable segments

The operating segments of the Group are the components for which separate financial information is available and 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.

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

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	152,303	1,021,521	(9,313)	1,012,208
Segment liabilities	496,489	74,602	571,091	(9,313)	561,778
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.

Notes to Consolidated Financial Statements

For the year ended March 31, 2018

(Millions of yen)

	Reportable segment			Adjustments (*2, 3)	Total
	Construction Machinery Business	Solution Business	Total		
Revenue					
Outside customers	866,866	92,287	959,153	-	959,153
Intersegment transactions	-	351	351	(351)	-
Total revenues	866,866	92,638	959,504	(351)	959,153
Segment profit (*1)	93,509	2,228	95,737	-	95,737
Financial income	-	-	-	2,910	2,910
Financial expenses	-	-	-	(7,390)	(7,390)
Share of profits (losses) of investments accounted for using the equity method	4,355	-	4,355	-	4,355
Income before income taxes	97,864	2,228	100,092	(4,480)	95,612
Segment assets	960,134	137,535	1,097,669	(7,873)	1,089,796
Segment liabilities	530,684	61,955	592,639	(7,873)	584,766
Other items:					
Depreciation and amortization of intangible assets	(31,800)	(6,032)	(37,832)	-	(37,832)
Impairment losses	(549)	-	(549)	-	(549)
Gain on business restructuring	-	-	-	-	-
Business structure reform expenses	(59)	(1,326)	(1,385)	-	(1,385)
Investments accounted for using the equity method	29,549	-	29,549	-	29,549
Capital expenditure	43,419	2,882	46,301	-	46,301

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

As described in “(5) Business combination,” with regard to H-E Parts International LLC and H-E Parts Australian Holdings LLC, and Bradken Limited, which became the Company’s consolidated subsidiaries during the previous fiscal year, the fair value measurement for assets acquired and liabilities assumed through the merger during the fiscal year under review was completed, the balances for the previous fiscal year disclosed as comparative information were adjusted retrospectively.

(b) Information on products and services

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

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Mining machinery	120,824	137,740
Construction machinery and others	633,123	821,413
Total	753,947	959,153

(c) Geographic information

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

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Japan	225,986	193,220
The Americas	85,484	152,400
Europe	87,565	104,184
Russia-CIS, Africa, and Middle East	76,268	95,337
Asia and Oceania	207,181	292,398
China	71,463	121,614
Total	753,947	959,153

Revenues from outside customers attributable to any individual country and region other than Japan and China were not material for the previous fiscal year and the fiscal year under review.

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Japan	218,576	211,887
The Americas	33,282	31,548
Europe	11,621	11,549
Asia	49,468	46,685
Oceania	59,225	68,964
Other Areas	2,399	2,118
Total	374,571	372,751

As described in “(5) Business combination,” with regard to H-E Parts International LLC and H-E Parts Australian Holdings LLC, and Bradken Limited, which became the Company’s consolidated subsidiaries during the previous fiscal year, the fair value measurement for assets acquired and liabilities assumed through the merger during the fiscal year under review was completed, the balances for the previous fiscal year disclosed as comparative information were adjusted retrospectively.

As of March 31, 2017 and March 31, 2018, an individual country in which balances of property, plant and equipment, intangible assets and goodwill were material was Australia, which was included in the Oceania, other than Japan. The balances in Australia included in those in the Oceania were ¥55,183 million as of March 31, 2017 and ¥64,740 million as of March 31, 2018. The balances of property, plant and equipment, intangible assets and goodwill in any individual country and region other than Japan and Australia are not material.

(d) Significant customer information

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

Notes to Consolidated Financial Statements

(5) Business combination

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, established a global support framework, proactively sought to streamline management, etc., 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 further 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.

Notes to Consolidated Financial Statements

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

The Company completed the allocation of the acquisition cost as of September 30, 2017 although it recognized the amounts of acquired assets and liabilities on a provisional basis since the allocation of the acquisition cost was not completed in the previous fiscal year. Consideration of the share acquisition of H-E Parts and fair value of assets acquired and liabilities assumed are as follows:

(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	5,374	4,569	9,943
Property, plants, and equipment	597	804	1,401
Intangible assets	4,265	7,156	11,421
Other assets	621	657	1,278
Total assets	12,996	16,112	29,108
Trade and other payables	1,980	2,776	4,756
Bonds and borrowings	4,820	3,535	8,355
Other liabilities	1,642	2,476	4,118
Total liabilities	8,442	8,787	17,229
Consideration paid (cash)			19,834
Goodwill (non-deductible for tax expense)			7,955

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

The company revised consolidated statements of financial position as of March 31, 2017 retroactively which are disclosed as comparative information. The goodwill on the acquisition date was decreased by ¥6,511 million as the main component of the revision from the provisional amount. This was due to a ¥700 million increase in inventories, a ¥9,212 million increase in intangible assets, and a ¥3,401 million increase in deferred tax liabilities, and so forth.

(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 previous fiscal year assuming the acquisition was completed as of April 1, 2016 based on pro forma information (unaudited information) are ¥772,826 million and ¥14,737 million, respectively.

Notes to Consolidated Financial Statements

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%.)

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

The Company completed the allocation of the acquisition cost as of March 31, 2018 although it recognized the amounts of acquired assets and liabilities on a provisional basis since the allocation of the acquisition cost was not completed in the previous fiscal year. Consideration of the share acquisition of Bradken and fair value of assets acquired and liabilities assumed are as follows:

(Millions of yen)

Category	Total amount
Cash and cash equivalents	3,572
Trade receivables	8,349
Inventories	17,593
Property, plants, and equipment	36,188
Intangible assets	19,870
Deferred tax assets	4,803
Other assets	4,255
Total assets	94,630
Trade and other payables	13,729
Bonds and borrowings	31,427
Retirement and severance benefits	1,220
Other liabilities	10,432
Total liabilities	56,808
Consideration paid (*1)	58,614
Goodwill (non-deductible for tax expense) (*2)	20,792

Notes to Consolidated Financial Statements

(*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 as of March 31, 2017, 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, 2018 was recognized as Other financial liabilities of ¥18,278 million.

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

The company revised consolidated statements of financial position as of March 31, 2017 retroactively which are disclosed as comparative information. The goodwill on the acquisition date was decreased by ¥13,930 million as the main component of the revision from the provisional amount. This was due to a ¥2,457 million increase in inventories, a ¥5,700 million increase in intangible assets, and a ¥9,197 million increase in deferred tax liabilities, and so forth.

