HORIZON
NUCLEAR POWER

WYLFA NEWYDD

ENERGY WORKING FOR BRITAIN

# Wylfa Newydd Project

## 4.2 Funding Statement

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**Application Reference Number: 4.3**

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Planning Act 2008
Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009

Horizon Internal DCRM Number: WN0902-HZCON-PAC-REP-00004

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# 1 Introduction

## 1.1 Overview

1.1.1 This Funding Statement has been prepared on behalf of Horizon Nuclear Power Wylfa Limited (Horizon). It forms part of the application (the Application) for a Development Consent Order (DCO) submitted to the Secretary of State for Business, Energy and Industrial Strategy under section 37 of the Planning Act 2008.

1.1.2 Horizon is seeking a DCO for the construction, operation and maintenance of a new nuclear power station on Anglesey, Wales (Wylfa Newydd DCO Project). The Wylfa Newydd DCO Project will include two UK advanced boiling water reactors supplied by Hitachi-GE Nuclear Energy Ltd, supporting facilities, building, plant and structures, as well as associated off-site development.

1.1.3 The Wylfa Newydd DCO Project will have a nominal gross electrical capacity of 3.1GWe (3,100MWe), providing secure, low carbon power for around five million homes for decades to come. It will involve substantial investment in the area and create significant short, medium and long term employment opportunities and economic benefits for Anglesey and North Wales.

1.1.4 A nuclear power station falls within the definition and thresholds for a Nationally Significant Infrastructure Project under sections 14 and 15(2) of the Planning Act 2008 and its construction, operation and maintenance must be authorised by a DCO.

1.1.5 The UK Government has issued a National Policy Statement for Nuclear Power Generation EN-6 that identifies a small number of sites in the UK as being potentially suitable for the deployment of a new nuclear power station, including one site on Anglesey. This is the site (the Wylfa NPS Site) at which Horizon proposes to develop the Wylfa Newydd DCO Project.

1.1.6 As the Wylfa Newydd DCO Project is anticipated for deployment after 2025, the Government considers that it should be considered under section 105 of the Planning Act 2008. Decisions under section 105 need to be taken having regard to any Local Impact Report and matters that the Secretary of State thinks are both important and relevant. These would include the policies contained in NPS EN-1 and NPS EN-6, which is confirmed in the Ministerial Statement on Energy Infrastructure (December 2017). This further clarifies continued Government support for nuclear power, and specifically at Wylfa. NPS EN-1 and NPS EN-6 therefore remain the primary basis for decision making.

## 1.2 The Wylfa Newydd Development Area (WNDA)

1.2.1 A detailed description of the WNDA which includes the Wylfa NPS Site and surrounding development area is provided in volume 2, section 3 of the Design Access Statement [REP4-016 to REP4-019].

1.2.2 Annex A shows land in the WNDA that is already owned, leased or under option by Horizon.

## 1.3 The Purpose of the Funding Statement

1.3.1 This Statement is required because the proposed Order would authorise the compulsory acquisition of land or interests in land. Under the relevant regulations, Horizon must provide a statement setting out how, if the Secretary of State were to grant the Order containing such powers, it would fund such acquisition.

1.3.2 This Statement has been produced in accordance with Regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009, and the Department of Communities and Local Government guidance, “Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land" (September 2013) "Planning Act 2008: Application form guidance" (June 2013) (together the "DCLG Guidance") as follows.

1.3.3 Paragraph 17 of the DCLG Guidance related to procedures for the compulsory acquisition of land provides:

*"The [Funding Statement] should provide as much information as possible about the resource implications of both acquiring the land and implementing the project for which the land is required. It may be that the project is not intended to be independently financially viable, or that the details cannot be finalised until there is certainty about the assembly of the necessary land.*

*In such instances, the applicant should provide an indication of how any potential shortfalls are intended to be met. This should include the degree to which other bodies (public or private sector) have agreed to make financial contributions or to underwrite the scheme, and on what basis such contributions or underwriting is to be made."*

1.3.4 Paragraph 26 of the DCLG Guidance on the application form further provides:

"…*A funding statement must contain sufficient information to enable the Secretary of State to be satisfied that, if it were to grant the compulsory acquisition request, the proposed development is likely to be undertaken and not be prevented due to difficulties in sourcing and securing the necessary funding."*

1.3.5 This Funding Statement is one of a number of documents that have been produced to support Horizon’s application to the Secretary of State and should be read with the Statement of Reasons, which justifies the powers of compulsory acquisition that are sought.

# 2 Funding

## 2.1 The Horizon Group

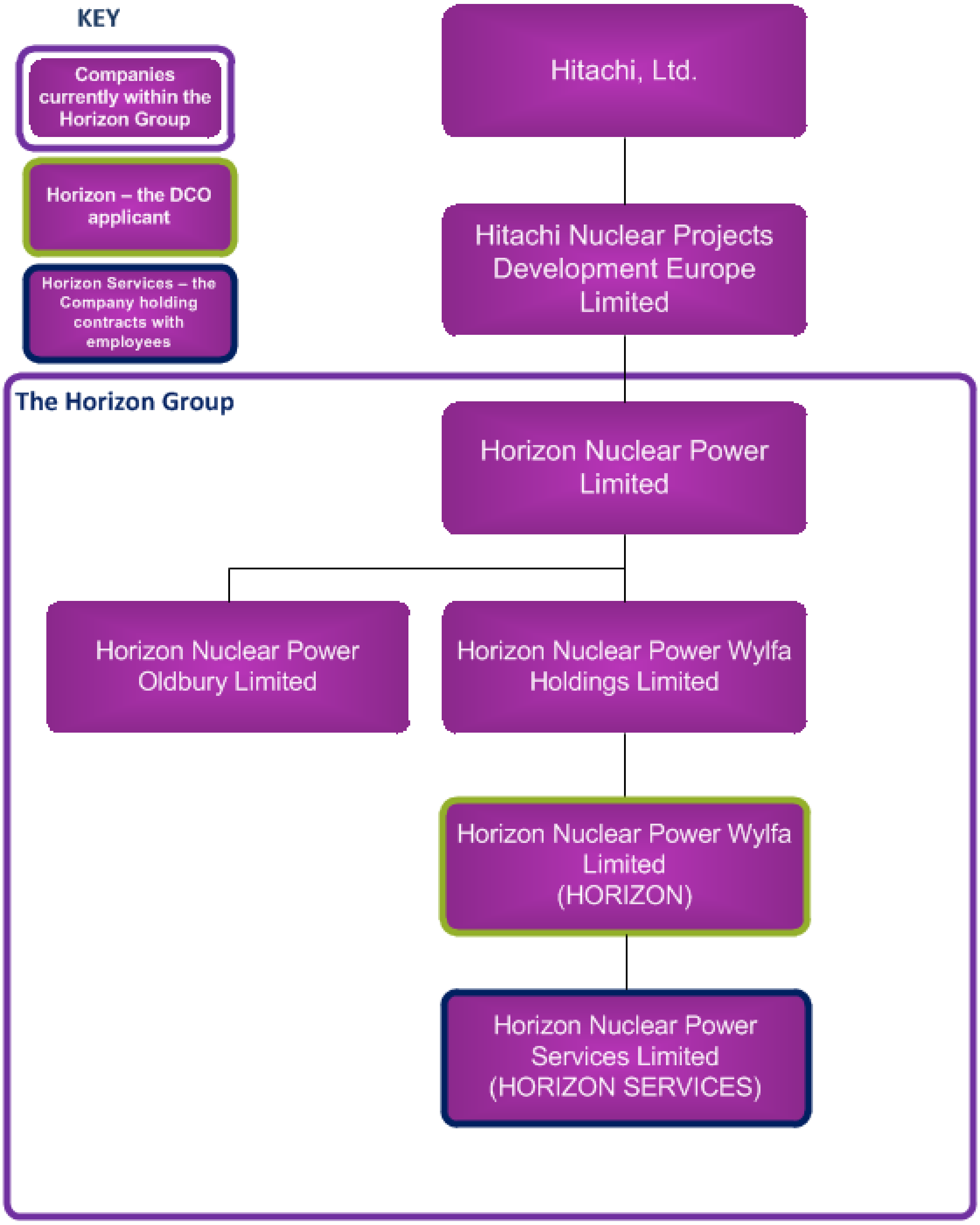
2.1.1 Horizon Nuclear Power Wylfa Limited (company number 6811987) has an issued share capital of £1,677,398,002 and is a wholly owned subsidiary of Horizon Nuclear Power Wylfa Holdings Limited (company number 9641958), which is itself a wholly owned subsidiary of Horizon Nuclear Power Limited (Company number 6660388).

2.1.2 Horizon Nuclear Power Limited is a wholly owned subsidiary of Hitachi Nuclear Projects Development Europe Limited (company number 8285425) which in turn is a wholly owned subsidiary of Hitachi, Ltd (Hitachi).

2.1.3 Horizon is a company created specifically for constructing, operating and maintaining the Wylfa Newydd DCO Project for which the Order is sought. As outlined above, it is ultimately owned by Hitachi which has a strong pedigree in participating in the design, development and construction of over 20 nuclear power plants within Japan.

2.1.4 Figure 2-1 sets out the Horizon Group structure and how it relates to Hitachi.

**Figure 2-1 Horizon Corporate Structure**



## 2.3 Project Cost

2.3.1 Horizon has worked with its delivery partners to determine the costs estimate for implementing the Wylfa Newydd DCO Project which includes the costs of construction and the funding of any additional land required to facilitate its construction and operation. Whilst work continues to develop the overall estimate, Horizon has previously suggested a figure in the region of €13.5 billion for the 2 UK ABWR units of the Wylfa Newydd Project.

2.3.2 The majority of the land within the Wylfa NPS Site is already under the ownership or control of Horizon.

## 2.4 Funding

2.4.1 Hitachi, Horizon's ultimate parent company, is a leading global company with approximately 307,000 employees worldwide and the consolidated accounts for Hitachi for the year ended 31 March 2018 show consolidated revenues of ¥ 9,368 billion. A copy of the consolidated accounts for Hitachi are appended at Annex 1.

2.4.2 Hitachi and Horizon remain incentivised to develop a commercially viable project, given the land that has been acquired and the significant development funds that have already been spent on the Wylfa Newydd DCO Project to date and the Horizon Group's stated mission to build a new, leading, UK nuclear utility company, successfully constructing, operating and maintaining the Wylfa Newydd DCO Project.

2.4.3 Financial resource for developing the Wylfa Newydd DCO Project has historically been provided by Hitachi through a mixture of equity subscriptions and loan arrangements. Hitachi has funded the project whilst discussions have been continuing with the UK Government and the Government of Japan on the financing and associated commercial arrangements that would enable final investment decision to be taken.

2.4.4 Unfortunately, despite the best efforts of everyone involved, it has not to date been possible to reach an agreement to the satisfaction of all concerned. As a result, on 17 January 2019, Hitachi and Horizon announced that they were suspending the Wylfa Neywdd DCO Project until satisfactory funding arrangements with the UK Government are agreed. The implications of this suspension decision are addressed in section 2.5 below.

2.4.5 Hitachi and Horizon are confident that nuclear remains a key part of the UK energy mix and will continue to engage with the UK Government to ensure an appropriate funding framework can be developed. This is likely to involve external finance, potentially from both equity and debt sources to fund the construction of the Wylfa Newydd DCO Project.

## 2.5 Implications of the suspension

2.5.1 Horizon believes that this Funding Statement (as amended) meets the requirements in the DCLG Guidance and demonstrates that Horizon, through its parent company Hitachi, has the requisite funds for compulsory acquisition.

2.5.2 However, Horizon acknowledges that the Examining Authority may have concerns about granting an order with compulsory acquisition powers where the funding arrangements for the Wylfa Newydd DCO Project have not yet been finalised.

2.5.3 To allay any such concerns, Horizon has proposed two new articles to the draft Order restricting the exercise of the powers of compulsory acquisition under the Order until certain requirements are meet. These two articles are outlined below.

2.5.4 Horizon has proposed a new article 83 that makes it clear that the undertaker cannot exercise any of the compulsory acquisition powers conferred under the Order unless it has first put in place, to the satisfaction of the Secretary of State, a guarantee or alternative form of security. Article 83 provides:

*"(83)(1) The undertaker must not exercise the powers conferred by the provisions referred to in paragraph (3) in relation to any land within the Order Limits unless –*

*(a) the Secretary of State has approved in writing a sum of money to cover the liabilities of the undertaker to pay compensation under this Order in respect of the exercise of the relevant power in relation to that land; and*

*(b) the undertaker has put in place either –*

*(i) a guarantee for the sum of money that has been approved by the Secretary of State under paragraph (1)(a) above; or*

*(ii) an alternative form of security for the sum of money that has been approved under paragraph (1)(a) above."*

2.5.5 To assist the Secretary of State in determining the adequacy of compensation for compulsory acquisition, article 83(2) provides that the undertaker must provide information regarding: (a) the interests in the land affected; and (b) the undertaker's assessment of the proper level of compensation and justification.

2.5.6 Pursuant to article 9 (Consent to transfer the benefit of the Order) of the draft Order, all obligations and liabilities under article 83 which apply to the undertaker would apply to any new transferee under article 9. Horizon has proposed a new article 9(4) to explicitly recognise that "*unless otherwise approved by the Secretary of State, any approved transferee is required to put in place at the time of the transfer an equivalent guarantee or alternative form of security to that in place at the time of the transfer under article 83 of the Order*".

2.5.7 Horizon has also proposed a new article 84 which provides that the undertaker cannot implement the Order unless the Secretary of State is satisfied that the Project is likely to be undertaken and there are no obstacles or barriers to having the necessary funding (subject to a specific exclusion in respect of Work No.12). Article 84 provides:

*"(84)(1) Except for Work No.12, the authorised development must not be commenced unless and until –*

*(a) the undertaker has provided the Secretary of State with written information to enable the Secretary of State to be satisfied that the authorised development is likely to be undertaken and will not be prevented due to difficulties in sourcing and securing the necessary funding; and*

*(b) the Secretary of State has given the undertaker written confirmation that the Secretary of State is satisfied that the authorised development is likely to be undertaken and will not be prevented due to difficulties in sourcing and securing the necessary funding."*

2.5.8 Horizon considers that these articles, together with this Funding Statement, will provide the necessary certainty to satisfy the Examining Authority and the Secretary of State that funding of compulsory acquisition will be secured prior to any of the compulsory acquisition powers under the Order (if granted) being exercised.

# 3 Funding Claims for Compensation

## 3.1 Compulsory Acquisition

3.1.1 For the reasons set out at paragraph 2.5 of this Statement, Horizon considers that this Funding Statement, together with the draft Order, will provide the necessary certainty to satisfy the Examining Authority and the Secretary of State that funding of compulsory acquisition will be secured prior to any of the compulsory acquisition powers under the Order (if granted) being exercised.

## 3.2 Blight

3.2.1 It is not envisaged that any claims for blight will arise as a result of the Application and subsequent promotion by Horizon of the Order for the reasons that follow.

3.2.2 The designation of the Wylfa site for new nuclear pursuant to NPS EN-6 means that most of the WNDA has in effect fallen within schedule 13 of the Town and Country Planning Act 1990 for a number of years. So far as Horizon is aware, no blight claims have been made in respect of it. Further, no blight claim has been made in respect of land the subject of or related to the Application.