(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 previous fiscal year assuming the acquisition was completed as of April 1, 2016 based on pro forma information (unaudited information) are ¥815,537 million and ¥8,037 million, respectively.

For the year ended March 31, 2018

Not applicable.

Notes to Consolidated Financial Statements

(6) Trade receivables

The components of trade receivables are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Accounts and notes receivable and electronically recorded monetary claims - operating	176,136	204,593
Finance lease receivables	49,873	66,123
Allowance for doubtful receivables	(10,270)	(9,725)
Total	215,739	260,991

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Current assets	184,460	219,599
Non-current assets	31,279	41,392
Total	215,739	260,991

(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 undiscounted amounts and present value of minimum lease payments under finance leases are as follows:

(Millions of yen)

	As of March 31, 2017		As of March 31, 2018	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	6,774	5,904	7,256	6,355
After 1 year but not more than 5 years	18,252	16,048	14,072	11,951
More than 5 years	7,655	3,640	7,402	3,526
Minimum lease payments, total	32,681		28,730	
Finance charges	(7,089)		(6,898)	
Present value of minimum lease payments, total	25,592		21,832	

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, 2017 and March 31, 2018 was ¥11,352 million and ¥13,614 million, respectively.

Future lease payments receivable under non-cancelable subleases as of March 31, 2017 and March 31, 2018 were ¥6,096 million and ¥8,974 million, respectively.

The future minimum lease payments under non-cancelable operating leases are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Within 1 year	3,271	4,581
After 1 year but not more than 5 years	9,017	9,881
More than 5 years	5,751	4,438

Total minimum operating lease expenses for the previous fiscal year and the fiscal year under review are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Minimum operating lease expenses	10,550	12,133

(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 amounts of gross investment in lease and present value of minimum lease payments receivable under finance leases are as follows:

(Millions of yen)

	As of March 31, 2017		As of March 31, 2018	
	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	29,630	27,872	37,287	34,650
After 1 year but not more than 5 years	23,205	21,856	32,848	31,189
More than 5 years	151	145	291	284
Minimum lease payments receivable, total	52,986		70,426	
Unearned income	(3,113)		(4,303)	
Present value of minimum lease payments receivable	49,873		66,123	

The amounts of the allowance for uncollectable minimum lease payments receivable as of March 31, 2017 and 2018 are ¥2,199 million and ¥1,803 million, respectively.

The future minimum lease payments receivable under non-cancelable operating leases are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Within 1 year	2,091	2,560
After 1 year but not more than 5 years	3,346	3,332
More than 5 years	15	19

(8) Inventories

The components of inventories are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Merchandise and finished goods	172,768	186,550
Work in process	31,397	36,585
Raw materials and supplies	31,357	32,488
Total	235,522	255,623

As described in "(5) Business combination," with regard to H-E Parts International LLC and H-E Parts Australian Holdings LLC, and Bradken Limited, which became the Company's consolidated subsidiaries during the previous fiscal year, the fair value measurement for assets acquired and liabilities assumed through the merger during the fiscal year under review was completed, the balances for the previous fiscal year disclosed as comparative information were adjusted retrospectively.

For the previous fiscal year and the fiscal year under review, the amounts of inventories expensed and included as cost of sales were ¥576,162 million and ¥693,742 million, respectively. For the previous fiscal year and the fiscal year under review, valuation losses recorded for inventories that were written down to net realizable value were ¥5,262 million and ¥739 million, respectively, and reversals of valuation losses were ¥549 million and ¥917 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.

As described in "(5) Business combination," with regard to H-E Parts International LLC and H-E Parts Australian Holdings LLC, and Bradken Limited, which became the Company's consolidated subsidiaries during the previous fiscal year, the fair value measurement for assets acquired and liabilities assumed through the merger during the fiscal year under review was completed, the balances for the previous fiscal year disclosed as comparative information were adjusted retrospectively.

(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, 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	6,292	14,565	12,839	2,316	88	1,431	37,531
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	58,685	106,714	63,090	8,519	57,126	3,709	297,843
Acquisition	661	1,012	4,025	1,092	23,589	11,458	41,837
Sales and disposals	(197)	(295)	(466)	(87)	(3,693)	(60)	(4,798)
Depreciation	(33)	(6,886)	(11,538)	(3,082)	(10,767)	-	(32,306)
Impairment losses	(36)	(81)	(248)	-	-	(131)	(496)

Acquisitions and divestitures	-	-	-	-	-	-	-
Currency translation effect	(65)	64	(2,038)	(87)	(27)	(262)	(2,415)
Transfer from construction in progress	79	3,430	2,826	1,502	-	(7,837)	-
Other	(144)	622	(6)	173	(93)	(230)	322
March 31, 2018	58,950	104,580	55,645	8,030	66,135	6,647	299,987

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

(Millions of yen)

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Others	Construction in progress	Total
Gross carrying amount							
March 31, 2017	59,733	201,121	238,436	63,000	124,534	3,711	690,535
March 31, 2018	59,742	205,548	235,096	62,428	133,216	6,647	702,677
Accumulated depreciation and impairment losses							
March 31, 2017	(1,048)	(94,407)	(175,346)	(54,481)	(67,408)	(2)	(392,692)
March 31, 2018	(792)	(100,968)	(179,451)	(54,398)	(67,081)	-	(402,690)

Notes to Consolidated Financial Statements

(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.

As described in "(5) Business combination," with regard to H-E Parts International LLC and H-E Parts Australian Holdings LLC, and Bradken Limited, which became the Company's consolidated subsidiaries during the previous fiscal year, the fair value measurement for assets acquired and liabilities assumed through the merger during the fiscal year under review was completed, the balances for the previous fiscal year disclosed as comparative information were adjusted retrospectively.

(Millions of yen)

	Goodwill	Software	Others	Total
Net carrying amount				
April 1, 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	28,725	451	30,840	60,016
Currency translation effect	(779)	(57)	(29)	(865)
Other	-	(349)	8	(341)
March 31, 2017	36,640	8,697	31,391	76,728
Purchases	-	4,383	81	4,464
Amortization	-	(2,907)	(2,619)	(5,526)
Impairment losses	-	-	-	-
Sales and disposals	-	(10)	(36)	(46)
Acquisitions and divestitures	-	-	-	-
Currency translation effect	(1,624)	227	(1,484)	(2,881)
Other	-	25	-	25
March 31, 2018	35,016	10,415	27,333	72,764

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

(Millions of yen)

	Goodwill	Software	Others	Total
Gross carrying amount				
March 31, 2017	36,640	46,291	37,802	120,733
March 31, 2018	35,016	50,329	36,076	121,421
Accumulated amortization and impairment losses				
March 31, 2017	-	(37,594)	(6,411)	(44,005)
March 31, 2018	-	(39,914)	(8,743)	(48,657)

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.

Notes to Consolidated Financial Statements

Research and development expenditures recognized as an expense for the previous fiscal year and the fiscal year under review were ¥19,304 million and ¥24,571 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 has been allocated to CGU, as allocation of the acquisition cost attributable to the business combinations to assets acquired and liabilities assumed has been completed in the fiscal year under review.

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, 2018 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, there was no impairment loss for the previous fiscal year and the fiscal year under review.

Notes to Consolidated Financial Statements

(11) Deferred taxes and income taxes

The components of income tax expense are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Income tax expense		
Current tax expense	13,790	29,075
Deferred tax expense	(4,121)	(2,685)
Temporary differences originated and reversed	(3,185)	(728)
Changes in write-down of deferred tax assets	(936)	(1,957)
Total	9,669	26,390

(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.

(Fiscal year ended March 31, 2018)

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. In the United States, the Tax Cuts and Jobs Act was enacted on December 22, 2017, and a reduction in the rate of federal corporate income tax and others will be implemented from the fiscal year beginning on or after January 1, 2018. Due to this act, the rate of federal corporate income tax applicable to the Company’s consolidated subsidiaries in the United States was changed from 35% to 21%. The effect of those changes in tax rates is immaterial.

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

Notes to Consolidated Financial Statements

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

(percentage)

	As of March 31, 2017	As of March 31, 2018
Combined statutory income tax rate	30.9	30.9
Unitary taxation system including foreign subsidiaries	2.2	1.1
Income not taxable for tax purpose, such as dividends received	(44.4)	(9.0)
Elimination of dividends received	56.4	10.7
Difference in statutory tax rates of foreign subsidiaries	(5.7)	(2.5)
Profit from sales of investments in subsidiaries	2.2	-
Change in write-down of deferred tax assets	(3.9)	(2.0)
Other, net	2.8	(1.6)
Effective income tax rate	40.5	27.6

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, 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)
Assets acquired in business combinations	-	-	-	(11,405)	(11,405)
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)	(11,615)	(24,440)
Offset with deferred tax assets	5,580	(150)	-	(15)	5,415
Reported deferred tax liabilities	(6,057)	277	(1,615)	(11,630)	(19,025)
Net deferred tax assets	9,184	4,121	(2,583)	(7,239)	3,483

(Millions of yen)

	April 1, 2017	Recognized in profit or loss	Recognized in OCI	Acquisitions, divestitures and others	March 31, 2018
Deferred tax assets					
Allowance for doubtful receivables	1,558	165	-	-	1,723
Accrued bonuses	1,806	531	-	-	2,337
Accrued expenses	5,981	(570)	-	-	5,411
Retirement and severance benefits	2,672	1,424	448	-	4,544
Net operating loss carryforwards	3,461	(400)	-	-	3,061
Unrealized profits of inventories	2,309	580	-	-	2,889
Unrealized gain on fixed assets	524	66	-	-	590
Other	9,612	(1,508)	424	-	8,528
Total deferred tax assets	27,923	288	872	-	29,083
Offset with deferred tax liabilities	(5,415)	(6,205)	-	-	(11,620)
Reported deferred tax assets	22,508	(5,917)	872	-	17,463
Deferred tax liabilities					
Investments in subsidiaries and investments in associates	(8,141)	(477)	(135)	-	(8,753)
Assets acquired in business combinations	(11,405)	2,340	(157)	-	(9,222)
Investments in securities	(3,356)	-	(599)	-	(3,955)
Other	(1,538)	534	-	-	(1,004)
Total deferred tax liabilities	(24,440)	2,397	(891)	-	(22,934)
Offset with deferred tax assets	5,415	6,205	-	-	11,620
Reported deferred tax liabilities	(19,025)	8,602	(891)	-	(11,314)
Net deferred tax assets	3,483	2,685	(19)	-	6,149

As described in "(5) Business combination," with regard to H-E Parts International LLC and H-E Parts Australian Holdings LLC, and Bradken Limited, which became the Company's consolidated subsidiaries during the previous fiscal year, the fair value measurement for assets acquired and liabilities assumed through the merger during the fiscal year under review was completed, the balances for the previous fiscal year disclosed as comparative information were adjusted retrospectively.

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 ¥23,296 million and ¥23,453 million, respectively, as of March 31, 2017 and 2018.

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, 2018.

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Deductible temporary differences	17,176	9,715
Tax loss carryforwards		
Expiring within 1 year	634	345
Expiring after 1 year but not more than 5 years	23,015	366
Expiring after 5 years	73,727	64,742
Total tax loss carryforwards	97,376	65,453

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

(12) Trade and other payables

The components of trade and other payables are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Accounts and notes payable and electronically recorded obligations - operating	131,634	186,236
Finance lease payables	25,592	21,832
Accounts payable-other	19,136	26,206
Accrued expenses	39,691	38,704
Other	11,273	14,091
Total	227,326	287,069

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Current liabilities	205,722	268,230
Non-current liabilities	21,604	18,839
Total	227,326	287,069

Notes to Consolidated Financial Statements

(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, etc. to invest in by the representatives is prohibited by law. The Fund takes responsibility in managing the contributions safely and efficiently by establishing the basic management of the contributions and preparing the management guidance in line with the policy submitted to the trustees.