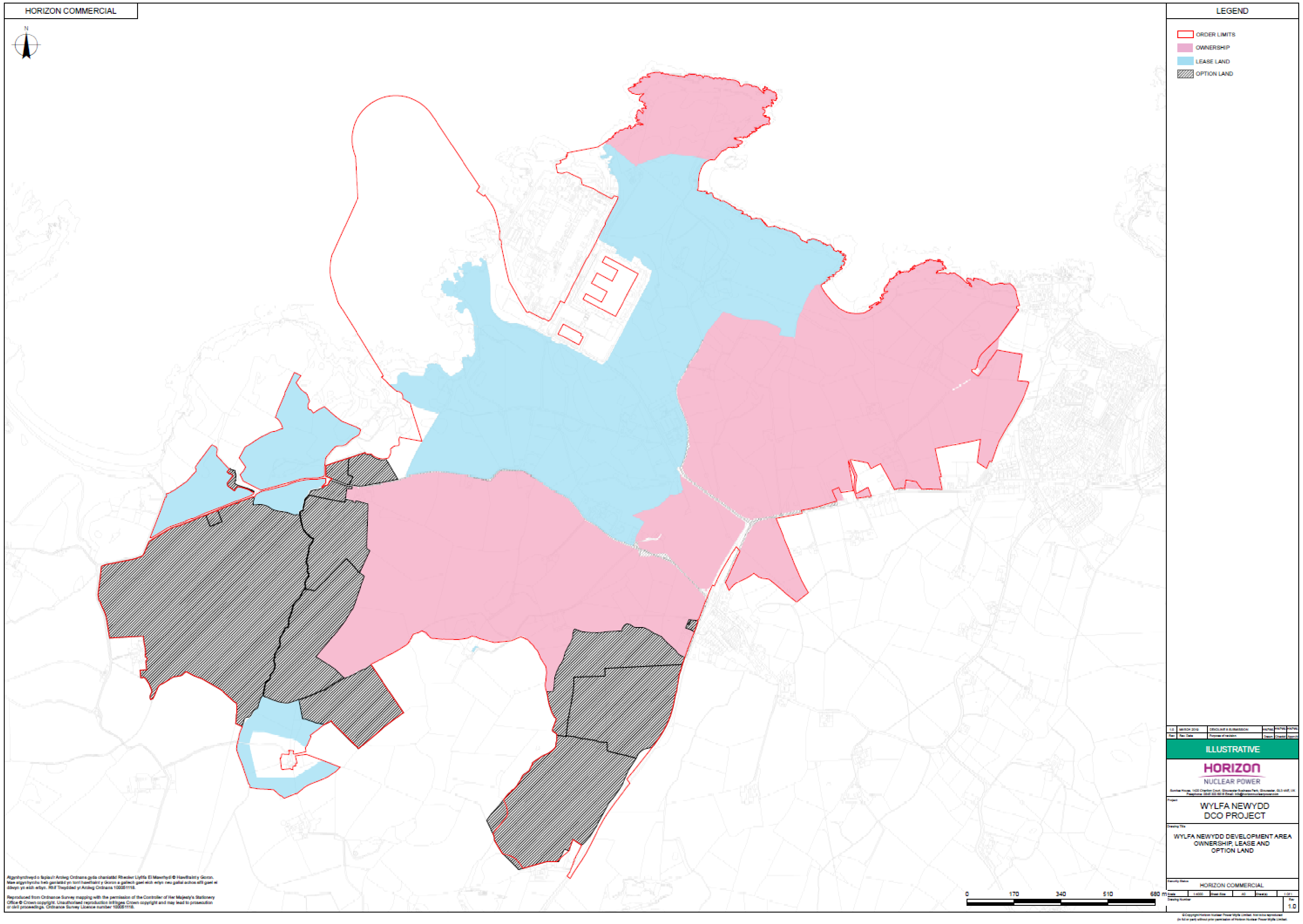
3.2.3 It is difficult to see how a blight claim could arise, recognising that Horizon owns much of the land that is within the Order Limits, or has options over it. Landowners who are subject to option agreements have contracted to sell their interests meaning that blight cannot arise.

3.2.4 The largest area of the Order Land that Horizon does not yet own or have options over is the land required for the A5025 Off-Line Highway Improvements. This land is for the most part, agricultural land. Although blight does apply to agricultural holdings, blight claims most commonly arise in relation to residential properties. Horizon is not seeking to acquire any such properties and has offered to purchase any land subject to the A5025 Off-Line Highway Improvements.

3.2.5 If the Order is granted, the land is blighted where compulsory acquisition of land is authorised by the Order or the land falls within the limits of deviation within which powers of compulsory acquisition conferred by a DCO are exercisable (section 175, Planning Act 2008). The new provisions of the Order, articles 83 and 84, provide that the undertaker cannot exercise any powers of compulsory acquisition until it has satisfied the provisions of article 83 (i.e. provision of the necessary security is in place) meaning that in effect no blight would be created. This means that any Order would only authorise compulsory acquisition once the necessary security is in place, at which point there will be sufficient funding to cover any blight claims arising.

# 4 Annex A: Ownership, lease and option land

**Figure 4-1 Wylfa Newydd DCO Project, Wylfa Newydd Development Area, Ownership, lease and option land**



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# 5 Annex 1: Hitachi Consolidated Financial Results for Fiscal Period 1 April 2017 to 31 March 2018

(Translation)

# Annual Securities Report

(The 149th Business Term)

From April 1, 2017 to March 31, 2018

6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Hitachi, Ltd.

[Cover]

| | |
|---|---|
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This is an English translation of the Annual Securities Report filed with the Director of the Kanto Local Finance Bureau via Electronic Disclosure for Investors' NETwork ("EDINET") pursuant to the Financial Instruments and Exchange Act of Japan.

Certain information in "Part I. Information on the Company - II. Business Overview - 2. Risk Factors - Risks Related to Our American Depositary Shares" is only included in this English translation of the Annual Securities Report for ADSs holders and not included in the original report.

Certain information in "Part I. Information on the Company - V. Financial Information" in this document incorporates financial statements prepared in conformity with the International Financial Report Standards ("IFRS") as issued by the International Accounting Standards Board and independent auditor's report instead of the English translation of the Annual Securities Report.

The translation of the Internal Control Report, the Independent Auditors' Report and the Confirmation Letter for the original Annual Securities Report are included at the end of this document.

In this document, the terms "we," "us," "our" and "Hitachi" refer to Hitachi, Ltd. and consolidated subsidiaries or, as the context may require, Hitachi, Ltd. on a non-consolidated basis and the term "the Company" refers to Hitachi, Ltd. on a non-consolidated basis.

Unless otherwise stated, in this document, where we present information in millions or hundreds of millions of yen, we have truncated amounts of less than one million or one hundred million, as the case may be. Accordingly, the total of figures presented in columns or otherwise may not equal the total of the individual items. We have rounded all percentages to the nearest percent, one-tenth of one percent or one-hundredth of one percent, as the case may be.

References in this document to the "Financial Instruments and Exchange Act" are to the Financial Instruments and Exchange Act of Japan and other laws and regulations amending and/or supplementing the Financial Instruments and Exchange Act of Japan.

References in this document to the "Companies Act" are to the Companies Act of Japan and other laws and regulations amending and/or supplementing the Companies Act of Japan.

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Part I Information on the Company

I. Overview of the Company

1. Key Financial Data

(1) Consolidated financial data, etc.

(Millions of yen, unless otherwise stated)

| Fiscal year | IFRS | | | | |
|---|---|---|---|---|---|
| | 145th business term | 146th business term | 147th business term | 148th business term | 149th business term |
| Year end | March 2014 | March 2015 | March 2016 | March 2017 | March 2018 |
| Revenues | 9,666,446 | 9,774,930 | 10,034,305 | 9,162,264 | 9,368,614 |
| Income from continuing operations, before income taxes | 678,498 | 518,994 | 517,040 | 469,091 | 638,646 |
| Net income attributable to Hitachi, Ltd. stockholders | 413,877 | 217,482 | 172,155 | 231,261 | 362,988 |
| Comprehensive income attributable to Hitachi, Ltd. stockholders | 665,372 | 337,578 | (127,557) | 299,397 | 382,341 |
| Total Hitachi, Ltd. stockholders' equity | 2,668,657 | 2,942,281 | 2,735,078 | 2,967,085 | 3,278,024 |
| Total equity | 3,868,831 | 4,296,342 | 4,125,570 | 4,096,995 | 4,511,671 |
| Total assets | 11,098,191 | 12,433,727 | 12,551,005 | 9,663,917 | 10,106,603 |
| Total Hitachi, Ltd. stockholders' equity per share (yen) | 552.62 | 609.35 | 566.48 | 614.56 | 679.00 |
| Earnings per share attributable to Hitachi, Ltd. stockholders, basic (yen) | 85.69 | 45.04 | 35.65 | 47.90 | 75.19 |
| Earnings per share attributable to Hitachi, Ltd. stockholders, diluted (yen) | 85.66 | 45.00 | 35.62 | 47.88 | 75.12 |
| Total Hitachi, Ltd. stockholders' equity ratio (%) | 24.0 | 23.7 | 21.8 | 30.7 | 32.4 |
| Return on equity (%) | 17.5 | 7.8 | 6.1 | 8.1 | 11.6 |
| Price earnings ratio (times) | 8.9 | 18.3 | 14.8 | 12.6 | 10.3 |
| Net cash provided by operating activities | 306,777 | 451,825 | 812,226 | 629,582 | 727,168 |
| Net cash used in investing activities | (550,179) | (612,545) | (730,799) | (337,955) | (474,328) |
| Net cash provided by (used in) financing activities | 228,840 | 233,206 | (26,467) | (209,536) | (321,454) |
| Cash and cash equivalents at end of year | 560,657 | 701,703 | 699,315 | 765,242 | 697,964 |
| Number of employees [Average number of part-time employees, etc.] | 323,919 [48,432] | 336,670 [48,592] | 335,244 [45,111] | 303,887 | 307,275 |

(Notes) 1. Our consolidated financial statements have been prepared in conformity with IFRS since the 146th business term.

2. Revenues do not include the consumption tax, etc.

3. Average numbers of part-time employees, etc. are not stated for the 148th business term and the 149th business term since those were less than 10% of the number of employees.

(Millions of yen, unless otherwise stated)

| Fiscal year | U.S. GAAP 145th business term | U.S. GAAP 146th business term |
|---|---|---|
| Year end | March 2014 | March 2015 |
| Revenues | 9,563,791 | 9,761,970 |
| Income from continuing operations, before income taxes | 573,691 | 535,612 |
| Net income attributable to Hitachi, Ltd. stockholders | 264,975 | 241,301 |
| Comprehensive income | 769,178 | 525,081 |
| Total Hitachi, Ltd. stockholders' equity | 2,651,241 | 2,930,309 |
| Total equity | 3,852,464 | 4,274,313 |
| Total assets | 11,016,899 | 12,395,379 |
| Total Hitachi, Ltd. stockholders' equity per share (yen) | 549.02 | 606.87 |
| Net income attributable to Hitachi, Ltd. stockholders per share, basic (yen) | 54.86 | 49.97 |
| Net income attributable to Hitachi, Ltd. stockholders per share, diluted (yen) | 54.85 | 49.93 |
| Total Hitachi, Ltd. stockholders' equity ratio (%) | 24.1 | 23.6 |
| Return on equity (%) | 11.2 | 8.6 |
| Price earnings ratio (times) | 13.9 | 16.5 |
| Net cash provided by operating activities | 439,406 | 447,348 |
| Net cash used in investing activities | (491,363) | (610,255) |
| Net cash provided by (used in) financing activities | 32,968 | 250,335 |
| Cash and cash equivalents at end of year | 558,217 | 709,531 |
| Number of employees [Average number of part-time employees, etc.] | 320,725 [48,391] | 333,150 [48,548] |

(Notes) 1. Our consolidated financial statements had been prepared in conformity with accounting principles generally accepted in the United States until the 145th business term. The figures for the 146th business term in the above table are unaudited financial information pursuant to the Financial Instruments and Exchange Act.

2. Revenues do not include the consumption tax, etc.

3. Effective from the 146th business term, in accordance with the provisions of the Accounting Standards Codification 205-20 "Presentation of Financial Statements - Discontinued Operations" of the U.S. Financial Accounting Standards Board, a part of the thermal power generation systems business is classified as a discontinued operation, which was not transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD. for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Co., Ltd. The results of the discontinued operation are reported separately from continuing operations. In line with this classification, "Revenues" and "Income from continuing operations, before income taxes" for the 145th business term are reclassified.

(2) Financial data etc. of the Company

(Millions of yen, unless otherwise stated)

| Fiscal year | 145th business term | 146th business term | 147th business term | 148th business term | 149th business term |
|---|---|---|---|---|---|
| Year end | March 2014 | March 2015 | March 2016 | March 2017 | March 2018 |
| Revenues | 2,070,147 | 1,842,126 | 1,859,605 | 1,906,532 | 1,930,293 |
| Ordinary income (loss) | 17,887 | (300) | (20,944) | 71,599 | 131,294 |
| Net income | 57,856 | 85,262 | 64,934 | 97,724 | 136,117 |
| Common stock | 458,790 | 458,790 | 458,790 | 458,790 | 458,790 |
| Number of issued shares (thousands of shares) | 4,833,463 | 4,833,463 | 4,833,463 | 4,833,463 | 4,833,463 |
| Total net assets | 1,373,336 | 1,399,885 | 1,378,441 | 1,497,428 | 1,535,472 |
| Total assets | 3,570,087 | 3,749,326 | 3,868,633 | 4,070,247 | 4,040,853 |
| Net assets per share (yen) | 284.39 | 289.92 | 285.50 | 310.15 | 318.05 |
| Dividends per share (yen) [Of the above, interim dividends per share (yen) ] | 10.5 [5] | 12 [6] | 12 [6] | 13 [6] | 15 [7] |
| Net income per share, basic (yen) | 11.98 | 17.66 | 13.45 | 20.24 | 28.19 |
| Net income per share, diluted (yen) | - | - | - | 20.23 | 28.17 |
| Stockholders' equity ratio (%) | 38.5 | 37.3 | 35.6 | 36.8 | 38.0 |
| Return on equity (%) | 4.3 | 6.1 | 4.7 | 6.8 | 9.0 |
| Price earnings ratio (times) | 63.6 | 46.6 | 39.2 | 29.8 | 27.3 |
| Dividend payout ratio (%) | 87.6 | 68.0 | 89.2 | 64.2 | 53.2 |
| Number of employees | 33,500 | 31,375 | 37,353 | 35,631 | 34,925 |

(Notes) 1. Revenues do not include the consumption tax, etc.

2. "Net income per share, diluted" is not stated for the 145th, 146th and 147th business terms since there are no dilutive shares.

3. Average number of part-time employees, etc. is not stated since it was less than 10% of the number of employees.

2. History

| Month/Year | History |
|---|---|
| 1910 | Founded as a repair shop at Hitachi copper mine of Kuhara Mining Company |
| February, 1920 | Incorporated as Hitachi, Ltd. with the Hitachi and Kameido Works |
| February, 1921 | Acquired the Kasado shipyard from Nippon Kisen Co., Ltd. and established Kasado Works |
| May, 1935 | Equity participation in Kyousei Reiki Kogyo K.K. (later changed its name to Hitachi Plant Engineering & Construction Co., Ltd.) |
| May, 1937 | Merged Kokusan Industries, Ltd. and established 7 factories, including Totsuka Works |
| April, 1939 | Established Taga Works, spun off Hitachi Research Laboratory from Hitachi Works |
| September, 1940 | Established Mito Works |
| April, 1942 | Established Central Research Laboratory |
| September, 1943 | Merged Riken Vacuum Industry and established Mobara Works |
| March, 1944 | Spun off Shimizu Works from Kameari Works |
| December, 1944 | Spun off Tochigi Works from Taga Works |
| April, 1947 | Established Hinode Shokai Co., Ltd. (currently Hitachi High-Technologies Corporation) |
| May, 1949 | Established Higashi-Nippon Senikikai KK (later changed its name to Hitachi Medical Corporation) |
| February, 1950 | Established Nitto Transport KK. (currently Hitachi Transport System, Ltd.) |
| May, 1955 | Established Hitachi Sales Corporation |
| October, 1956 | Spun off Hitachi Metals Industries, Ltd. (currently Hitachi Metals, Ltd.) and Hitachi Cable, Ltd. |
| November, 1956 | Established Hitachi Kiden Kogyo, Ltd. |
| June, 1957 | Spun off Kokubu Works from Hitachi Works |
| February, 1959 | Established Yokohama Works |
| October, 1959 | Established Hitachi New York, Ltd. (currently Hitachi America, Ltd.) |
| June, 1960 | Equity participation in Nippon Business Consultant Co., Ltd. (later changed its name to Hitachi Information Systems, Ltd.) |
| August, 1960 | Established Hitachi Geppan Corp. (later changed its name to Hitachi Credit Corporation) |
| February, 1961 | Spun off Naka Works from Taga Works;<br>Equity participation in Maxell Electric Industrial Co., Ltd. (currently Maxell Holdings, Ltd.) |
| August, 1961 | Established Katsuta Works |
| August, 1962 | Established Kanagawa Works |
| February, 1963 | Spun off Narashino Works from Kameido Works |
| April, 1963 | Spun off Hitachi Chemical Company, Ltd. |
| February, 1966 | Established Mechanical Engineering Research Laboratory |
| February, 1968 | Spun off Sawa Works from Taga Works, spun off Tokai Works from Yokohama Works, and spun off Odawara Works from Kanagawa Works |
| February, 1969 | Established Software Works |
| April, 1969 | Established Ome Works |
| August, 1969 | Established Omika Works |
| December, 1969 | Spun off Hitachi Construction Machinery Co., Ltd. |
| May, 1970 | Established Takasaki Works |
| September, 1970 | Established Hitachi Software Engineering Co., Ltd. |
| April, 1971 | Acquired Asahi Works from Hitachi Denshi, Ltd. |
| June, 1971 | Established Production Engineering Research Laboratory |
| February, 1973 | Established Systems Development Laboratory |
| June, 1974 | Established Tsuchiura Works |
| November, 1974 | Relocated Kameido Works and renamed to Nakajo Works |
| June, 1982 | Established Hitachi Europe Ltd. |
| April, 1985 | Established Advanced Research Laboratory |
| February, 1989 | Established Hitachi Asia Pte. Ltd. (currently Hitachi Asia Ltd.) |
| February, 1991 | Integrated Sawa Works into Automotive Products Division |
| August, 1991 | Integrated Katsuta Works into Materials Process Technology Division; integrated Totsuka Works into Information & Telecommunication Division; integrated Naka Works into Instruments Division |