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

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

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

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Present value of defined benefit obligations at beginning of year	84,438	88,031
Service cost	5,171	5,050
Interest cost	864	1,245
Actuarial gain or (loss)	(2,827)	2,106
Benefits paid	(5,162)	(4,367)
Acquisitions and divestitures	6,377	-

Other	(830)	533
Present value of defined benefit obligations at end of year	88,031	92,598

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Fair value of plan assets at beginning of year	67,733	74,194
Interest income	778	1,665
Employers' contributions	4,256	4,538
Employees' contributions	66	450
Benefits paid	(4,114)	(3,578)
Return on plan assets (excluding the amount recognized as interest income)	1,092	1,229
Acquisitions and divestitures	5,178	-
Other	(795)	355
Fair value of plan assets at end of year	74,194	78,853

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Present value of defined benefit obligations (funded)	(74,494)	(78,432)
Fair value of plan assets	74,194	78,853
Funding position	(300)	421
Present value of defined benefit obligations (unfunded)	(13,537)	(14,166)
Net assets (liabilities) in the consolidated statements of financial position	(13,837)	(13,745)
Amount in the consolidated statements of financial position		
Liabilities	(16,768)	(17,341)
Assets (other non-current assets)	2,931	3,596

The components of actuarial gain or loss are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Arising from changes in financial assumptions	2,235	(371)
Arising from changes in demographic assumptions	331	(1,507)
Other	261	(228)

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

(Percentage)

	As of March 31, 2017	As of March 31, 2018
Discount rate	1.3	1.4

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

Notes to Consolidated Financial Statements

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Increase by 0.5%	(6,863)	(6,045)
Decrease by 0.5%	7,293	6,488

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

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

(Years)

	As of March 31, 2017	As of March 31, 2018
Duration	15.6	15.4

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

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

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

The fair values of plan assets invested are as follows:

(Millions of yen)

	As of March 31, 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

(Millions of yen)

	As of March 31, 2018		
	With quoted market price in an active market	With no quoted market price in an active market	Total
Equity securities	3,148	-	3,148
Government bonds	1,260	1,579	2,839
Hedge funds	-	5,949	5,949
Securitization products	-	422	422
Cash and cash equivalents	1,882	-	1,882
Life insurance general accounts	-	10,753	10,753
Commingled funds	-	52,607	52,607
Other	5	1,248	1,253
Total	6,295	72,558	78,853

Commingled funds represent pooled institutional investments. As of March 31, 2017, commingled funds 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. As of March 31, 2018, they were approximately allocated to 27% in listed stocks, 44% in government bonds, 11% in corporate bonds and other debt securities, and 18% 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 the fiscal year every five years.

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

The amount of contributions expected to be paid by the Company and certain consolidated subsidiaries to the plan assets for the following fiscal year is ¥4,437 million.

Contributions made to defined contribution plans and expensed in profit or loss of the Company and certain consolidated subsidiaries in the previous fiscal year and the fiscal year under review were ¥1,714 million and ¥1,940 million, respectively.

(b) Other employee benefit expenses

The aggregated amounts of employee benefit expenses including salary other than retirement and severance benefits recognized in the consolidated statements of income for the previous fiscal year and the fiscal year under review were ¥109,225 million and ¥141,631 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)

	As of March 31, 2017	As of March 31, 2018
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, 2016	215,115,038
Change during the year	-
March 31, 2017	215,115,038
Change during the year	-
March 31, 2018	215,115,038

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

The changes in treasury stock for the previous fiscal year and the fiscal year under review are as follows:

	Treasury stock (Number of shares)
April 1, 2016	2,451,828
Acquisition of treasury stock	2,194
Sales of treasury stock	-
March 31, 2017	2,454,022
Acquisition of treasury stock	3,978
Sales of treasury stock	(30)
March 31, 2018	2,457,970

(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 are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Foreign currency translation adjustments		
OCI arising during the year	(7,897)	(2,005)
Reclassification adjustment	(67)	-
OCI before tax effect	(7,964)	(2,005)
Tax effects	(320)	(420)
OCI, net of tax effect	(8,284)	(2,425)
Remeasurements of defined benefit obligations		
OCI arising during the year	3,919	(877)
Reclassification adjustment	-	-
OCI before tax effects	3,919	(877)
Tax effect	(777)	499
OCI, net of tax effect	3,142	(378)
Net gains and losses from financial assets measured at fair value through OCI		
OCI arising during the year	4,095	2,020
Reclassification adjustment	-	-
OCI before tax effect	4,095	2,020
Tax effect	(1,179)	(576)
OCI, net of tax effect	2,916	1,444
Net gains and losses from cash flow hedges measured at fair value		
OCI arising during the year	869	(151)
Reclassification adjustment	(1,007)	376
OCI before tax effect	(138)	225
Tax effect	50	(65)
OCI, net of tax effect	(88)	160
Other comprehensive income of equity-method associates		
OCI arising during the year	(227)	(315)
Reclassification adjustment	16	19
OCI before tax effect	(211)	(296)
Tax effect	6	(10)
OCI, net of tax effect	(205)	(306)
Total OCI		
OCI arising during the year	759	(1,328)
Reclassification adjustment	(1,058)	395
OCI before tax effect	(299)	(933)
Tax effect	(2,220)	(572)
OCI, net of tax effect	(2,519)	(1,505)

Notes to Consolidated Financial Statements

(16) Dividends

Dividends paid on common stock are as follows:

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors 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
The Board of Directors on May 22, 2017	Common stock	1,701	8	March 31, 2017	May 31, 2017
The Board of Directors on October 25, 2017	Common stock	7,656	36	September 30, 2017	November 30, 2017

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

Decision	Stock class	Cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
The Board of Directors on May 21, 2018	Common stock	10,420	49	March 31, 2018	May 31, 2018

(17) Other income and expenses

The main components of other income are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Gain on sales of property, plant and equipment	223	623
Proceeds from grants	121	453
Gain on business restructuring (*)	933	-
Others	3,491	5,582
Total	4,768	6,658

(*) Gain on business restructuring

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

Notes to Consolidated Financial Statements

The main components of Other expenses are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Loss on sales of property, plant and equipment	172	49
Loss on disposal of property, plant and equipment	548	514
Impairment losses (*1)	3,883	549
Business structure reform expenses (*2)	479	1,385
Others	4,329	2,006
Total	9,411	4,503

(*1) Impairment losses

Impairment losses for the previous fiscal year 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 previous fiscal year.

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 previous fiscal year and the fiscal year under review include a special severance payment, etc.