| Month/Year | History |
|---|---|
| February, 1992 | Integrated Yokohama Works and Tokai Works into AV Products Division |
| August, 1992 | Changed operation unit of home appliances, computers and electronic devices businesses from factory to business division |
| February, 1993 | Integrated Semiconductor Technology Development Center, Musashi Works and Takasaki Works into Semiconductor Division |
| August, 1993 | Integrated Shimizu Works into Air Conditioning Division, integrated Nakajo Works and Narashino Works into Industrial Equipment Division |
| August, 1994 | Integrated Consumer Products Group and Image & Information Media Division and renamed to Consumer Products & Information Media Systems Group |
| October, 1994 | Established Hitachi (China), Ltd. |
| February, 1995 | Reorganized business groups as Power & Industrial Systems Group, Consumer Products & Information Media Systems Group, Information Systems Group and Electronics Components Group; integrated a part of R&D division and sales division into the business groups |
| April, 1995 | Merged Hitachi Sales Corporation |
| April, 1999 | Reorganized business groups into de facto companies to independently operate each business group |
| October, 2000 | Merged Hitachi Credit Corporation with Hitachi Leasing Corp. and changed its name to Hitachi Capital Corporation |
| October, 2001 | Split Instruments Group and Semiconductor Manufacturing Equipment Group via company split and reorganized as Hitachi High-Technologies Corporation;<br>Split Industrial Machinery Systems Division via company split and reorganized as Hitachi Industries Co., Ltd. |
| April, 2002 | Split Home Appliance Group via company split and reorganized as Hitachi Home & Life Solutions, Inc.;<br>Split Industrial Equipment Group via company split and reorganized as Hitachi Industrial Equipment Systems Co., Ltd. |
| October, 2002 | Split Display Group via company split and established Hitachi Displays, Ltd.;<br>Split Telecommunication Equipment Division via company split and reorganized as Hitachi Communication Technologies, Ltd.;<br>Turned Unisia Jecs Corporation (later changed its name to Hitachi Unisia Automotive, Ltd.) into a wholly owned subsidiary via share exchange |
| January, 2003 | Acquired HDDs business from IBM Corp., and commenced operations as Hitachi Global Storage Technologies Netherlands B.V. |
| April, 2003 | Split semiconductor business, centering on system LSIs, via company split and established Renesas Technology Corp. (merged with NEC Electronics Corporation and changed its name to Renesas Electronics Corporation in April 2010, and ceased to be an affiliate of the Company due to a decrease in the Company's ownership percentage of voting rights in September 2013) |
| June, 2003 | Adopted committee system as the Company's corporate governance structure |
| October, 2004 | Merged TOKICO, Ltd. and Hitachi Unisia Automotive, Ltd.;<br>Split Mechatronics System Division, centering on ATMs, via company split and established Hitachi-Omron Terminal Solutions, Corp. |
| April, 2006 | Split Social & industrial infrastructure business via company split and integrated with Hitachi Plant Engineering & Construction Co., Ltd., Hitachi Kiden Kogyo, Ltd. and Hitachi Industries Co., Ltd. and reorganized as Hitachi Plant Technologies, Ltd.; Merged Hitachi Home & Life Solutions, Inc. with Hitachi Air Conditioning Systems Co., Ltd. and changed its name to Hitachi Appliances, Inc. |
| December, 2006 | Turned Clarion Co., Ltd. into a consolidated subsidiary via tender offer |
| July, 2007 | Split nuclear power systems business via company split and reorganized as Hitachi-GE Nuclear Energy, Ltd. |
| March, 2009 | Turned Hitachi Koki Co., Ltd. into a consolidated subsidiary via tender offer; Turned Hitachi Kokusai Electric Inc. into a consolidated subsidiary via tender offer |

| Month/Year | History |
|---|---|
| July, 2009 | Merged Hitachi Communication Technologies, Ltd.;<br>Split Automotive Systems Group via company split and established Hitachi Automotive Systems, Ltd.;<br>Split Consumer Business Group via company split and established Hitachi Consumer Electronics Co., Ltd. |
| October, 2009 | Reorganized business groups into in-house companies with independent accounting to promote quick business operation |
| February, 2010 | Turned Hitachi Information Systems, Ltd., Hitachi Software Engineering Co., Ltd. and Hitachi Systems & Services, Ltd. into wholly owned subsidiaries |
| April, 2010 | Turned Hitachi Plant Technologies, Ltd. and Hitachi Maxell, Ltd. (currently Maxell Holdings, Ltd.) into wholly owned subsidiaries via share exchanges (turned Hitachi Maxell, Ltd. into an equity-method associate of the Company via selling its shares in March 2014, and ceased to be an affiliate of the Company in March 2017 due to selling its shares) |
| October, 2010 | Merged Hitachi Software Engineering Co., Ltd. with Hitachi Systems & Services, Ltd. and changed its name to Hitachi Solutions, Ltd. |
| October, 2011 | Merged Hitachi Electronics Services Co., Ltd. with Hitachi Information Systems, Ltd. and changed its name to Hitachi Systems, Ltd. |
| March, 2012 | Transferred HDDs business to Western Digital Corporation via share sale of Viviti Technologies Ltd., a holding company for Hitachi Global Storage Technologies Inc., etc.<br>Transferred small and medium-sized displays business via share sale of Hitachi Displays, Ltd. |
| April, 2013 | Merged Hitachi Plant Technologies, Ltd. |
| July, 2013 | Merged Hitachi Metals, Ltd. with Hitachi Cable, Ltd. |
| February, 2014 | Split thermal power generating systems business via company split and transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD. |
| March, 2014 | Turned Hitachi Medical Corporation into a wholly owned subsidiary via share exchange (changed its name to Hitachi Healthcare Manufacturing, Ltd. following the reorganization of Hitachi’s healthcare business in April 2016) |
| April, 2015 | Reorganized Central Research Laboratory, Hitachi Research Laboratory, Yokohama Research Laboratory, Design Division and overseas R&D facilities into Global Center for Social Innovation, Center for Technology Innovation and Center for Exploratory Research to establish global R&D structure from the customers’ perspective |
| October, 2015 | Hitachi Appliances, Inc. transferred its air-conditioning systems business to a joint venture established with Johnson Controls Inc. |
| April, 2016 | Reorganized in-house companies into business units as a market-specific business structure |
| May, 2016 | Turned Hitachi Transport System, Ltd. into an equity-method associate of the Company via sale of a part of its shares |
| October, 2016 | Turned Hitachi Capital Corporation into an equity-method associate of the Company via sale of a part of its shares |
| March, 2017 | Transferred power tools business via share sale of Hitachi Koki, Co., Ltd. |
| June, 2018 | Sold semiconductor manufacturing equipment business of Hitachi Kokusai Electric Inc. and also turned it into an equity-method associated of the Company. |

3. Description of Business

The Hitachi Group, which is comprised of the Company and 1,286 affiliates (879 consolidated subsidiaries and 407 equity-method associates and joint ventures.), engages in a broad range of business activities, from product development and manufacturing to sales and services, in 8 segments of Information & Telecommunication Systems, Social Infrastructure & Industrial Systems, Electronic Systems & Equipment, Construction Machinery, High Functional Materials & Components, Automotive Systems, Smart Life & Ecofriendly Systems and Others.

Major business outline for each segment and the positioning of principal affiliated companies are described as follows. The Company mainly engages in manufacturing and sales of products and providing services in the segments of Information & Telecommunication Systems, Social Infrastructure & Industrial Systems and Electronic Systems & Equipment.

(As of March 31, 2018)

| Main products and services | Positioning of principal affiliated companies | |
|---|---|---|
| | Manufacturing | Sales and services |
| Information & Telecommunication Systems<br>Systems Integration, Consulting, Cloud Services, Servers, Storage, Software, Telecommunications & Network, ATMs | [Consolidated subsidiaries]<br>Hitachi Information & Telecommunication Engineering, Ltd.<br>Hitachi-Omron Terminal Solutions, Corp.<br>Hitachi Computer Products (America), Inc.<br>Hitachi Financial Equipment System (Shen Zhen) Co., Ltd. | [Consolidated subsidiaries]<br>Hitachi Solutions, Ltd.<br>Hitachi Systems, Ltd.<br>Hitachi Consulting Corporation<br>Hitachi Information & Telecommunication Systems Global Holding Corporation<br>Hitachi Payment Services Private Limited<br>Hitachi Vantara Corporation |
| Social Infrastructure & Industrial Systems<br>Industrial Machinery and Plants, Elevators, Escalators, Railway Systems, Thermal, Nuclear and Renewable Energy Power Generation Systems, Transmission & Distribution Systems | [Consolidated subsidiaries]<br>Hitachi-GE Nuclear Energy, Ltd.<br>Hitachi Industrial Equipment Systems Co., Ltd.<br>Hitachi Elevator (China) Co., Ltd.<br>[Equity-method associates]<br>MITSUBISHI HITACHI POWER SYSTEMS, LTD. | [Consolidated subsidiaries]<br>Hitachi Building Systems Co., Ltd.<br>Hitachi Industry & Control Solutions, Ltd.<br>Hitachi Plant Construction, Ltd.<br>Hitachi Plant Services Co., Ltd.<br>Hitachi Power Solutions Co., Ltd.<br>Hitachi Rail Europe Ltd.<br>Horizon Nuclear Power Limited<br>Sullair US Purchaser, Inc. |
| Electronic Systems & Equipment<br>Semiconductor Processing Equipment, Test and Measurement Equipment, Advanced Industrial Products, Medical Electronics Equipment | [Consolidated subsidiaries]<br>Hitachi High-Technologies Corporation<br>Hitachi Kokusai Electric Inc. | |
| Construction Machinery<br>Hydraulic Excavators, Wheel Loaders, Mining Machinery | [Consolidated subsidiaries]<br>Hitachi Construction Machinery Co., Ltd. | |
| High Functional Materials & Components<br>Semiconductor and Display Related Materials, Circuit Boards and Materials, Automotive Parts , Energy Storage Devices, Specialty Steel Products, Magnetic Materials and Applications, Functional Components and Equipment, Wires, Cables and Related Products | [Consolidated subsidiaries]<br>Hitachi Chemical Company, Ltd.<br>Hitachi Metals, Ltd. | |
| Automotive Systems<br>Engine Powertrain Systems, Electric Powertrain Systems, Integrated Vehicle Control Systems, Car Information Systems | [Consolidated subsidiaries]<br>Clarion Co., Ltd.<br>Hitachi Automotive Systems, Ltd.<br>Hitachi Automotive Systems Americas, Inc. | |
| Smart Life & Ecofriendly Systems<br>Air-Conditioning Equipment, Room Air Conditioners, Refrigerators, Washing Machines | [Consolidated subsidiaries]<br>Hitachi Appliances, Inc.<br>Hitachi Consumer Products (Thailand), Ltd. | [Consolidated subsidiaries]<br>Hitachi Consumer Marketing, Inc.<br>[Equity-method associates]<br>Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd |
| Others<br>Optical Disk Drives, Property Management | [Consolidated subsidiaries]<br>Hitachi-LG Data Storage, Inc. | [Consolidated subsidiaries]<br>Hitachi Life, Ltd.<br>Hitachi Urban Investment, Ltd.<br>Hitachi America, Ltd.<br>Hitachi Asia Ltd.<br>Hitachi (China), Ltd.<br>Hitachi Europe Ltd.<br>Hitachi India Pvt. Ltd. |

(Notes)
1. Hitachi America, Ltd., Hitachi Asia Ltd., Hitachi (China), Ltd., Hitachi Europe Ltd. and Hitachi India Pvt. Ltd. are the Hitachi Group's regional supervising company for Americas, Asia, China, Europe and India, and they sell the Hitachi Group's products.
2. Hitachi Information & Telecommunication Systems Global Holding Corporation changed its company name to Hitachi Global Digital Holdings Corporation on April 1, 2018.
3. The Company transferred all shares of Hitachi Kokusai Electric Inc. stock owned by the Company on May 31, 2018, and then, the Company partially re-acquired shares of Hitachi Kokusai Electric Inc. stock on June 4, 2018. As a result, Hitachi Kokusai Electic Inc. turned into an equity-method associate of the Company.
4. In addition to the table above, the major equity-method associates are Hitachi Capital Corporation and Hitachi Transport System, Ltd.