(18) Financial income and financial expenses

Main components of financial income are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Interest income		
Financial assets measured at amortized cost	2,570	2,434
Dividend income		
FVTOCI financial assets	347	275
Foreign exchange gains	664	-
Other	427	201
Total	4,008	2,910

Main components of financial expenses are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Interest expenses		
Financial liabilities measured at amortized cost	3,386	4,951
Loss on sales of financial instruments		
Financial liabilities measured at amortized cost	5	-
Foreign exchange loss	-	1,652
Other	69	787
Total	3,460	7,390

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 are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net income attributable to owners of the parent	8,022	60,004
Adjustments for dilutive effect	-	-
Diluted net income attributable to owners of the parent	8,022	60,004

(Number of shares)

	Year ended March 31, 2017	Year ended March 31, 2018
Weighted average number of shares on which basic EPS is calculated	212,662,072	212,659,005
Effect of dilutive securities	-	-
Weighted average number of shares on which diluted EPS is calculated	212,662,072	212,659,005

	Year ended March 31, 2017	Year ended March 31, 2018
EPS attributable to owners of the parent		
Net income per share (Basic) (yen)	37.72	282.16
Net income per share (Diluted) (yen)	37.72	282.16

	Year ended March 31, 2017	Year ended March 31, 2018
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 25, 2007. ・Number of subscription rights to shares 3,320 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) ・Number of shares to be issued upon exercise of subscription rights 332,000 shares ・Amount to be paid upon exercise of subscription rights 4,930 yen ・Exercise period of subscription rights From July 1, 2009 to June 25, 2017	-

Notes to Consolidated Financial Statements

(20) Cash and cash equivalents

The balance of cash and cash equivalents reported in the consolidated statements of financial position as of March 31, 2017 and 2018 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)

	Year ended March 31, 2017	Year ended March 31, 2018
Amount of consolidation paid that is cash and cash equivalents	(60,148)	-
Amount of cash and cash equivalents of subsidiaries over which control was acquired	4,078	-
Balance: Purchase of shares of subsidiaries accompanying changes in the scope of consolidation	(56,070)	-

Purchase of shares of subsidiaries accompanying changes in the scope of consolidation in the previous fiscal year is due to the acquisition of 100% of the shares of H-E Parts and 68.62% of the shares of Bradken by the Company.

In addition, acquisition of investments in securities and other financial assets (including investments in associates) in the consolidated statements of cash flows for the fiscal year under review includes ¥(17,603) million of payments that had not been made by March 31, 2017 in implementation of the squeeze-out procedure aiming to make Bradken a wholly owned subsidiary. Because the process for making the said company a wholly owned subsidiary through the squeeze-out procedure is considered to be a set of transactions through a takeover offer, the amount was also classified as net cash provided by (used in) investing activities in the fiscal year under review.

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)

	Year ended March 31, 2017	Year ended March 31, 2018
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: Proceeds from (payment for) 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 previous fiscal year is due to the transfer of a portion of shares of stock of the Company's Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., a consolidated subsidiary of the Company, to Sumitomo Heavy Industries, Ltd. by the Company.

Notes to Consolidated Financial Statements

Effective from April 1, 2017, the Company has adopted IAS 7 "Statements of Cash Flows" (amended on January 29, 2016). Changes in liabilities arising from financing activities for the fiscal year under review are disclosed.

Year ended March 31, 2018

(Millions of yen)

	Short-term borrowings	Bonds	Long-term borrowings	Finance lease payables	Total
April 1, 2017	81,058	59,902	107,741	25,592	274,293
Changes involving cash flows	(33,864)	(10,000)	29,542	(4,700)	(19,022)
Changes not involving cash flows					
Newly reported lease obligations	-	-	-	1,017	1,017
Currency translation effect, etc.	(623)	1	(3,092)	(77)	(3,791)
March 31, 2018	46,571	49,903	134,191	21,832	252,497

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 as of March 31, 2017 and 2018 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, 2017 and 2018, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Impact on income before income taxes	(17)	402

b. Currency exchange risk

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

Currency exchange rate sensitivity analysis

The sensitivity analysis for major currency exchange rates as of March 31, 2017 and 2018 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, 2017 and 2018, while all other variables are held constant.

(Millions of yen)

	Currency	As of March 31, 2017	As of March 31, 2018
Impact on income before income taxes	US Dollar	(75)	(15)
	Euro	3	2

c. Equity instruments volatility risk

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

Equity instruments sensitivity analysis

The sensitivity analysis for price volatility risk of equity instruments of the Group shown below indicates the impact on OCI, net of taxes reported in the consolidated statements of comprehensive income, if the market price of listed stock held by the Group as of March 31, 2017 and 2018 fell by 10%, while all other variables are held constant.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Impact on OCI, net of taxes	(699)	(695)

(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 (25) Commitments and contingencies.

Notes to Consolidated Financial Statements

The contractual amount of financial assets by due dates, which are past due but not impaired is as follows:

(Millions of yen)

	As of 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	-	-	-	-

(Millions of yen)

	As of March 31, 2018			
	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	8,961	1,431	1,007	785
Finance lease receivables	68	163	-	-
Other financial assets	-	-	-	-

Financial assets listed above are not held as collateral or other credit enhancement as of March 31, 2017 and 2018.
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
April 1, 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)
March 31, 2017	8,071	2,199	1	10,271
Impairment loss provision	1,289	465	554	2,308
Amounts written off	(190)	-	-	(190)
Reversal of impairment loss	(1,180)	(946)	(220)	(2,346)
Acquisitions and divestitures	-	-	-	-
Other	(68)	85	40	57
March 31, 2018	7,922	1,803	375	10,100

As of March 31, 2017 and 2018 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 ¥6,338 million and ¥6,139 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)

	As of 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	-

(Millions of yen)

	As of March 31, 2018				
	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)	265,237	265,237	261,875	3,362	-
Short-term borrowings	46,571	46,749	46,749	-	-
Bonds	49,903	50,392	160	50,232	-
Long-term borrowings	134,191	137,190	26,152	67,517	43,521
Derivative liabilities					
Forward exchange contracts	374	374	336	38	-
Interest rate swaps	50	50	50	-	-
Currency swaps	1,338	1,338	-	592	746

(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 fiscal year under review is 0.38%, and the weighted average interest rate for long-term borrowings is 2.11%.

(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) March 31, 2017	March 31, 2018	Security	Interest rates (%)	Maturity date
The Company	Unsecured debenture #14	2012	19,988	-	Unsecured	0.46	November 29, 2017
The Company	Unsecured debenture #15	2014	29,942	29,969	Unsecured	0.319	June 14, 2019
The Company	Unsecured debenture #16	2014	9,972	9,979	Unsecured	0.487	June 16, 2021
The Company	Unsecured debenture #17	2017	-	9,955	Unsecured	0.16	December 13, 2022

(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, 2017 and 2018 amounted to ¥183,246 million and ¥148,736 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)

	As of March 31, 2017		As of March 31, 2018	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Assets				
Trade receivables (*1)	215,739	216,800	260,991	262,089
Liabilities				
Trade and other payables (*2)	(227,326)	(227,618)	(287,069)	(287,421)
Bonds and borrowings (*3)	(248,701)	(248,681)	(230,665)	(232,795)

(*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)

As of 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)