4. Information on Affiliates

(1) Consolidated subsidiaries

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| Hitachi Information & Telecommunication Engineering, Ltd. | Nishi-ku, Yokohama, Kanagawa | 1,350 | Information & Telecommunication Systems | 100.0 | The Company outsources design, development, manufacturing, evaluation and validation of storages, servers and telecommunication networks equipment, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi-Omron Terminal Solutions, Corp. | Shinagawa-ku, Tokyo | 8,500 | Information & Telecommunication Systems | 55.0 | The Company purchases ATMs and other information equipment. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Solutions, Ltd. | Shinagawa-ku, Tokyo | 20,000 | Information & Telecommunication Systems | 100.0 | The Company outsources development of information systems and software, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Systems, Ltd. | Shinagawa-ku, Tokyo | 19,162 | Information & Telecommunication Systems | 100.0 | The Company outsources calculation, development of software, installation and maintenance of telecommunication equipment and computers. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| Hitachi Computer Products (America), Inc. | Oklahoma, U.S.A. | (Thousands of US dollars) 14,000 | Information & Telecommunication Systems | [100.0] 100.0 | The Company supplies parts for computer peripherals. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| **Hitachi Consulting Corporation | Texas, U.S.A. | (Thousands of US dollars) 830,493 | Information & Telecommunication Systems | [100.0] 100.0 | The Company outsources consulting services. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Financial Equipment System (Shen Zhen) Co., Ltd. | Shenzhen, China | (Thousands of US dollars) 3,480 | Information & Telecommunication Systems | [100.0] 100.0 | Manufacturing and sales company in China for the Hitachi Group's information products such as ATMs. |
| **Hitachi Information & Telecommunication Systems Global Holding Corporation | California, U.S.A. | (Thousands of US dollars) 1,415,799 | Information & Telecommunication Systems | 100.0 | Holding company for Hitachi Consulting Corporation and Hitachi Vantara Corporation, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Payment Services Private Limited | Chennai, India | (Thousands of Indian rupee) 47,500 | Information & Telecommunication Systems | [97.5] 100.0 | Offering the Hitachi Group's payment services for financial institutions in India. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| **Hitachi Vantara Corporation | California, U.S.A. | (Thousands of US dollars) 931,646 | Information & Telecommunication Systems | [100.0] 100.0 | Sales company for the Company's storage, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
| --- | --- | --- | --- | --- | --- |
| Hitachi Building Systems Co., Ltd. | Chiyoda-ku, Tokyo | 5,105 | Social Infrastructure & Industrial Systems | 100.0 | Design, manufacturing, sales, installation and maintenance of the elevators and escalators the Company developed. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi-GE Nuclear Energy, Ltd. | Hitachi, Ibaraki | 5,000 | Social Infrastructure & Industrial Systems | 80.0 | The Company delivers nuclear power generation equipment, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Industrial Equipment Systems Co., Ltd. | Chiyoda-ku, Tokyo | 10,000 | Social Infrastructure & Industrial Systems | 100.0 | The Company purchases industrial equipment. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Industry & Control Solutions, Ltd. | Hitachi, Ibaraki | 3,000 | Social Infrastructure & Industrial Systems | 100.0 | The Company outsources development of information control systems, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Plant Construction, Ltd. | Toshima-ku, Tokyo | 3,000 | Social Infrastructure & Industrial Systems | 100.0 | Construction of the Company's power and industrial plants, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| Hitachi Plant Services Co., Ltd. | Toshima-ku, Tokyo | 3,000 | Social Infrastructure & Industrial Systems | 100.0 | Construction of the Company's industrial plants, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Power Solutions Co., Ltd. | Hitachi, Ibaraki | 4,000 | Social Infrastructure & Industrial Systems | 100.0 | The Company purchases power plant parts, and outsources maintenance of power generation equipment and control equipment, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Elevator (China) Co., Ltd. | Guangzhou, China | (Thousands of US dollars) 64,880 | Social Infrastructure & Industrial Systems | [70.0] 70.0 | Sales, installation and maintenance, etc. of the Hitachi Group's elevators and escalators in China. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| **Hitachi Rail Europe Ltd. | London, U.K. | (Thousands of Sterling pounds) 878,181 | Social Infrastructure & Industrial Systems | 100.0 | Manufacturing, sales, engineering and maintenance of the Company's rail systems products. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| **Horizon Nuclear Power Limited | Gloucester, U.K. | (Thousands of Sterling pounds) 876,000 | Social Infrastructure & Industrial Systems | [100.0] 100.0 | Nuclear power production company in the U.K. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| **Sullair US Purchaser, Inc. | Indiana, U.S.A. | (Thousands of US dollars) 517,977 | Social Infrastructure & Industrial Systems | [100.0] 100.0 | Holding company for Sullair LLC etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| *Hitachi High-Technologies Corporation | Minato-ku, Tokyo | 7,938 | Electronic Systems & Equipment | 51.8 | The Company sells and purchases information equipment and power-related parts through this company. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| *Hitachi Kokusai Electric Inc. | Minato-ku, Tokyo | 10,058 | Electronic Systems & Equipment | 75.0 | The Company purchases electronic equipment and parts, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| ** *Hitachi Construction Machinery Co., Ltd. | Taito-ku, Tokyo | 81,576 | Construction Machinery | [0.6] 51.5 | The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| *Hitachi Chemical Company, Ltd. | Chiyoda-ku, Tokyo | 15,454 | High Functional Materials & Components | [0.1] 51.4 | The Company purchases electronic materials and parts, energy storage devices and systems, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| *Hitachi Metals, Ltd. | Minato-ku, Tokyo | 26,283 | High Functional Materials & Components | [0.5] 53.5 | The Company purchases specialty steel products, magnetic materials and applications, functional components and equipment, and wires, cables, and related products. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| *Clarion Co., Ltd. | Chuo-ku, Saitama, Saitama | 20,346 | Automotive Systems | 64.0 | The Company supplies parts for car navigation systems, etc. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| Hitachi Automotive Systems, Ltd. | Hitachinaka, Ibaraki | 15,000 | Automotive Systems | 100.0 | The Company purchases parts for railway vehicles, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Automotive Systems Americas, Inc. | Kentucky, U.S.A. | (Thousands of US dollars) 86,278 | Automotive Systems | [100.0] 100.0 | Manufacturing and sales company in North America for the Hitachi Group's automotive systems products. |
| Hitachi Appliances, Inc. | Minato-ku, Tokyo | 20,000 | Smart Life & Ecofriendly Systems | 100.0 | Manufacturing and sales of the Hitachi Group's home appliances, and sales, system installation and maintenance of the Group's refrigerating and air-conditioning products. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Consumer Marketing, Inc. | Minato-ku, Tokyo | 3,000 | Smart Life & Ecofriendly Systems | 100.0 | Sales company for the Hitachi Group's home appliances in Japan. |
| Hitachi Consumer Products (Thailand), Ltd. | Prachinburi, Thailand | (Thousands of Thai Baht) 2,472,000 | Smart Life & Ecofriendly Systems | [80.1] 80.1 | Manufacturing and sales company for the Hitachi Group's refrigerators and washing machines, etc. in Thailand. |
| Hitachi-LG Data Storage, Inc. | Minato-ku, Tokyo | 10,362 | Others | 51.0 | Development, manufacturing and sales company for the Hitachi Group's optical disk drives. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Life, Ltd. | Hitachi, Ibaraki | 1,000 | Others | [21.8] 100.0 | The Company outsources management of welfare facilities, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| Hitachi Urban Investment, Ltd. | Chiyoda-ku, Tokyo | 2,000 | Others | 100.0 | The Company outsources management of welfare facilities, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| **Hitachi America, Ltd. | California, U.S.A. | (Thousands of US dollars) 3,245,764 | Others | 100.0 | The Hitachi Group's regional supervising company in Americas, and sells the Hitachi Group's plant-, industrial machinery-, healthcare- and digital media-related products, etc., as well as promotes R&D in Americas. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi Asia Ltd. | Singapore | (Thousands of Singapore dollars) 186,231 | Others | 100.0 | The Hitachi Group's regional supervising company for Asia, and sells the Hitachi Group's industrial machinery and train-, healthcare- and information-related products, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi (China), Ltd. | Beijing, China | (Thousands of US dollars) 226,380 | Others | 100.0 | The Hitachi Group's regional supervising company for China, and sells the Hitachi Group's plant, industrial machinery and digital media-, train-, healthcare- and information-related products, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| Hitachi Europe Ltd. | Maidenhead, U.K. | (Thousands of Sterling pounds) 263,349 | Others | 100.0 | The Hitachi Group’s regional supervising company for Europe, and sells the Hitachi Group’s plants, industrial machinery and digital media- and information-related products, etc. The Company’s Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Hitachi India Pvt. Ltd. | New Delhi, India | (Thousands of Indian rupee) 344,000 | Others | [100.0] 100.0 | The Hitachi Group’s regional supervising company for India, and sells the Hitachi Group’s plants, industrial machinery and digital media-related products, etc. The Company’s Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Others - 839 companies | - | - | - | - | - |

(Notes) 1. The unit of amounts and currency shown in the “Common stock” column are in millions of yen, unless otherwise specified.

2. Companies with two asterisks (**) in the “Company name” column are specified subsidiaries.

3. Companies with one asterisk (*) in the “Company name” column submit Securities Registration Statement or Annual Securities Report.

4. The name of segment in which the companies classified is shown in the “Principal business” column.

5. The amounts in brackets in upper row of the “Ownership percentage of voting rights” column represent the percentage of voting rights owned indirectly by subsidiaries, of the total ownership percentage.

6. Companies with negative net worth are shown below, along with the amount of liabilities in excess of assets.

Hitachi Power Europe GmbH ¥108,573 million
Hitachi Vehicle Energy, Ltd. ¥43,069 million

(2) Equity-method associates and joint ventures

(As of March 31, 2018)

| Company name | Location | Common stock | Principal business | Ownership percentage of voting rights (%) | Relationship |
|---|---|---|---|---|---|
| MITSUBISHI HITACHI POWER SYSTEMS, LTD. | Nishi-ku, Yokohama, Kanagawa | 100,000 | Social Infrastructure & Industrial Systems | 35.0 | The Company supplies equipments for thermal power generation system. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd | Hampshire, U.K. | (Thousands of US dollars) 935,107 | Smart Life & Ecofriendly Systems | [40.0] 40.0 | Holding company for air-conditioning systems business companies from which the Hitachi Group purchases air-conditioning systems devices. |
| *Hitachi Capital Corporation | Minato-ku, Tokyo | 9,983 | General leasing, installment sales, and other financial services | 33.4 | Leases manufacturing equipment, industrial equipment, office equipment, etc. to the Company, and engages in leasing and installment sales of the Company's business equipment, etc. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| *Hitachi Transport System, Ltd. | Chuo-ku, Tokyo | 16,802 | Logistics services | 30.0 | The Company outsources transportation and storage of products. The Company's Directors, Executive Officers or employees concurrently hold position of directors or officers. |
| Others - 403 companies | - | - | - | - | - |

(Notes) 1. The unit of amounts and currency shown in the "Common stock" column are in millions of yen, unless otherwise specified.

2. Companies with one asterisk (*) in the "Company name" column submit Securities Registration Statement or Annual Securities Report.

3. The names of segment in which MITSUBISHI HITACHI POWER SYSTEMS, LTD. and Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd are classified are shown in the "Principal business" column.

4. Companies with negative net worth are shown below, along with the amount of liabilities in excess of assets.

| | |
|---|---|
| Agility Trains East (Holdings) Limited | ¥71,260 million |
| Agility Trains West (Holdings) Limited | ¥70,058 million |
| GE-Hitachi Nuclear Energy Holdings LLC | ¥23,230 million |

## 5. Employees

### (1) Consolidated basis

(As of March 31, 2018)

| Name of segment | Number of employees |
|---|---|
| Information & Telecommunication Systems | 73,388<br>[15,605] |
| Social Infrastructure & Industrial Systems | 77,476<br>[10,284] |
| Electronic Systems & Equipment | 20,006<br>[3,041] |
| Construction Machinery | 23,469<br>[-] |
| High Functional Materials & Components | 51,709<br>[-] |
| Automotive Systems | 33,958<br>[-] |
| Smart Life & Ecofriendly Systems | 11,290<br>[-] |
| Others | 13,286<br>[3,302] |
| Corporate (Head Office and others) | 2,693<br>[2,693] |
| Total | 307,275<br>[34,925] |

(Note) The number in brackets in the lower row of the "Number of Employees" column is the number of employees of the Company included in each of the numbers in the upper row.

### (2) The Company

(As of March 31, 2018)

| Number of employees | Average age | Average length of service | Average annual salary |
|---|---|---|---|
| 34,925 | 41.7 | 18.8 years | ¥8,715,191 |

(Note) Average annual salary includes bonuses and extra wages.

### (3) Relationship with labor union

The Company's labor union, Hitachi Workers Union, is a member of the Japanese Electrical Electronic & Information Union.

The relationship between management and labor unions in the Hitachi Group is stable and smooth.

## II. Business Overview

### 1. Management Policy, Economic Environment and Challenges Hitachi Group Faces

#### (1) Management Policy

Amid intensifying competition in global markets, the Hitachi Group has been expanding its business through development of Hitachi and its related companies (subsidiaries and affiliated companies). Hitachi aims to achieve further development by delivering competitive products and services, thus creating higher value for customers. By taking full advantage of the diverse resources of the Hitachi Group, while at the same time reviewing and restructuring businesses, Hitachi aims to bolster its competitiveness and achieve growth in global markets. This process will be consistent with Hitachi's basic management policy, which is to increase shareholder value by meeting the expectations of customers, shareholders, employees and other stakeholders.

By fully capitalizing on the business base it has built over the years, the Hitachi Group aims to achieve sustainable growth through global expansion of the Social Innovation Business to provide solutions driven by collaborative creation with customers in a range of areas, including Power / Energy, Industry / Distribution / Water, Urban Development, and Finance / Social / Healthcare. At the same time, the Hitachi Group will work to establish an even more solid management base by pushing ahead with ongoing business portfolio reforms and cost structure reforms. Under the "2018 Mid-term Management Plan," the Hitachi Group utilizes the following indicatior targets to measure performance in terms of meeting its starategic and operational goals: adjusted operating income (margin) (Note 1); EBIT (margin) (Note 2); net income attributable to Hitachi, Ltd. stockholders; front revenue ratio (Note 3); overseas revenue ratio; operating cash flow margin (Note 4); and return on assets (ROA) (Note 5).

(Notes)
1. Adjusted operating income is presented as revenues less cost of sales as well as selling, general and administrative expenses. Adjusted operating income margin is the ratio calculated by dividing adjusted operating income by revenues.
2. EBIT represents earnings before interest and taxes, which is presented as income from continuing operations, before income taxes less interest income plus interest charges. EBIT margin is the ratio calculated by dividing EBIT by revenues.
3. Front revenue ratio is the ratio of revenues from front-line busiensses to total revenues.
4. Operating cash flow margin is the ratio calculated by dividing operating cash flows by revenues.
5. Return on assets (ROA) is the ratio of net income to average total assets of the beginning of and the end of fiscal year.

#### (2) Economic Environment

We conduct business operations such as manufacturing, marketing, and research and development activities throughout the world. Therefore, the economic conditions in global markets where the Hitachi Group conducts business, in particular Japan, Asia, North America and Europe, affect its results of operations.

During the year ended March 31, 2018, the global economy expanded at a moderate pace. The U.S. economy soundly improved, in particular, consumer spending underpinned by improving employment and capital investment. In Europe, the economy continued to expand slowly, led by the German economy. The Chinese economy continued steady growth due to increases in infrastructure investments made by the government and consumer spending. The Japanese economy has continued its moderate recovery trend, reflecting firm consumer spending due to improving employment and income and upward trend in capital investment.

#### (3) Business and Financial Challenges Hitachi Group Faces

During fiscal 2017, the Hitachi Group geared up for its growth and had its sights set on achieving targets associated with the "2018 Mid-term Management Plan." The Hitachi Group will focus on the following measures for fiscal 2018 in order to lead changes in social life through its social innovation business in a society where people seek to realize "Society 5.0" to develop innovative solutions with new technologies and resolve various social challenges. Based on this approach, we aim to evolve into an excellent global company.

- Become the best innovation partner with digital technologies

We will further enhance our digital business by expanding co-creation with customers which utilizes synergetic effects of operational technologies, information technologies and products, based on the Lumada IoT platform, one of the top level IoT platforms. We will seek to become the best innovation partner for the IoT era and, as a leading company, solve social challenges with digital technologies, by accumulating use cases of the Lumada IoT platform and globally expanding applications.

- Expand further businesses globally

We will accomplish growth of our social innovation business globally and evolve into a truly excellent global company. We will further expand each of our core businesses with regional focus: financial/social solutions business and industrial equipment/solutions business in North America and Asia, railway business in North America and Europe, and elevators/escalators business in Asia and China.

- Strengthen cash flow generating capability

We will reinforce our capability to generate cash flows and strengthen management base to evolve into a world class global company by ensuring funds necessary to grow the Hitachi Group through optimizing our business portfolio, reducing or withdrawing from unprofitable businesses, promoting selective investment, and implementing cost reduction initiatives.

Besides the above, the Hitachi Group will proactively and continuously make efforts to meet such needs of societies or the times as ensuring quality assurance and compliance with laws, promoting work -style reforms and contributing to the environment and communities.

(4) Fundamental Policy on the Conduct of Persons Influencing Decision on the Company's Financial and Business Policies

The Group invests a great deal of business resources in fundamental research and in the development of market-leading products and businesses that will bear fruit in the future, and realizing the benefits from these management policies requires that they be continued for a set period of time. For this purpose, the Company keeps its shareholders and investors well informed of not just the business results for each period but also of the Company's business policies for creating value in the future.

The Company does not deny the significance of the vitalization of business activities and performance that can be brought about through a change in management control, but it recognizes the necessity of determining the impact on company value and the interests of all shareholders of the buying activities and buyout proposals of parties attempting to acquire a large share of stock of the Company or a Group company by duly examining the business description, future business plans, past investment activities, and other necessary aspects of such a party.

There is no party that is currently attempting to acquire a large share of the Company's stocks nor is there a specific threat, neither does the Company intend to implement specified so-called anti-takeover measures in advance of the appearance of such a party, but the Company does understand that it is one of the natural duties bestowed upon it by the shareholders and investors to continuously monitor the state of trading of the Company's stock and then to immediately take what the Company deems to be the best action in the event of the appearance of a party attempting to purchase a large share of the Company's stock. In particular, together with outside experts, the Company will evaluate the buyout proposal of the party and hold negotiations with the buyer, and if the Company deems that said buyout will not maintain the Company's value and is not in the best interest of the shareholders, then the Company will quickly determine the necessity, content, etc., of specific countermeasures and prepare to implement them. The same response will also be taken in the event a party attempts to acquire a large percentage of the shares of a Group company.