Notes to Consolidated Financial Statements

(Millions of yen)

As of March 31, 2018	Level 1	Level 2	Level 3	Total
FVTOCI financial assets:				
Other financial assets				
Stock	10,046	-	7,993	18,039
FVTPL financial assets:				
Other financial assets				
Derivative assets	-	1,914	-	1,914
Other financial assets	-	-	680	680
Total financial assets	10,046	1,914	8,673	20,633
FVTPL financial liabilities:				
Other financial liabilities				
Derivative liabilities	-	(1,762)	-	(1,762)
Total financial liabilities	-	(1,762)	-	(1,762)

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

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Balance at beginning of the year	6,567	7,088
Total gain/(loss)	1,006	1,642
Other comprehensive income	1,006	1,642
Purchased	153	103
Sold	(47)	(159)
Change brought about by acquisitions and divestitures	(97)	-
Other	(494)	(1)
Balance at end of the year	7,088	8,673

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	As of March 31, 2017	As of March 31, 2018
KYB Corporation	5,174	4,505
ELLE Construction Machinery (China) Co., LTD.	1,427	2,626
Wakita & Co., LTD.	1,270	1,426
Kanamoto Co., Ltd.	1,033	1,220
IJT Technology Holdings Co., Ltd.	874	1,153

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 previous fiscal year and the fiscal year under review was ¥(6) million and ¥30 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 includes the following:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Fair value at the time of derecognition	477	437
Accumulated gains at the time of derecognition	(8)	43

(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, 2018, 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 2018 to September 2024.

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

(Millions of yen)

	As of March 31, 2017		As of March 31, 2018	
	Asset	Liability	Asset	Liability
Fair value hedge				
Forward exchange contracts	640	(350)	1,317	(167)
Interest rate swaps	-	-	-	-
Currency swaps	179	(259)	144	(414)
Total	819	(609)	1,461	(581)
Cash flow hedge				
Forward exchange contracts	103	(52)	322	(169)
Interest rate swaps	-	(91)	57	(50)
Currency swaps	-	(182)	-	(119)
Total	103	(325)	379	(338)

The fair values of derivative assets and liabilities for which hedge accounting was not applied as of March 31, 2017 and 2018 were ¥83 million for derivative assets, and ¥(46) million for derivative liabilities, ¥74 million for derivative assets, and ¥(843) million for derivative liabilities, respectively.

Notes to Consolidated Financial Statements

Profit or loss recognized related to fair value hedges are as follows:

(Millions of yen)

Recognized in profit or loss	Derivatives	Year ended March 31, 2017	Year ended March 31, 2018
Financial income	Forward exchange contracts	1,374	-
	Interest rate swaps	-	-
	Currency swaps	74	-
Total		1,448	-
Financial expenses	Forward exchange contracts	-	2,664
	Interest rate swaps	91	-
	Currency swaps	-	179
Total		91	2,843

The amounts recognized in the consolidated statements of comprehensive income and the consolidated statements of income 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	Year ended March 31, 2017	Year ended March 31, 2018
Forward exchange contracts	833	302
Interest rate swaps	36	109
Currency swaps	-	(562)
Total	869	(151)

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	Year ended March 31, 2017	Year ended March 31, 2018
Forward exchange contracts	Financial income and financial expenses	1,085	194
Interest rate swaps	Financial income and financial expenses	(78)	12
Currency swaps	Financial income and financial expenses	-	(582)
Total		1,007	(376)

Notes to Consolidated Financial Statements

(22) Pledged assets

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Accounts and notes receivable	5,296	6,216
Inventories	8,948	8,081
Land	96	-
Buildings and structures	6,147	-
Other property, plant and equipment	37,911	36,957
Total	58,398	51,254

(23) Principal consolidated subsidiaries

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

Name of subsidiary	Business location	Principal business activities (Note)	Ownership percentage (%)	
			As of March 31, 2017	As of March 31, 2018
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

Name of subsidiary	Business location	Principal business activities (Note)	Ownership percentage (%)	
			As of March 31, 2017	As of March 31, 2018
Hitachi Construction Machinery (Australia) Pty Ltd.	Greystanes, New South Wales, Australia	Construction Machinery Business	80.0	80.0
H-E Parts International LLC	Atlanta, Georgia, U.S.A.	Solution Business	100.0	100.0
Bradken Limited	Newcastle, New South Wales, Australia	Solution Business	100.0	100.0

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

Notes to Consolidated Financial Statements

(24) Related party transactions

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

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Monthly salary, year-end allowance and performance-linked compensation	614	848

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

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

For the year ended March 31, 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

For the year ended March 31, 2018

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Parent Company	Hitachi, Ltd.	Repayments of borrowings	26,487	-
		Depositing into the cash pooling system	2,486	2,486
		Interest on borrowings	27	-

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

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	-

For the year ended March 31, 2018

(Millions of yen)

Type	Name	Transaction	Transaction amount	Outstanding balance
Other related parties	Hitachi Capital Corporation	Providing collateral	14,680	-

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 are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Guarantee obligations	9,566	36,488
Guarantee commitment	434	292
Total	10,000	36,780

(26) Subsequent events

Not applicable.

(27) Approval of consolidated financial statements

The consolidated financial statements were approved on June 26, 2018 by Kotaro Hirano, President & CEO of the Company.

Notes to Consolidated Financial Statements

(2) Others

Quarterly information for the fiscal year under review

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2017	Six months ended September 30, 2017	Nine months ended December 31, 2017	Year ended March 31, 2018
Revenue	211,499	440,276	683,902	959,153
Income before income taxes	17,376	40,106	69,187	95,612
Net income attributable to owners of the parent	9,554	25,545	42,909	60,004
Net income attributable to owners of the parent per share (Yen)	44.93	120.12	201.77	282.16

	First quarter (April 1 to June 30, 2017)	Second quarter (July 1 to September 30, 2017)	Third quarter (October 1 to December 31, 2017)	Fourth quarter (January 1 to March 31, 2018)
Net income attributable to owners of the parent per share (basic) (Yen)	44.93	75.20	81.65	80.39