## 2. Risk Factors

We conduct business on a global scale across a broad range of business areas and utilize sophisticated, specialized technologies to carry out our operations. Therefore, we are exposed to risks attributable to the economic environment, risks inherent in individual industrial sectors and business lines and risks related to our operations. Investment in our securities also involves risks. The following risks are based on the assumption we consider reasonable as of the filing date of this report.

Risks Related to Operations

*Economic Trends*

Our business is influenced by the global economy and economic conditions in certain regions or countries. We are affected by downward economic trends in the U.S., Europe, China, emerging countries and Japan. Such economic conditions could cause decline in consumer spending or capital investment and subsequently reduced demand for our products and services, which could adversely affect our business, financial condition, and results of operations.

*Currency Exchange Rates Fluctuations*

Since we conduct business in many foreign countries, our business activities are exposed to risks from fluctuations in foreign currency exchange rates. We sell products, provide services and purchase raw materials and components in local currencies. Therefore, fluctuations in foreign currency exchange rates may result in lower revenues or higher costs in yen to us and thus affect our results of operations, which are reported in Japanese yen. Our price competitiveness, and thus our results of operations, may be harmed if we seek to increase prices in local currencies to compensate for lower revenues or to increase prices in yen to absorb the higher cost. In addition, since we hold assets and liabilities denominated in foreign currencies, fluctuations in foreign currency exchange rates may adversely affect our financial condition presented in Japanese yen through foreign currency translation. While we take measures to reduce the risks from fluctuations in foreign currency exchange rates, such measures may not be effective.

*Access to Liquidity and Long-term Financing*

Our primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from capital markets, such as offerings of commercial paper and other debt securities, as well as equity securities. We need liquid funds to pay our operating expenses, the principal of and interest on our debt and dividends on our capital stock. We also need long-term financing to fund, among other things, capital expenditures and research and development expenses. We currently believe our cash flows from operations, borrowings from banks and other institutional lenders and funding from the capital markets can provide sufficient funding for our operations and other liquidity needs. However, a global economic downturn could adversely affect our cash flows from operations, business results and financial condition and may adversely affect our credit ratings. If our ratings are downgraded, our ability to obtain additional financing on terms we consider favorable may be negatively affected.

Our reliance on banks and institutional lenders exposes us to risks related to rising interest rates, and we may need to increase our reliance on external sources of funding. An increased reliance on debt instruments may adversely affect our credit ratings, which might affect our ability to successfully obtain additional financing on terms we consider favorable. The inability to successfully obtain such financing may increase our financing costs, and therefore could adversely affect our financial condition and results of operations.

Furthermore, failure of one or more of our major lenders or a decision by one or more of them to change the terms and conditions of their loans or to stop lending to us could have an adverse effect on our access to funding.

*Marketable Securities Risks*

We invest in marketable securities to maintain or promote our business or other relationships with other companies. These marketable securities are exposed to the risk of declining stock market prices. Such declines may require that we write down equity securities that we hold. Further, contractual and other obligations may require us to maintain our holdings of these securities despite declining share prices and this may lead to material losses.

*Material and Component Procurement*

Our manufacturing operations rely on external suppliers for supplies of materials, parts, components and services of adequate quality and quantity, delivered in a timely manner at a reasonable price. External suppliers may not have sufficient capacity to meet all of our needs during periods of excess demand. Shortages of materials, parts, components and services may cause a sharp rise in their prices. In addition, prices of certain raw materials, parts and components which we purchase in local currencies, principally the U.S. dollar and the euro, could be adversely affected by fluctuations in foreign currency exchange rates. Increases in the market price of petroleum and other materials, such as copper, steel, synthetic resins, rare metals and rare-earth minerals, can increase our production costs and may adversely affect our results of operations. Conversely, decreases in commodity prices, such as for raw materials, parts and components, can result in write-downs of inventory.

If natural disasters disrupt the operations of our suppliers and damage supply chains, it may adversely affect our production. Although we generally maintain multiple sources of supply and work closely with our suppliers to avoid supply-related problems, such problems, including shortages and delays, may continue to occur, which could harm our business, financial condition and results of operations.

*Estimates, Fluctuations in Cost and Cancellation of Long-term Contracts*

We enter into a substantial number of long-term contracts, particularly in connection with the construction of infrastructure systems. When the outcome of a construction can be estimated reliably, we recognize revenue and expenses by reference to the stage of completion of the contract activity. In this case, we recognize revenue in an amount equal to estimated total revenue from the arrangement multiplied by the percentage that costs incurred to date bear to estimated total costs at completion based upon the most recently available information. When the outcome of a construction cannot be estimated reliably, we recognize revenue only to the extent of contract costs incurred that it is probable will be recoverable, and recognize contract costs as expenses in the period in which such costs are incurred. The revenue recognition for such long-term contracts requires us to make significant assumptions about estimates of total contract costs, remaining costs to completion, total contract revenues, contract risks and other factors. We charge any anticipated losses on fixed price contracts to operations when we are able to estimate such losses. While we employ our best judgment based on available information, there can be no assurance that these estimates will, ultimately, prove to be correct. We regularly review these estimates and adjust them as we deem necessary. Fluctuations in costs can occur for a variety of reasons, many of which are beyond our control. In addition, we or our counterparties may cancel these contracts. These factors would require us to revise our initial assumptions regarding a particular contract, and may adversely affect our business, financial condition and results of operations.

*Credit Risks Arising from Business Transactions*

We make transactions with diverse customers and suppliers in Japan and other countries. We sell our products to certain customers on credit and pay in advance for products or services provided by certain suppliers. While we take measures to manage counterparty credit risk, such as regularly monitoring credit conditions of such customers or suppliers and setting a limit on transaction amount according to their credit conditions, credit deterioration or failure of one or more of them could adversely affect our financial condition, results of operations and cash flows.

*Supply and Demand Balance*

Oversupply in the markets in which we compete may lead to declines in sales prices, revenues and profitability. In addition, adjustment to demand may force us to dispose of excess supply or obsolete equipment or reduce production, which can result in losses. For example, the imbalance between supply and demand in construction machinery and automotive equipment industries and a resultant deterioration in market conditions could negatively affect our businesses, financial condition and results of operations.

*Rapid Technological Innovation*

New technologies are rapidly emerging in the segments in which we conduct business, with the pace of technological innovation. The development of new and advanced technologies, the continuous, timely and cost-effective incorporation of such technologies into products and services and the effective marketing of such products and services are indispensable to remaining competitive. While introducing such products and services requires significant resource commitment to research and development, there can be no assurance that our research and development will be successful. Failure in our endeavors to develop and incorporate such advanced technologies into products and services in a timely manner, or to achieve market acceptance for such products and services, may negatively affect our business, financial condition and results of operations.

*Dependence on Specially Skilled Personnel*

We believe recruiting and retaining additional people who are highly skilled in connection with our operations is indispensable to remaining competitive. However, the number of skilled personnel is limited and the competition for attracting and maintaining such personnel is intense. We cannot ensure that we will be able to successfully attract new or maintain our current skilled personnel.

*Intense Competition*

We are subject to intense competition in many of the markets in which we operate, and this may adversely affect our results of operations. The industrial sectors and business lines in which we are engaged are experiencing increasingly intense competition. We compete with diverse competitors ranging from huge global corporations to specialized companies. Competitors are increasingly manufacturing products, including sophisticated electronic products, and developing IT services in low-cost jurisdictions. Low-cost manufacturing and the globalization of world markets have accelerated the commoditization of certain products or services, which has resulted in increasingly intense price competition for many of our products. To succeed in this competitive environment, we believe that our products and services must be price competitive. The commoditization of such products affects our ability to set prices for our products. If we are unable to charge comparable prices to those of our competitors, our competitiveness and overall profitability may be harmed. On the other hand, charging comparable prices to those of our competitors may require us to sell products and services at a loss. Our products and services must also be competitive in terms of engineering sophistication, quality and brand value. We must introduce our products and services to the markets in a timely manner. There can be no assurance that the products or services that we offer will be competitive. The failure of such products or services to be competitive may negatively affect our business, financial condition and results of operations.

*Our Strategy to Strengthen Our Social Innovation Business*

Our business strategy seeks to build our business portfolio and achieve a stable and profitable business structure mainly by strengthening our Social Innovation Business, which supplies advanced social infrastructure supported by information and communication technology. We plan to devote significant resources including capital expenditures and R&Ds and are making investments in mergers and acquisitions and in new projects to strengthen our Social Innovation Business. In addition, we attempt to design suitable organizational structure for promoting our Social Innovation Business more effectively in response to market changes. To implement this strategy, we have incurred and may continue to incur considerable expenses. Our efforts to implement this strategy may be unsuccessful or less successful than we currently anticipate. Even if these efforts are successful, there is no assurance that we will be able to sustain or increase profitability.

*Acquisitions, Joint Ventures and Strategic Alliances*

In every operating sector, we depend to some degree on acquisitions of other companies, joint ventures and strategic alliances with outside partners to design and develop key new technologies and products, to strengthen competitiveness by scaling up and to expand into new regions through acquiring local bases or distribution channels. Such transactions are inherently risky because of the difficulties in integrating operations, technologies, products and personnel and achieving return of the investment. Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could adversely affect our business. Decisions made by or the performance of alliance partners that we cannot control or adverse business trends may also negatively affect the success of our alliances. We may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration or restructuring of acquired businesses. If it is expected that the amount invested is irrecoverable due to a decline in the profitability of an investee, we may incur siginificant losses, including impairment loss for goodwill. There can be no assurance that these transactions will be beneficial to our business or financial condition. Even assuming these transactions are beneficial, there can be no assurance that we will be able to successfully integrate acquired businesses or achieve all or any of the initial objectives of these transactions.

*Restructuring of Our Business*

Our business strategy seeks to build our business portfolio and achieve a stable and profitable business structure in part by:

- closing unprofitable operations;
- divesting our subsidiaries and affiliated companies;
- reorganizing production bases and sales networks; and
- selling select assets.

Our restructuring efforts may not be implemented in a timely manner or at all, including due to governmental regulations, employment issues or a lack of demand in the M&A market for businesses we may seek to sell. In addition, we have listed subsidiaries and from time to time the interests of these listed subsidiaries' shareholders may conflict with our interests. Such conflicts of interest may result in difficulties in timely implementing group-wide policies, including mergers, company splits and other similar transactions to which the listed subsidiaries are parties. Restructuring efforts may also bring about unintended consequences, such as negative customer or employee perceptions, and have caused and may continue to cause us to incur significant expenses and other costs, including additional impairment losses on our fixed assets and intangible assets, write-offs of inventory and losses on the disposal of fixed assets and losses related to the sale of securities.

Current and future restructuring efforts may be unsuccessful or less successful than we presently anticipate and may adversely affect our business, financial condition and results of operations.

*Worsening of Business Performance of Equity-Method Associates and Joint Ventures*

We use the equity-method to account for a number of associates and joint ventures. If one or more of such associates or joint ventures, accounted for using the equity-method, records a loss during a given period, we must record that loss in a manner proportionate to our ownership interest in our consolidated financial statements. In addition, if the carrying amount of our equity-method investments in associates or joint ventures is below the recoverable amount of the investments, we could be required to record an impairment loss.

*Our Overseas Growth Strategies*

We seek to expand our business, including our Social Innovation Business, in overseas markets as part of our business strategy. Through such overseas expansion, we aim to increase our revenues, reduce our costs and improve profitability. In many of these markets, we face barriers in the form of long-standing relationships between our potential customers and their local suppliers. In addition, various factors in foreign countries where we operate may adversely affect our overseas business activities. These factors include:

- changes in regulations relating to investments, exports, tariffs, antitrust, anti-bribery, consumer and business taxation, intellectual property, foreign trade and exchange controls, environmental and recycling requirements;
- differences in commercial and business customs such as contract terms and conditions;
- labor relations;
- public sentiment against Japan and local residents' sentiment against us; and
- other political and social factors as well as economic trends and currency exchange rate fluctuations.

Because of these factors, there can be no assurance that we will be able to achieve the aims of our overseas growth strategy. This may adversely affect our business growth prospects and results of operations.

*Overhaul of Cost Structure*

We implement "the Hitachi Smart Transformation Project," which promotes cost reductions in all activities of our value chain by thoroughly overhauling our cost structure across the Group. We seek to stabilize earnings and generate cash flows by improving our management efficiency through the Project. The Project may be less successful than we currently anticipate. Even if the Project is successful, there is no assurance that we will be able to sustain or increase profitability.

*Intellectual Property*

We depend in part on proprietary technology and our ability to obtain patents, trademarks and other forms of intellectual property rights covering our products, product design, manufacturing processes and software-based services in Japan and other countries. The fact that we hold such intellectual property rights does not ensure that they will provide a competitive advantage to us. Various parties may challenge, invalidate or circumvent our patents, trademarks and other intellectual property rights. There can be no assurance that claims allowed on any future patents will be sufficiently broad to protect our technology. Effective patent, copyright and trade secret protection may be unavailable or limited in some of the markets in which we operate, and our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons.

We design many of our products to include software or other intellectual property licenses from third parties. Competitors may not make their protected technology available to us, or may make it available to us only on unfavorable terms and conditions. There can be no assurance that we will be able to maintain a license for such intellectual property if obtained, for economic or other reasons, or that such intellectual property will give us the commercial advantages that we desire.

From time to time, we are sued or receive notices regarding patent and other intellectual property claims. Whether or not these claims have merit, they may require significant resources to defend against and may divert management attention from our business and operations and result in harm to our reputation. In addition, a successful infringement claim and our inability to obtain the license for the infringed technology or substitute similar non-infringing technology may adversely affect our business.

*Litigation and Regulatory Investigations*

We face risks of being involved in litigation and alternative dispute resolution and regulatory investigation and actions in connection with our operations. Lawsuits or any other legal procedures for resolving disputes and regulatory actions may seek payment of large, indeterminate amounts or otherwise limit our operations, and their existence and magnitude may remain unknown for substantial periods of time.

In the past several years, we have been the subject of several investigations of alleged antitrust violations in relation to certain product markets in Japan, Europe and North America, etc. and received claims for damages from our customers, etc., which may have adverse effects on our financial condition or profitability. See "Consolidated Financial Statements—Notes to Consolidated Financial Statements—(30) Commitments and Contingencies." These investigations or disputes may result in significant penalties or compensation for damages, etc. Such substantial legal liability or regulatory action could have an adverse effect on our business, results of operations, financial condition, cash flows, reputation and credibility.

In addition, our business activities are subject to various governmental regulations in countries where we operate, which include investment approvals, export regulations, tariffs, antitrust, anti-bribery, intellectual property, consumer and business taxation, foreign trade and exchange controls, and environmental and recycling requirements. These regulations limit, and other new or amended regulations may further limit, our business activities or increase operating costs. In addition, the enforcement of such regulations, including the imposition of fines or surcharges for violation of such regulations, may adversely affect our results of operations, financial condition, cash flows, reputation and credibility.

*Product Quality and Liability*

We increasingly provide products and services utilizing sophisticated technologies, including but not limited to components of power stations. Reliance on external suppliers reduces our control over quality assurance. The occurrence of defects in our products and services could negatively affect our reputation for quality of products and services, expose us to liability for damages caused by such defects and negatively affect our ability to sell certain products. A significant product defect could adversely affect our results of operations, financial condition and future business prospects.

*Significant Disasters and Similar Events*

We have many facilities, including our R&D facilities, manufacturing facilities and our headquarters in Japan. Historically, Japan has experienced numerous natural disasters such as earthquakes, tsunamis and typhoons. Natural disasters in the future may have a significantly adverse affect on an array of our corporate activities, from production to sales. We also have overseas facilities in Asia, the U.S. and Europe, which are also subject to similar natural disasters. Natural disasters in each of the areas may cause damage on certain of our plants and offices and the operations of our suppliers and customers. Such significant natural disasters may directly damage or destroy our facilities, which could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would result in significant losses. Furthermore, even if such significant natural disasters do not directly affect our facilities, they could result in disruptions in distribution channels or supply chains. The spread of infectious diseases and geopolitical and social instability, such as terrorism, crime, civil disturbance and conflict, etc., may also disrupt our operations, render our employees unable to work, reduce consumer demand for our products or disrupt our supply and distribution channels. In addition, we are not insured against all potential losses, and even losses that insurance covers may not be fully covered and may be subject to challenges of or delays in payment. Direct and indirect disruption of our operations as a result of natural disasters or other events could have a negative impact on our operating activities, results of operations and financial condition.

*Dependence on Information Systems*

With the increased importance of information systems to our operating activities, disruptions in such systems due to computer viruses and other factors could have a negative impact on our operating activities, results of operations and financial condition.

*Management of Confidential Information*

We maintain and manage personal information obtained from our customers, as well as confidential information relating to our technology, research and development, or R&D, production, marketing and business operations and those of our customers and clients, in various forms. Although we have implemented controls to protect the confidentiality of such information, there can be no assurance that such controls will be effective. Unauthorized disclosures of such information could subject us to complaints or lawsuits for damages or could otherwise have a negative impact on our business, financial condition, results of operations, reputation and credibility.

*Employee Retirement Benefits*

We have a significant amount of employee retirement benefit costs that we derive from actuarial valuations based on a number of assumptions. Inherent in these valuations are key assumptions used in estimating pension costs including mortality, withdrawal and retirement rates, changes in wages and the discount rate. We are required to make judgments regarding the key assumptions by taking into account various factors including personnel demographics, market conditions and expected trends in interest rates. Although management believes that its key assumptions are reasonable in light of the various underlying factors, there can be no assurance that the key assumptions will correspond to actual results. If our key assumptions differ from actual results, the consequent deviation of actual pension costs from estimated costs may have an adverse effect on our financial condition and results of operations. A decrease in the discount rate may result in an increase in the amount of projected benefit obligations. In addition, we may change these key assumptions, such as the discount rate. Changes in key assumptions may also have an adverse effect on our financial condition and results of operations.

Risks Related to Our American Depositary Shares

*Rights of ADS holders*

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares underlying the American Depositary Shares, or ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay dividends and distributions collected from us as and to the extent provided in the deposit agreement. However, ADS holders will not be able to bring derivative actions, examine our accounting books and records, or exercise appraisal rights through the depositary.

We are incorporated in Japan with limited liability. A significant portion of our assets are located outside the United States. As a result, it may be more difficult for investors to enforce against us judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

*Unit Share System*

The Companies Act allows companies to establish a "unit" of shares for the purpose of exercising voting rights at the general meetings of shareholders. Under our articles of incorporation, one unit of our shares is composed of 1,000 shares, equivalent to 100 ADSs. Each unit of our shares has one vote. A holder who owns shares or ADSs in other than multiples of 1,000 or 100, respectively, will own less than a whole unit (i.e., for the portion constituting fewer than 1,000 shares, or fewer than 100 ADSs). Our articles of incorporation, in accordance with the Companies Act, impose significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote, to attend a shareholders meeting and to bring derivative actions. In addition, less than whole unit shares cannot be traded on Japanese stock markets. Under the unit share system, holders of our shares constituting less than one unit have the right to require us to purchase their shares and the right to require us to sell them additional shares to create a whole unit of 1,000 shares. However, holders of our ADSs are unable to withdraw underlying shares representing less than one unit and, as a practical matter, are unable to require us to purchase those underlying shares. The unit share system, however, does not affect the transferability of ADSs, which may be transferred in lots of any number of whole ADSs.

*Dilution of Your Shares by Issuances of Additional Shares*

We may issue additional shares in the future within the unissued portion of our authorized share capital and sell shares held as treasury stock, generally without shareholder vote unless the subscription or sale price is significantly lower than the market price. Issuances and sales of our shares in the future may be at prices below the prevailing market prices and may be dilutive.

*Foreign Exchange Fluctuations*

Market prices for our ADSs may fall if the value of the yen declines against the U.S. dollar. In addition, the amount of cash dividends or other cash payments made to holders of ADSs will decline if the value of the yen declines against the dollar.

3. Management's Discussion and Analysis of Consolidated Financial Condition, Results of Operations and Cash Flows

(1) Progress of Management Plan

1) Status of Key Indicators laid out as Strategic and Operational Targets

During the year ended March 31, 2018, we realized gearing up for its growth and made steady progress toward achieving more than 8% of adjusted operating income margin, more than ¥400.0 billion of net income attributable to Hitachi, Ltd. stockholders and more than 5% of ROA laid out as targets under the "2018 Mid-term Management Plan." The key indicators to measure performances in terms of meeting our strategic and operational goals are as follows.

| | Year ended March 31 2018 (Fiscal 2017) | Fiscal 2018 Target |
|---|---|---|
| Revenues | 9,368.6 billion yen | 10,000.0 billion yen |
| Adjusted operating income | 714.6 billion yen | Over 800.0 billion yen |
| Adjusted operating income margin | 7.6% | Over 8% |
| EBIT | 644.2 billion yen | Over 800.0 billion yen |
| EBIT margin | 6.9% | Over 8% |
| Net income attributable to Hitachi, Ltd. stockholders | 362.9 billion yen | Over 400.0 billion yen |
| Overseas revenues ratio | 50% | Over 55% |
| ROA | 5.0% | Over 5.0% |

2) Global Business Expansion

We have strived to expand our business globally by making main line of our businesses further grow with regional focus. The main results for the year ended March 31, 2018 are as follows.

Railway business

- Expanded sales in the U.K. in particular rolling stocks for the Intercity Express Programme
- Began delivering rolling stocks for Miami Dade metro and accepted orders for rolling stocks and signaling systems for Baltimore metro in North America.

Industrial equipment business

- Built sales channels in North America by acquiring air compressors business under the "Sullair" brand.

IT products business

- Strong sales for flash storage products in North America

Construction machinery business

- Expanded sales in response to the market recovery in China

3) Business Reorganization

We continuously reorganize our business in order to further focus our business resources on the Social Innovation Business. The important business reorganizations conducted in the year ended March 31, 2018 are as follows:

In April 2017, the Company concluded an agreement with Accudyne Industries Borrower, S.C.A. (hereinafter referred to as "Accudyne") regarding the Company's acquisition of the Sullair business, which is operated by Accudyne's subsidiaries with certain related assets, and which manufactures and sells air compressors under the "Sullair" brand. In July, 2017, the Company completed the acquisition of the Sullair business.

In April 2017, the Company concluded a basic agreement with HKE Holdings G.K. (hereinafter referred to as "HKE"), all issued shares of which is held entirely by a related investment fund that is indirectly owned and operated by Kohlberg Kravis Roberts & Co. L.P. and with HVJ Holdings Inc. (hereinafter referred to as "HVJ"), which is invested by funds that are managed, operated, and provided with information and the like by Japan Industrial Partners, Inc. regarding (i) a tender offer (hereinafter referred to as "the tender offer") scheduled to be conducted by HKE for the common shares of Hitachi

Kokusai Electric Inc. (hereinafter referred to as “Hitachi Kokusai”) (hereinafter referred to as “the share of Hitachi Kokusai”), and a share consolidation of the share of Hitachi Kokusai, and the acquisition of treasury shares by Hitachi Kokusai, through which Hitachi Kokusai becomes a wholly-owned subsidiary of HKE, (ii) an absorption-type company split of the thin-film process solutions business of Hitachi Kokusai (hereinafter referred to as “the company split”), whereby HKE will be the company succeeding in absorption-type split, to be conducted by HKE and Hitachi Kokusai after Hitachi Kokusai becomes a wholly-owned subsidiary of HKE, and (iii) the transfer by HKE of 20% of the share of Hitachi Kokusai to the Company and 20% of the share of Hitachi Kokusai to HVJ that is scheduled to take place after the company split, and other transactions that are incidental or related to those transactions. The above transactions (i) through (iii) were completed until June 2018.

We also continuously promote business resutructuring in order to address challenges we face such as improving profitablity of unprofitable businesses and downsizing of or withdrawal from them, and redeploying employees.

(2) Analysis of Results of Operations

1) Analysis of Statement of Operations

Revenues increased 2% to ¥9,368.6 billion, as compared with the year ended March 31, 2017, despite the effect of the move to transform business portfolio such as conversion of Hitachi Capital Corporation and Hitachi Transport System, Ltd., into equity-method affiliate and deconsolidation of Hitachi Koki Co., Ltd. in the year ended March 31, 2017. This increase was due mainly to higher revenues in the Construction Machinery segment, in which overseas sales increased mainly in China, and in the High Functional Materials & Components segment, in which sales of the electronics- and automotive-related products increased.

Cost of sales increased 1% to ¥6,866.5 billion, as compared with the year ended March 31, 2017, and the ratio of cost of sales to revenues was 73%, a decrease of 1% from the year ended March 31, 2017. Gross profit increased 5% to ¥2,502.0 billion, as compared with the year ended March 31, 2017.

Selling, general and administrative expenses were ¥1,787.4 billion, which was the same level as for the year ended March 31, 2017, and the ratio of selling, general and administrative expenses to revenues was 19%, as compared with 20% for the year ended March 31, 2017.

Adjusted operating income increased by ¥127.3 billion to ¥714.6 billion yen, as compared with the year ended March 31, 2017. The increase was due mainly to higher profits owing to increased revenues in the Construction Machinery segment, profitability improvement for the industry & distribution field, the power and energy business, and the industrial equipment business in the Social Infrastructure & Industrial Systems segment. The increase was also attributable to higher proftis in the Information & Telecommunication Systems segment owing to an improvement in the profitability of the system integration business in Japan and the effect of the structural reform implemented in the year ended March 31, 2017.

Other income decreased ¥88.6 billion to ¥12.0 billion and other expenses decreased ¥5.8 billion to ¥140.6 billion, as compared with the year ended March 31, 2017, respectively. The details are as follows. Net gain on sales and disposal of fixed assets was worsened by ¥17.6 billion and turned to loss of ¥2.5 billion, as compared with the year ended March 31, 2017. Impairment losses decreased ¥19.9 billion to ¥48.6 billion, as compared with the year ended March 31, 2017. This mainly reflected impairment losses on intangible assets, etc. in the Information & Telecommunication Systems segment. Net gain on business reorganization and others decreased ¥71.5 billion to ¥9.7 billion, as compared with the year ended March 31, 2017, due mainly to the absence of partial sale of the shares of Hitachi Transport System, Ltd. and the sale of Hitachi Koki Co., Ltd. shares recorded in the year ended March 31, 2017. Special termination benefits decreased ¥8.9 billion to ¥15.7 billion, as compared with the year ended March 31, 2017. Expenses related to competition law and others increased ¥7.5 billion to ¥14.2 billion, as compared with the year ended March 31, 2017.

Financial income (excluding interest income) was ¥7.0 billion, the same level as for the year ended March 31, 2017, and financial expenses (excluding interest charges) decreased ¥14.9 billion to ¥11.2 billion, as compared with the year ended March 31, 2017.

Share of gains of investments accounted for using the equity method was ¥62.4 billion, an amelioration of ¥109.6 billion from the year ended March 31, 2017, for which an impairment loss for the uranium enrichment business at an U.S. equity-method associate was posted in the Social Infrastructure & Industrial Systems segment.

As a result of the foregoing, EBIT increased ¥169.0 billion to ¥644.2 billion, as compared with the year ended March 31, 2017.

Interest income increased ¥2.0 billion to ¥14.9 billion and interest charges increased ¥1.5 billion to ¥20.5 billion, as compared with the year ended March 31, 2017, respectively.

Income from continuing operations, before income taxes increased ¥169.5 billion to ¥638.6 billion, as compared with the year ended March 31, 2017.

Income taxes increased ¥6.5 billion to ¥131.7 billion, as compared with the year ended March 31, 2017, due mainly to increased income from continuing operations, before income taxes.

Loss from discontinued operations increased ¥10.0 billion to ¥16.0 billion, as compared with the year ended March 31, 2017.

Net income increased ¥152.8 billion to ¥490.9 billion, as compared with the year ended March 31, 2017.

Net income attributable to non-controlling interests increased ¥21.1 billion to ¥127.9 billion, as compared with the year ended March 31, 2017.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders increased ¥131.7 billion to ¥362.9 billion, as compared with the year ended March 31, 2017.

2) Operations by Segment

The following is an overview of results of operations by segment. Revenues for each segment include intersegment transactions.

(Information & Telecommunication Systems)

Revenues increased 1% to ¥2,008.9 billion, as compared with the year ended March 31, 2017, due mainly to higher revenues from system integration business in Japan and the impact of foreign currency translation.

Adjusted operating income increased ¥36.2 billion to ¥189.2 billion, as compared with the year ended March 31, 2017, due mainly to profitability improvement in system integration business in Japan and the effect of structural reform for the IT platform & products business.

EBIT increased ¥62.8 billion to ¥139.2 billion, as compared with the year ended March 31, 2017, due mainly to a decrease in business structural reform expenses as well as the increase in adjusted operating income.

(Social Infrastructure & Industrial Systems)

Revenues increased 2% to ¥2,375.0 billion, as compared with the year ended March 31, 2017, despite lower revenues from the power & energy business and shrink of less profitable business in industry & distribution field. This mainly reflected increased revenues from the railway systems business for the U.K. and that in the industrial products business due to the acquisition of Sullair brand air compressor business.

Adjusted operating income increased ¥38.5 billion to ¥115.5 billion, as compared with the year ended March 31, 2017, due mainly to an improvement in profitability of business for the industry and distribution field, power & energy business and industrial products business, despite a decrease in average sales price and an increase in procurement cost in elevators and esclators business in China.

EBIT was ¥101.2 billion, an improvement of ¥121.2 billion from the year ended March 31, 2017, because of the absence of impairment loss recognized in the preceding fiscal year in relation to the uranium enrichment business at an equity-method associate in the U.S.

(Electronic Systems & Equipment)

Revenues decreased 7% to ¥1,086.5 billion, as compared with the year ended March 31, 2017, due mainly to the impact of deconsolidation of Hitachi Koki Co., Ltd. in the preceding fiscal year, despite higher sales of semiconductor production equipment at Hitachi Kokusai Electric Inc. and Hitachi High-Technologies Corporation.

Adjusted operating income increased ¥5.3 billion to ¥86.9 billion, as compared with the year ended March 31, 2017, due mainly to an increase in profit of Hitachi Kokusai Electric Inc. as a result of higher sales of semiconductor production equipment.

EBIT increased ¥22.0 billion to ¥88.8 billion, as compared with the year ended March 31, 2017, due mainly to the increased adjusted operating income as well as a decrease in business structural reform expenses of Hitachi Kokusai Electric Inc.

(Construction Machinery)

Revenues increased 27% to ¥959.1 billion, as compared with the year ended March 31, 2017, due mainly to increased sales in China and other overseas countries, the effect of corporate acquisitions in Australia and the U.S. conducted by Hitachi Construction Machinery Co., Ltd. in the preceding fiscal year, and the impact of foreign currency translation.

Adjusted operating income increased ¥66.2 billion to ¥92.5 billion, as compared with the year ended March 31, 2017, due mainly to the increased revenues because of higher sales and the effect of the corporate acquisitions.

EBIT increased ¥74.3 billion to ¥97.0 billion, as compared with the year ended March 31, 2017, due mainly to the increased adjusted operating income as well as an increase in profit of an equity-method associate.

(High Functional Materials & Components)

Revenues increased 13% to ¥1,657.5 billion, as compared with the year ended March 31, 2017, due mainly to increased sales of electronics- and automotive-related products at Hitachi Metals, Ltd. and Hitachi Chemical Company, Ltd., the effect of acquisitions in Italy, etc. by Hitachi Chemical Company, Ltd., and the increase in sales price linked to higher raw material costs for Hitachi Metals, Ltd.

Adjusted operating income increased ¥1.9 billion to ¥121.8 billion, as compared with the year ended March 31, 2017, due mainly to increased revenues, despite of Hitachi Metals, Ltd. having a drop in profitability of heat-resistant exhaust casting components business and aluminum wheels business, and rise in raw materials prices.

EBIT decreased ¥24.6 billion to ¥98.6 billion, as compared with the year ended March 31, 2017, due mainly to recognition of impairment loss at Hitachi Metals, Ltd. in relation to deteriorated profitability of the aluminum wheel business as well as absence of gain on business reorganization and others recorded in the previous fiscal year, and due to posting expenses related to competition law and others at Hitachi Chemical Company, Ltd.

(Automotive Systems)

Revenues increased 1% to ¥1,001.0 billion, as compared with the year ended March 31, 2017, due mainly to increased sales in China, despite of sales decrease of car information systems business and demand decrease in North America.