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, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	6,449	3,823
Notes receivable - trade	81	57
Electronically recorded monetary claims - operating (*1)	806	1,359
Accounts receivable - trade (*1)	100,310	126,524
Merchandise and finished goods	39,595	46,018
Work in process	10,088	11,798
Raw materials and supplies	1,400	615
Prepaid expenses	2,299	2,256
Deposit paid in subsidiaries and associates	-	2,486
Short-term loans receivable (*1)	26,803	32,401
Accounts receivable - other (*1)	19,424	30,697
Deferred tax assets	3,450	4,287
Others	935	1,908
Allowance for doubtful accounts	(617)	(974)
Total current assets	211,023	263,253
Non-current assets		
Property, plant and equipment		
Buildings	33,028	31,332
Structures	3,421	3,141
Machinery and equipment	21,546	18,121
Vehicles	1,176	395
Tools, furniture and fixtures	2,115	2,211
Land	36,777	36,777
Construction in progress	338	733
Total property, plant and equipment	98,400	92,709
Intangible assets		
Software	5,378	6,515
Others	110	140
Total intangible assets	5,488	6,655
Investments and other assets		
Investment securities	10,081	9,905
Shares of subsidiaries and associates	133,799	150,858
Investments in capital of subsidiaries and associates	18,942	18,942
Long-term loans receivable from subsidiaries and associates	7,697	7,304
Long-term prepaid expenses	1,130	1,081
Prepaid pension cost	7,521	7,505
Others	1,232	1,331
Allowance for doubtful accounts	(124)	(116)
Total investments and other assets	180,279	196,809
Total non-current assets	284,167	296,174
Total assets	495,190	559,427

See accompanying notes to financial statements.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Electronically recorded obligations - operating (*1)	16,580	23,833
Accounts payable - trade (*1)	83,332	118,748
Short-term loans payable	8,500	-
Short-term loans payable to subsidiaries and associates	34,125	6,500
Current portion of long - term loans payable	5,000	-
Current portion of bonds	20,000	-
Lease obligations	97	98
Accounts payable - other (*1)	9,253	10,388
Accrued expenses	10,733	9,645
Income taxes payable	567	6,729
Deposits received (*1)	13,466	4,779
Unearned revenue	1,115	1,309
Others	569	185
Total current liabilities	203,337	182,213
Non-current liabilities		
Bonds payable	40,000	50,000
Long-term loans payable	22,741	60,267
Lease obligations	2,957	2,860
Provision for retirement benefits	5,050	5,489
Deferred tax liabilities	2,770	2,934
Asset retirement obligations	189	184
Others	1,869	2,545
Total non-current liabilities	75,576	124,278
Total liabilities	278,913	306,491
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	62	37
Reserve for reduction entry	814	808
General reserve	12,952	12,952
Retained earnings brought forward	32,093	69,054
Total retained earnings	48,090	85,020
Treasury stock, at cost	(3,055)	(3,069)
Total shareholders' equity	211,571	248,487
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,182	4,344
Deferred gains or losses on hedges	26	104
Total valuation and translation adjustments	4,208	4,449
Subscription rights to shares	498	-
Total net assets	216,277	252,936
Total liabilities and net assets	495,190	559,427

See accompanying notes to financial statements.

2) Non-consolidated statements of income

Years ended March 31, 2017 and 2018		(Millions of yen)
	2017	2018
Net sales (*1)	357,072	477,221
Cost of sales (*1)	326,191	390,506
Gross profit	30,881	86,715
Selling, general and administrative expenses (*2)	56,335	63,108
Operating income (loss)	(25,454)	23,607
Non-operating income		
Interest income (*1)	227	836
Dividend income (*1)	38,144	28,859
Foreign exchange gains	1,008	-
Miscellaneous income (*1)	2,788	2,969
Total non-operating income	42,167	32,664
Non-operating expenses		
Interest expenses (*1)	454	879
Foreign exchange losses	-	680
Miscellaneous loss (*1)	2,375	3,143
Total non-operating expenses	2,829	4,703
Ordinary income	13,883	51,569
Extraordinary income		
Gain on sales of subsidiaries and associates' shares	2,680	-
Gain on sales of investment securities	-	31
Gain on liquidation of subsidiaries and associates	628	-
Gain on reversal of subscription rights to shares	267	498
Total extraordinary income	3,576	530
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	2,648	1,711
Loss on liquidation of subsidiaries and associates	8	-
Impairment loss	623	367
Total extraordinary losses	3,279	2,078
Income before income taxes	14,180	50,021
Income taxes - current	(3,098)	4,510
Income taxes - deferred	69	(776)
Net income	17,209	46,287

See accompanying notes to financial statements.

3) Non-consolidated statements of changes in equity

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				-					17,209	17,209
Acquisition of treasury stock				-						-
Disposal of treasury stock				-						-
Reversal of reserve for special depreciation				-		(27)			27	-
Reversal of reserve for reduction entry				-			(5)		5	-
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		17,209			-		17,209
Acquisition of treasury stock	(4)	(4)			-		(4)
Disposal of treasury stock		-			-		-
Reversal of reserve for special depreciation		-			-		-
Reversal of reserve for reduction entry		-			-		-
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

Year ended March 31, 2018

(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	62	814	12,952	32,093	48,090
Changes of items during period										
Decrease by corporate division - split-off type				-						-
Dividends of surplus				-					(9,357)	(9,357)
Net income				-					46,287	46,287
Acquisition of treasury stock				-						-
Disposal of treasury stock				-						-
Reversal of reserve for special depreciation				-		(25)			25	-
Reversal of reserve for reduction entry				-			(5)		5	-
Expiration of subscription rights				-						-
Net changes of items other than shareholders' equity				-						-
Total changes of items during period	-	-	-	-	-	(25)	(5)	-	36,960	36,930
Balance at end of year	81,577	81,084	3,875	84,959	2,169	37	808	12,952	69,054	85,020

(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	(3,055)	211,571	4,182	26	4,208	498	216,277
Changes of items during period							
Decrease by corporate division - split-off type		-			-		-
Dividends of surplus		(9,357)			-		(9,357)
Net income		46,287			-		46,287
Acquisition of treasury stock	(14)	(14)			-		(14)
Disposal of treasury stock	0	0			-		0
Reversal of reserve for special depreciation		-			-		-
Reversal of reserve for reduction entry		-			-		-
Expiration of subscription rights		-			-	(498)	(498)
Net changes of items other than shareholders' equity		-	163	78	240		240
Total changes of items during period	(14)	36,916	163	78	240	(498)	36,658
Balance at end of year	(3,069)	248,487	4,344	104	4,449	-	252,936

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.