Adjusted operating income decreased ¥6.7 billion to ¥49.5 billion, due mainly to profitability deterioration of car information systems business and sales decrease in North America of Clarion Co., Ltd.

EBIT decreased ¥23.4 billion to ¥42.4 billion, as compared with the year ended March 31, 2017, due mainly to the decrease in adjusted operating income as well as absence of gain on sales and disposals of fixed assets in the preceding fiscal year.

(Smart Life & Ecofriendly Systems)

Revenues decreased 3% to ¥540.1 billion, as compared with the year ended March 31, 2017.

Adjusted operating income increased ¥2.6 billion to ¥25.1 billion, due mainly to effects of cost reduction and structural reform, despite the decline in revenues.

EBIT increased ¥1.5 billion to ¥33.3 billion, as compared with the year ended March 31, 2017, due mainly to the increase in adjusted operating income and an increase in profit of an equity-method associate on air compressor business, depite the absence of gain on sales and disposals of fixed assets posted in previous fiscal year.

(Others)

Revenues decreased 15% to ¥557.7 billion and adjusted operating income decreased ¥0.9 billion to ¥21.4 billion. This was due mainly to the conversion of Hitachi Transport System, Ltd. to an equity-method associate. EBIT increased ¥1.2 billion to ¥21.8 billion, as compared with the year ended March 31, 2017, due to an improvement on gain and loss on sales and disposals of fixed assets.

3) Revenues by Geographic Area

The following is an overview of revenues attributed to geographic areas based on customer location.

Japan

Revenues in Japan decreased 2% to ¥4,643.0 billion, as compared with the year ended March 31, 2017. This was due mainly to reduced revenues in the Social Infrastructure & Industrial Systems segment, etc. and due to the conversion of Hitachi Transport System, Ltd. and Hitachi Capital Corporation to equity-method associates in the previous fiscal year, despite increased revenues in the High Functional Materials & Components segment.

Overseas

(Asia)

Revenues in Asia increased 12% to ¥2,081.1 billion, as compared with the year ended March 31, 2017. This was due mainly to higher revenues in the Electronic Systems & Equipment segment, Construction Machinery segment, and High Functional Materials & Components segment, etc., despite reduced revenues as result of the conversion of Hitachi Transport System, Ltd. and Hitachi Capital Corporation to equity-method associates.

(North America)

Revenues in North America increased 3% to ¥1,177.5 billion, as compared with the year ended March 31, 2017. This was due mainly to the higher revenues in the Social Infrastructure & Industrial Systems segment gained by the industrial products business expansion by acquisition and higher reveneues in the Construction Machinery segment, despite reduced revenues in the Electronic Systems & Equipment segment due to impact of deconsolidation of Hitachi Koki Co., Ltd.

(Europe)

Revenues in Europe decreased 1% to ¥964.4 billion, as compared with the year ended March 31, 2017. This was due mainly to the impact of deconsolidation of Hitachi Koki Co., Ltd. and the conversion of Hitachi Capital Corporation to an equity-method associate. This decrease was almost partially offset by higher revenues in the Social Infrastructure & Industrial Systems segment, reflecting substantial sales growth in the railway systems business, and higher revenues in the High Functional Materials & Components segment due mainly to acquisitions.

(Other Areas)

Revenues in other areas increased 18% to ¥502.3 billion, as compared with the year ended March 31, 2017. This was due mainly to higher revenues in Construction Machinery segment owing to acquisitions, etc.

As a result of the foregoing, overseas revenues increased 7% to ¥4,725.5 billion, as compared with the year ended March 31, 2017, and the ratio to total revenues was 50%, which was 2% increase as compared with the year ended March 31, 2017.

(3) Analysis of Financial Condition and Cash Flows

1) Liquidity and Capital Resources

Our management considers maintaining an appropriate level of liquidity and securing adequate funds for current and future business operations to be important financial objectives. Through efficient management of working capital and selective investment in new plants and equipment, we are working to optimize the efficiency of capital utilization throughout our business operations. We endeavor to improve our group cash management by centralizing such management among us and our overseas financial subsidiaries. Our internal sources of funds include cash flows generated by operating activities and cash on hand. Our management also considers short-term investments to be an immediately available source of funds. In addition, we raise funds both in the capital markets and from Japanese and international commercial banks in response to our capital requirements. Our management's policy is to finance capital expenditures primarily by internally generated funds and to a lesser extent by funds raised through the issuance of debt and equity securities in domestic and foreign capital markets. In order to flexibly access funding, we maintain our shelf registration with the maximum outstanding balance of ¥300.0 billion.

We maintain commitment line agreements with a number of domestic banks under which we may borrow in order to ensure efficient access to necessary funds. These commitment line agreements generally provide for a one-year term, renewable upon mutual agreement between us and each of the lending banks, as well as another commitment line agreement with a contract term of three years ending on July 29, 2019. As of March 31, 2018, our unused commitment lines totaled ¥503.2 billion, including these of ¥400.0 billion which the Company maintained.

We receive debt ratings from Moody's Japan K.K. (Moody's), Standard & Poor's Rating Japan (S&P), as well as Rating and Investment Information, Inc. (R&I). Our debt ratings as of March 31, 2018 were as follows.

| Rating Company | Long-term | Short-term |
|---|---|---|
| Moody's | A3 | P-2 |
| S&P | A- | A-2 |
| R&I | A+ | a-1 |

With our current ratings, we believe that our access to the global capital markets will remain sufficient for our financing needs. We seek to improve our credit ratings in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through the capital markets.

2) Cash Flows

(Cash Flows from Operating Activities)

Net income in the year ended March 31, 2018 increased by ¥152.8 billion, as compared with the year ended March 31, 2017. Net cash outflow from a change in inventories increased by ¥158.4 billion, as compared with the year ended March 31, 2017. Net cash flow from a change in trage payables deteriorated by ¥13.6 billion. Net cash flow from a change in trade receivables improved by ¥244.0 billion. As a result, net cash outflow from changes in working capital decreased. As a result of the foregoing, net cash provided by operating activities was ¥727.1 billion in the year ended March 31, 2018, an increase of ¥97.5 billion compared with the year ended March 31, 2017.

(Cash Flows from Investing Activities)

Net amount of investments related to property, plant and equipment* was ¥406.4 billion, a decrease of ¥56.1 billion as compared with the year ended March 31, 2017. Proceeds from sales of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) decreased by ¥70.7 billion compared with the year ended March 31, 2017 for which partial sales of the shares of Hitachi Transport System, Ltd. and Hitachi Capital Corporation, and the sale of all shares of Hitachi Koki Co., Ltd were conducted. Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) increased ¥65.8 billion, compared with the year ended March 31, 2017, due mainly to payment for the acquisition of "Sullair" air compressor business. As a result of the foregoing, net cash used in investing activities was ¥474.3 billion in the year ended March 31, 2018, an increase of ¥136.3 billion compared with the year ended March 31, 2017.

* The sum of the purchase of property, plant and equipment, the purchase of intangible assets and the purchase of leased assets, less the proceeds from sale of property, plant, equipment and intangible assets, the proceeds from sale of leased assets and the collection of lease receivables

(Cash Flows from Financing Activities)

The net cash outflow from a change in short-term debt decreased by ¥128.9 billion compared with the year ended March 31, 2017. Payments related to long-term debt** in the year ended March 31, 2018 were ¥113.5 billion, as compared with ¥115.5 billion of proceeds related to long-term debt in the year ended March 31, 2017. As a result of the foregoing, net cash used in financing activities was ¥321.4 billion in the year ended March 31, 2018, an increase of ¥111.9 billion compared with the year ended March 31, 2017.

** The proceeds from long-term debt, less the payments on long-term debt

As a result of the above items, as of March 31, 2018, cash and cash equivalents amounted to ¥697.9 billion, a decrease of ¥67.2 billion from March 31, 2017. Free cash flows, the sum of cash flows from operating and investing activities, were an inflow of ¥252.8 billion in the year ended March 31, 2018, an decrease of ¥38.7 billion from the year ended March 31, 2017.

3) Assets, Liabilities and Equity

As of March 31, 2018, total assets amounted to ¥10,106.6 billion, an increase of ¥442.6 billion from March 31, 2017. This was due mainly to the acquisition of "Sullair" air compressor business in the Social Infrastructure & Industrial Systems segment and corporate acquisitions undertaken by Hitachi Chemical Company, Ltd. in the High Functional Materials &Components segment. Cash and cash equivalents as of March 31, 2018 amounted to ¥697.9 billion, a decrease of ¥67.2 billion from the amount as of March 31, 2017.

As of March 31, 2018, total interest-bearing debt, the sum of short-term debt and long-term debt, amounted to ¥1,050.2 billion, a decrease of ¥126.3 billion from March 31, 2017 as a result of bond redemption and repayment of borrowings. As of March 31, 2018, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥121.4 billion, a decrease of ¥74.9 billion from March 31, 2017. As of March 31, 2018, current portion of long-term debt amounted to ¥117.1 billion, a decrease of ¥73.0 billion from March 31, 2017. As of March 31, 2018, long-term debt (excluding current portion), consisting mainly of debentures, and loans principally from banks and insurance companies, amounted to ¥811.6 billion, an increase of ¥21.6 billion from March 31, 2017.

As of March 31, 2018, total Hitachi, Ltd. stockholders' equity amounted to ¥3,278.0 billion, an increase of ¥310.9 billion from March 31, 2017. This is due mainly to posting net income attributable to Hitachi, Ltd. stockholders. As a result, the ratio of total Hitachi, Ltd. stockholders' equity to total assets as of March 31, 2018 was 32.4%, compared with 30.7% as of March 31, 2017.

Non-controlling interests as of March 31, 2018 was ¥1,233.6 billion, an increase of ¥103.7 billion from March 31, 2017.

Total equity as of March 31, 2018 was ¥4,511.6 billion, an increase of ¥414.6 billion from March 31, 2017. The ratio of interest-bearing debt to total equity was 0.23, compared with 0.29 as of March 31, 2017.

(4) Production, Order Received and Sales

The Hitachi Group does not present production and orders received in amount or volume terms for each segment since it produces and sells a wide variety of products, there are variety of specifications in same kinds of products and certain products are mass-produced. Regarding sales, see "(2) Analysis of Results of Operations."

(5) Important Accounting Policies and Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers that certain accounting estimates to be critical, and that their significance to the financial statements and the possibility that future events affecting the estimate may differ significantly from management's current assumptions could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. First, the estimates require us to make assumptions about matters that are highly uncertain at the time the accounting estimates are made. Second, there could be different estimates that we reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur as time proceeds. Details of important accounting policies and estimates are described in "Consolidated Financial Statements ー Notes to Consolidated Financial Statements ー(3) Summary of Significant Accounting Policies."

(6) Forward-Looking Statements

Certain statements found in "1. Management Policy, Economic Environment and Challenges Hitachi Group Faces," "2. Risks Factors" and "3. Management's Discussion and Analysis of Consolidated Financial Condition, Results of Operations and Cash Flows" and other descriptions in this report may constitute "forward-looking statements" as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such "forward-looking statements" reflect management's current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as "anticipate," "believe," "expect," "estimate," "forecast," "intend," "plan," "project" and similar expressions which indicate future events and trends may identify "forward-looking statements." Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the "forward-looking statements" and from historical trends. Certain "forward-looking statements" are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this report.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- economic conditions, including consumer spending and plant and equipment investment in Hitachi’s major markets, particularly Japan, Asia, the United States and Europe, as well as levels of demand in the major industrial sectors Hitachi serves;
- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- uncertainty as to general market price levels for equity securities, declines in which may require Hitachi to write down equity securities that it holds;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- the possibility of cost fluctuations during the lifetime of, or cancellation of, long-term contracts for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- credit conditions of Hitachi’s customers and suppliers;
- fluctuations in product demand and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rates and/or price of raw materials or shortages of materials, parts and components;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- increased commoditization of and intensifying price competition for products;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
- uncertainty as to the success of acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- uncertainty as to the success of cost structure overhaul;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method associates and joint ventures have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- the possibility of disruption of Hitachi’s operations by natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- uncertainty as to Hitachi’s ability to maintain the integrity of its information systems, as well as Hitachi’s ability to protect its confidential information or that of its customers; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

The factors listed above are not all-inclusive and are in addition to other factors contained elsewhere in this report and in other materials published by Hitachi.

4. Material Agreements, etc.

Cross License Agreement

| Party | Party | Country | Item under contract | Contract description | Contract period |
|---|---|---|---|---|---|
| Hitachi, Ltd. (The Company) | International Business Machines Corp. | U.S.A. | Information handling systems | Cross license of patents | From January 1, 2008 to the expiration of patents applied on or before January 1, 2023 |
| Hitachi, Ltd. (The Company) | HP Inc.<br>Hewlett Packard Enterprise Company | U.S.A. | All products and services | Cross license of patents | From March 31, 2010 to the expiration of patents applied on or before December 31, 2014 |
| Hitachi, Ltd. (The Company) | EMC Corporation | U.S.A. | Information handling systems | Cross license of patents | From January 1, 2003 to the expiration of patents applied on or before December 31, 2002 |
| Hitachi-GE Nuclear Energy, Ltd. (Consolidated subsidiary) | GE-Hitachi Nuclear Energy Americas LLC | U.S.A. | Nuclear reactor systems | Cross license of patents and technology | From October 30, 1991 to June 30, 2023 |

## 5. Research and Development

The Hitachi Group (the Company and consolidated subsidiaries) is conducting business in a broad range of fields, from information and telecommunications systems to automotive systems. The Hitachi Group places priority on allocating R&D resources on the Social Innovation Business, a core business of the Hitachi Group, and makes efforts for continuing and developing business.

In order to strengthen the global competitiveness of the business, the Hitachi Group works in R&D activities to identify, share and resolve the customers' problems, and is focusing on developing competitive products and services to lead globalization of operations. In addition, the Hitachi Group conducts advanced research to cultivate future core businesses.

The Hitachi Group also works to improve the efficiency of R&D through close coordination between the R&D divisions of the Company and group companies. Furthermore, the Hitachi Group is actively expanding collaborations with universities and other research institutions as well as with outside firms.

The Company has established an R&D framework to accelerate global growth through the Social Innovation Business. In order to support the global growth, it aims to promote R&D that can meet local needs quickly by expanding R&D facilities and personnel in North America, Europe, China, Asia, India and South America and accelerating locally-led R&D. The Company reorganized its R&D facilities in Japan and overseas to establish an R&D structure comprising the "Global Center for Social Innovation," which discovers customers' issues and creates new solutions in collaboration with customers, the "Center for Technology Innovation," which creates innovative products and services and supports development of new solutions by applying and integrating technology platforms in focused areas, and the "Center for Exploratory Research," which cultivates new areas through exploratory basic research based on our creative vision in the form of open innovation. With this R&D structure, the Company aims to further promote R&D that will contribute to solving customers' issues.

The Hitachi Group's R&D expenditures for the fiscal year ended March 31, 2018 were ¥332.9 billion, 3.6% of revenues. A breakdown of R&D expenditures by segment is shown below.

(Billions of yen)

| Segment | Amount |
|---|---|
| Information & Telecommunication Systems | 48.0 |
| Social Infrastructure & Industrial Systems | 56.1 |
| Electronic Systems & Equipment | 52.1 |
| Construction Machinery | 24.0 |
| High Functional Materials & Components | 48.5 |
| Automotive Systems | 69.2 |
| Smart Life & Ecofriendly Systems | 7.2 |
| Others | 4.4 |
| Corporate Items | 22.9 |
| Total | 332.9 |

Notable achievements of R&D activities in the fiscal year ended March 31, 2018 are as follows.

- Demonstration of the contribution that work style advice provided by an AI can make to improving an organization's activities (Information & Telecommunication Systems segment)

  We developed technology that involves an Artificial Intelligence (AI) automatically creating and distributing, on a daily basis, individually customized advice that is useful for improving an organization's activities. This was accomplished by organizing activity data collected by a wearable sensor into subsections such as time and conversation partner, and then inputting said data into the AI. Using this technology, we demonstrated that work style advice for employees provided by the AI can contribute to improving an organization's activities and that there is a correlation between the amount of change in an organization's activities and its purchase order achievement rate.