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated financial position

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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Short-term monetary claims	108,109	155,224
Short-term monetary debts	59,306	66,918

*2. Guarantee obligations

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

(1) Guarantees

(Millions of yen)

As of March 31, 2017		As of March 31, 2018	
Marubeni Equipment Finance (Oceania) Pty Ltd.	3,948	ACME Business Hold co, LLC	23,373
SCAI S.p.A.	2,396	Marubeni Equipment Finance (Oceania) Pty Ltd.	3,585
Other	538	SCAI S.p.A.	2,610
		Other	757
Total	6,882	Total	30,325

(2) Guarantee commitment

(Millions of yen)

As of March 31, 2017		As of March 31, 2018	
OKUBO GEAR Co., LTD	434	OKUBO GEAR Co., LTD	292
Total	434	Total	292

Notes to Non-Consolidated Financial Statements

Notes to the non-consolidated statements of income

*1. Transactions with subsidiaries and associates

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Operating transaction		
Sales	240,938	340,942
Purchase	169,157	187,965
Non-operating transaction	41,690	33,237

*2. Main components of selling, general and administrative expenses and approximate ratio are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Packing and shipping expenses	8,664	11,834
Employees' salaries	7,332	7,688
Retirement benefit expenses	1,338	978
Subcontract expenses	5,025	7,796
Depreciation and amortization	2,053	1,666
R&D expenses	13,101	16,782
Approximate ratio (%)		
Selling expenses	33	33
Administrative expenses	67	67

Notes on securities

Investments in subsidiaries and associates

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

As of March 31, 2018

(Millions of yen)

Type of securities	Carrying amount in the balance sheet	Fair value	Unrealized gains (losses)
Investments in subsidiaries	624	9,551	8,927
Investments in associates	499	1,336	837
Total	1,123	10,887	9,764

Notes to Non-Consolidated Financial Statements

(Note) Investments in subsidiaries and associates whose fair values are extremely difficult to determine are as follows:

(Millions of yen)

Type of securities	As of March 31, 2017	As of March 31, 2018
Investments in subsidiaries	122,611	140,054
Investments in associates	10,065	9,681

Those securities are not included in the tables "Investments in subsidiaries and associates" above 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

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Deferred tax assets (current)		
Net operating loss carryforwards	0	666
Accrued business tax	164	407
Accrued bonuses	1,006	1,353
Accrued expenses	1,730	1,021
Allowance for doubtful accounts	189	298
Write down of inventories	2,794	1,435
Others	257	64
Subtotal	6,140	5,244
Less: Valuation allowance	(2,113)	(347)
Total	4,027	4,897
Deferred tax liabilities (current)		
Insurance receivables	554	369
Others	23	241
Total	577	610
Net deferred tax assets (current)	3,450	4,287
Deferred tax assets (non-current)		
Net operating loss carryforwards	4,022	2,269
Loss on valuation of shares of subsidiaries and associates	14,403	14,928
Write down of securities	69	69
Provision for retirement benefits	1,548	1,681
Impairment loss	12	85
Others	2,808	1,328
Subtotal	22,862	20,360
Less: Valuation allowance	(21,027)	(18,641)
Total	1,835	1,719
Deferred tax liabilities (non-current)		
Prepaid pension costs	2,304	2,298
Reserve for reduction entry	359	357
Reserve for special depreciation	28	16
Valuation difference on available-for-sale securities	1,846	1,917
Others	68	65
Total	4,605	4,653
Net deferred tax assets (liabilities) (non-current)	(2,770)	(2,934)

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, 2017	As of March 31, 2018
Effective statutory tax rates (%)	30.9	30.9
(Adjustments)		
Expenses not deductible for tax purposes, such as entertainment expenses	0.1	0.0
Income not taxable for tax purpose, such as dividend income	(74.7)	(17.1)
Withholding tax on dividends received by foreign subsidiaries	1.2	0.2
Inhabitant tax on per capita basis	0.2	0.0
Change in valuation allowance	14.3	(9.3)
Foreign tax credit	6.1	(0.7)
Other	0.5	3.5
Effective income tax rates after tax effect accounting	(21.4)	7.5

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

(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.

(Fiscal year ended March 31, 2018)
Effective statutory tax rates used for calculation of deferred tax assets and liabilities were unchanged.

Notes to Non-Consolidated Financial Statements

Subsequent events

Not applicable.

Notes to Non-Consolidated Financial Statements

4) Non-consolidated supplementary schedules

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

(Millions of yen)

Asset type	Balance as of April 1, 2017	Increase during reporting period	Decrease during reporting period	Depreciation and amortization during reporting period	Balance as of March 31, 2018	Accumulated depreciation
Property, plant and equipment						
Buildings	33,028	405	41	2,060	31,332	31,576
Structures	3,421	109	3	386	3,141	9,129
Machinery and equipment	21,546	648	51	4,022	18,121	79,998
Vehicles	1,176	57	436 (236)	401	395	2,246
Tools, furniture and fixtures	2,115	1,156	5	1,056	2,211	26,689
Land	36,777	-	-	-	36,777	-
Construction in progress	338	2,587	2,191 (131)	-	733	-
Total property, plant and equipment	98,400	4,961	2,728 (367)	7,924	92,709	149,640
Intangible assets						
Software	5,378	4,847	1,970	1,740	6,515	31,964
Others	110	39	0	9	140	2,163
Total intangible assets	5,488	4,885	1,970	1,749	6,655	34,127

(Note) Amount in the parentheses under “Decrease during reporting period” represents impairment loss included in the reported amount for each asset type.

Notes to Non-Consolidated Financial Statements

[Supplementary schedule of provisions]

(Millions of yen)

Account	Balance as of April 1, 2017	Increase during reporting period	Decrease during reporting period	Balance as of March 31, 2018
Allowance for doubtful accounts	741	1,090	741	1,090

(Note) The “Decrease during reporting period” is the reversal of the balance of allowance for doubtful accounts.

(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.

VI. Overview of Operational Procedures for Shares of the Company

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

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

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

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

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

VII. Reference Information of the Company

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

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

2. Other Reference Information

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

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

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

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

(2) Quarterly Securities Reports and Written Confirmations

1st quarter of the 54th term (from April 1, 2017 to June 30, 2017)

Filed to Director-General of Kanto Local Finance Bureau on August 9, 2017

2nd quarter of the 54th term (from July 1, 2017 to September 30, 2017)

Filed to Director-General of Kanto Local Finance Bureau on November 8, 2017

3rd quarter of the 54th term (from October 1, 2017 to December 31, 2017)

Filed to Director-General of Kanto Local Finance Bureau on February 9, 2018

(3) Extraordinary Securities Reports

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

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.

(4) Internal Control Report and Appendices

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

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

Not applicable.