- Development of business-oriented AI technology that utilizes competitive self-play learning (Information & Telecommunication Systems segment)

  We developed business-oriented AI technology that learns with the intent of producing better results. This was accomplished by using a group of multiple interconnected AIs to represent a business environment that has a significant number of uncertainties and then organizing competitive self-play learning with other groups of AI in a computer simulation that does not rely on actual data provided by people.

- Development of technology that enables the observation of magnetic fields at the highest resolution in the world (Electronic Systems & Equipment segment)

  We developed technology that enables the observation of magnetic fields at the world's highest resolution (magnetic field distribution within magnetic multilayer materials at 0.67nm) using an atomic-resolution holography electron microscope. This technology reverses the magnetic field in a material after applying a high-intensity pulsed magnetic field to the material to eliminate the electric field information with high precision, and automatically compensates for the effect of the high-intensity pulsed magnetic field. (This is the result of development with RIKEN. This research was supported in part by the Cabinet Office's Funding Program for World-Leading Innovative R&D on Science and Technology and by the Japan Science & Technology Agency's Core Research for Evolutional Science and Technology (CREST) Program).

- Development of ink that uses color to visualize temperature management aberrations, which contributes to safe and reliable quality control (Social Infrastructure & Industrial Systems segment)

  We developed ink that changes color based on any deviation from the temperature range set for each product, and, as this process is irreversible, cannot change back to its original color even if the temperature returns to the preset range. The goal of this development was to create and apply IoT services that enable uninterrupted temperature management on an individual product level from the production through to the consumption of products such as fresh foods and medical supplies.

- Development of ultrasound measurement technology that enables simple, painless and highly accurate breast cancer screening (Electronic Systems & Equipment segment)

  We developed ultrasound measurement technology capable of detecting very small tumors without relying on examiner skill level. This was accomplished by transmitting ultrasonic waves, which do not involve irradiation or pain, from 360°, receiving and analyzing the sound waves that are reflected, and compensating for the effect of the vessel on ultrasonic wave propagation in the measurements.

## III. Property, Plants and Equipment

### 1. Summary of Capital Investment, etc.

The Hitachi Group (the Company and consolidated subsidiaries) selectively invests in R&D and product fields expected to grow over the long term, and it also invests to streamline manufacturing process, etc. and to improve the reliability of its products.

Capital investment (based on the amount recorded as tangible fixed assets and the investment property) in the fiscal year ended March 31, 2018 was ¥374.9 billion. A breakdown of capital investment by segment is as follows.

| Segment | Capital investment (Billions of yen) | Change from preceding fiscal year (%) | Main purpose of investment |
|---|---|---|---|
| Information & Telecommunication Systems | 35.5 | 112 | Data center equipment, streamline development and production of other products |
| Social Infrastructure & Industrial Systems | 79.9 | 127 | Facility for nuclear power generation system, streamline development and production of other products |
| Electronic Systems & Equipment | 19.4 | 83 | Increase production of semiconductor processing equipment, streamline development and production of other products |
| Construction Machinery | 18.5 | 132 | Streamline production of construction machinery, opening and relocation of offices |
| High Functional Materials & Components | 131.3 | 131 | Increase and streamline production of specialty steel products, magnetic materials and applications, functional components and equipment, wires, cables and related products, etc. |
| Automotive Systems | 66.1 | 131 | Increase production of automotive equipment, etc. |
| Smart Life & Ecofriendly Systems | 8.5 | 149 | Streamline development and production of products |
| Others | 13.1 | 73 | System development facilities |
| Subtotal | 372.5 | 100 | - |
| Corporate Items & Eliminations | 2.3 | 64 | - |
| Total | 374.9 | 99 | - |

(Notes) 1. The figures in the above table include the amount of the tangible fixed assets leased under finance lease transactions and the investment property, each of which is recorded as property, plant and equipment and other non-current assets, respectively.

2. These investments were mostly financed with the Hitachi Group's own capital.

2. Major Property, Plants and Equipment

The Hitachi Group (the Company and consolidated subsidiaries) engages in diverse business operations in Japan and overseas. It discloses information on major property, plants and equipment represented in breakdown by segment and major facilities of the Company and consolidated subsidiaries.

The situation at the end of the fiscal year ended March 31, 2018 is as follows.

(1) Breakdown by Segment

(As of March 31, 2018)

| Segment | Book value (Millions of yen) | | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|
| | Land [Area in thousands of m$^2$] | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Other | Construction in progress | Total | |
| Information & Telecommunication Systems | 28,373 [1,095] | 71,523 | 25,092 | 45,411 | 20,514 | 1,805 | 192,718 | 73,388 |
| Social Infrastructure & Industrial Systems | 95,845 [12,703] | 135,034 | 48,727 | 25,289 | 8,730 | 131,694 | 445,319 | 77,476 |
| Electronic Systems & Equipment | 27,455 [1,055] | 51,059 | 17,569 | 14,690 | 3,323 | 3,349 | 117,445 | 20,006 |
| Construction Machinery | 58,950 [10,622] | 104,580 | 55,645 | 8,030 | 66,135 | 6,647 | 299,987 | 23,469 |
| High Functional Materials & Components | 84,425 [17,189] | 144,476 | 244,701 | 29,915 | 3,369 | 62,628 | 569,514 | 51,709 |
| Automotive Systems | 50,793 [5,877] | 78,493 | 146,212 | 22,916 | 1,046 | 32,907 | 332,367 | 33,958 |
| Smart Life & Ecofriendly Systems | 8,532 [2,254] | 14,038 | 14,440 | 10,571 | 139 | 3,217 | 50,937 | 11,290 |
| Others | 36,636 [1,858] | 60,967 | 4,756 | 12,006 | 709 | 1,036 | 116,110 | 13,286 |
| Subtotal | 391,009 [52,652] | 660,170 | 557,142 | 168,828 | 103,965 | 243,283 | 2,124,397 | 304,582 |
| Corporate Items & Eliminations | (29,251) [942] | 26,386 | 434 | 4,121 | (1,281) | 21 | 430 | 2,693 |
| Total | 361,758 [53,594] | 686,556 | 557,576 | 172,949 | 102,684 | 243,304 | 2,124,827 | 307,275 |

(Notes)
1. The "Book value - Other" column includes the amount of finance lease assets, etc.
2. The figures in the above table include ¥73,415 million of operating lease assets for leasing business.
3. The figures in the above table include ¥25,122 million of finance lease assets leased externally.
4. Except for the figures in the above table, there are operating lease assets leased, mainly machinery, etc. The annual lease fee for such assets was ¥125,000 million.

(2) The Company

(As of March 31, 2018)

| Facility (Main location) | Segment | Details of major facilities and equipment | Book value (Millions of yen) | | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Land [Area in thousands of m$^2$] | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Other | Construction in progress | Total | |
| Financial Institutions Business Unit, Government, Public Corporation & Social Infrastructure Business Unit and Systems & Services Business Division (Kawasaki, Kanagawa) | Information & Telecommunication Systems | System development facilities, manufacturing facilities for servers, mainframes, etc. | 15,307 [553] | 49,852 | 1,444 | 24,420 | 1,433 | 864 | 93,321 | 9,861 |
| Research & Development Group (Kokubunji, Tokyo) | Others | R&D facilities | 6,017 [776] | 13,833 | 2,524 | 3,482 | - | 368 | 26,225 | 2,599 |
| Railway Systems Business Unit (Kudamatsu, Yamaguchi) | Social Infrastructure & Industrial Systems | Manufacturing facilities for railway vehicles, etc. | 846 [666] | 14,162 | 5,115 | 1,170 | 6 | 1,583 | 22,885 | 2,272 |
| Head Office (Chiyoda-ku, Tokyo) | Corporate | Other facilities | 5,234 [849] | 8,940 | 387 | 2,180 | - | 2 | 16,743 | 1,122 |
| Corporate Hospital Group (Hitachi, Ibaraki) | Corporate | Medical facilities | 63 [53] | 14,672 | 35 | 1,629 | 192 | 19 | 16,613 | 1,473 |
| Nuclear Energy Business Unit, Power Business Unit, and Energy Solutions Business Unit (Hitachi, Ibaraki) | Social Infrastructure & Industrial Systems | Manufacturing facilities for power generating equipment, etc. | 9,803 [3,315] | 2,931 | 717 | 905 | 673 | 1,213 | 16,245 | 1,577 |
| Healthcare Business Unit (Taito-ku, Tokyo) | Electronic Systems & Equipment | Manufacturing facilities for medical equipments | 5,557 [86] | 3,584 | 901 | 1,198 | 954 | 448 | 12,645 | 3,038 |
| Services & Platforms Business Unit (Hitachi, Ibaraki) | Social Infrastructure & Industrial Systems | Manufacturing facilities for industiral machinery and plants, switchboards and calculation control equipment, system development facilities | 635 [206] | 5,597 | 1,192 | 297 | 238 | 257 | 8,219 | 5,950 |
| IT Services Division (Chiyoda-ku, Tokyo) | Others | System development facilities | - [-] | 1,393 | 0 | 6,067 | - | 21 | 7,482 | 384 |
| Defense Systems Business Unit (Yokohama, Kanagawa) | Social Infrastructure & Industrial Systems | System development facilities | 107 [7] | 5,839 | 361 | 707 | 154 | - | 7,170 | 451 |

(3) Domestic subsidiaries

(As of March 31, 2018)

| Facility (Main location) | Segment | Details of major facilities and equipment | Book value (Millions of yen) | | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Land [Area in thousands of m²] | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Other | Construction in progress | Total | |
| Hitachi Automotive Systems, Ltd. (Hitachinaka, Ibaraki) | Automotive Systems | Manufacturing facilities for automotive equipment | 9,496 [2,538] | 31,106 | 50,602 | 7,674 | 0 | 7,747 | 106,625 | 9,014 |
| Hitachi Metals, Ltd., Yasugi Works (Yasugi, Shimane) | High Functional Materials & Components | Manufacturing facilities for specialty steel products | 8,568 [1,108] | 10,051 | 32,286 | 2,009 | - | 4,727 | 57,641 | 1,612 |
| Hitachi Construction Machinery Co., Ltd., Hitachinaka-Rinko Works (Hitachinaka, Ibaraki) | Construction Machinery | Manufacturing facilities for construction machinery | 12,330 [495] | 13,878 | 3,205 | 64 | - | 0 | 29,479 | 306 |
| Hitachi Construction Machinery Co., Ltd., Tsuchiura Works (Tsuchiura, Ibaraki) | Construction Machinery | Manufacturing facilities for construction machinery | 5,840 [5,068] | 11,417 | 9,393 | 1,677 | - | 541 | 28,870 | 3,017 |
| Hitachi High-Technologies Corporation, Naka Area (Hitachinaka, Ibaraki) | Electronic Systems & Equipment | Manufacturing facilities for semiconductor processing equipment and test and measurement equipment, etc. | 82 [115] | 15,157 | 2,656 | 5,794 | - | 352 | 24,042 | 2,394 |
| Hitachi Chemical Company, Ltd., Shimodate Works (Chikusei, Ibaraki) | High Functional Materials & Components | Manufacturing facilities for circuit board materials, etc. | 4,538 [678] | 7,749 | 9,712 | 648 | 50 | 537 | 23,234 | 1,666 |
| Hitachi Chemical Company, Ltd., Yamazaki Works (Hitachi, Ibaraki) | High Functional Materials & Components | Manufacturing facilities for semiconductor materials, etc. | 892 [453] | 10,891 | 8,862 | 618 | 38 | 520 | 21,821 | 971 |
| Hitachi Metals, Ltd., Ibaraki Works (Hitachi, Ibaraki) | High Functional Materials & Components | Manufacturing facilities for wires and cables and rubber product, etc. | 4,682 [1,197] | 7,653 | 2,279 | 742 | 114 | 3,733 | 19,203 | 1,503 |
| Hitachi Building Systems Co., Ltd., Head Office (Chiyoda-ku, Tokyo) | Social Infrastructure & Industrial Systems | Other facilities | 7,711 [108] | 9,193 | 536 | 948 | - | 499 | 18,887 | 1,712 |
| Hitachi Metals Neomaterial, Ltd. (Suita, Osaka) | High Functional Materials & Components | Manufacturing facilities for specialty steel products | 11,207 [124] | 1,987 | 3,392 | 604 | - | 400 | 17,590 | 542 |

(4) Overseas subsidiaries

(As of March 31, 2018)

| Subsidiary (Main location) | Segment | Details of major facilities and equipment | Book value (Millions of yen) | | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Land [Area in thousands of m²] | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Other | Construction in progress | Total | |
| Horizon Nuclear Power Limited (Gloucester, U.K.) | Social Infrastructure & Industrial Systems | Land, etc. for nuclear power plant | 58,995 [4,430] | 314 | 11 | 1,032 | - | 120,977 | 181,329 | 295 |
| Waupaca Foundry, Inc. (Wisconsin, U.S.A.) | High Functional Materials & Components | Manufacturing facilities for automotive components | 746 [5,740] | 16,639 | 35,197 | 3,244 | - | 3,342 | 59,168 | 4,246 |
| Hitachi Automotive Systems Mexico, S.A. de C.V. (Querétaro, Mexico) | Automotive Systems | Manufacturing facilities for automotive equipment | 3,016 [488] | 8,710 | 27,720 | 2,183 | - | 5,965 | 47,594 | 3,670 |
| Hitachi Automotive Systems Americas, Inc. (Kentucky, U.S.A.) | Automotive Systems | Manufacturing facilities for automotive equipment | 362 [1,242] | 8,417 | 15,170 | 4,601 | - | 7,324 | 35,874 | 3,626 |
| Hitachi Vantara Corporation (California, U.S.A.) | Information & Telecommunication Systems | Other facilities | - [-] | - | 17,494 | 12,716 | 5,537 | - | 35,747 | 8,051 |

(Note) The figures for Horizon Nuclear Power Limited and Hitachi Vantara Corporation are presented in consolidated basis of each company.

3.Plans for Capital Investment, Disposals of Property, Plants and Equipment, etc.

The Hitachi Group (the Company and consolidated subsidiaries) engages in diverse operations in Japan and overseas, and has not decided on specific plans to newly install or expand each of facilities as of the end of the fiscal year. For this reason, it discloses amounts of capital investment by segment.

The amount of capital investment for the fiscal year ending March 31, 2019 will be ¥420.0 billion (new installation and expansions, based on the amount recorded as tangible fixed assets and the investment property), and a breakdown by segment is as follows.

| Segment | Amount (Billions of yen) | Main purpose of investment |
|---|---|---|
| Information & Telecommunication Systems | 40.0 | Renewal of data center equipment, streamline development and production of other products |
| Social Infrastructure & Industrial Systems | 80.0 | Facility for nuclear power generation systems, manufacturing facilities for railway systems, streamline development and production of other products |
| Electronic Systems & Equipment | 20.0 | Development of semiconductor processing equipment, streamline development and production of other products |
| Construction Machinery | 30.0 | Streamline production of construction machinery, opening and relocation of offices |
| High Functional Materials & Components | 150.0 | Increase and streamline production of specialty steel products, functional components and equipment, wires, cables and related products, increase production of magnetic materials and applications |
| Automotive Systems | 70.0 | Increase production of automotive equipment, etc. |
| Smart Life & Ecofriendly Systems | 15.0 | Streamline development and production of products, delivery center |
| Others | 15.0 | System development facilities |
| Subtotal | 420.0 | - |
| Corporate Items & Eliminations | 0.0 | - |
| Total | 420.0 | - |

(Notes) 1. The figures in the above table include the amount of the tangible fixed assets leased under finance lease transactions and the investment property, each of which is recorded as property, plant and equipment and other non-current assets, respectively.

2. These planned investments are expected to be mostly financed with the Hitachi Group's own capital.

3. There are no plans to dispose or sell principal facilities, with the exception of disposing and selling facilities due to routine upgrading.

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 | 10,000,000,000 |
| Total | 10,000,000,000 |

(Note) Since the item of share consolidation (to consolidate every five Hitachi shares into one share and to change the total shares authorized to be issued by the Company from 10 billion shares to 2 billion shares) was approved at the general meeting of shareholders held on June 20, 2018, the toal shares authorized to be issued by the Company shall be 2,000,000,000 shares on October 1, 2018.

2) Issued shares

| Class | Number of shares issued as of the end of fiscal year (shares) (March 31, 2018) | Number of shares issued as of the filing date (shares) (Note 1) (June 29, 2018) | Stock exchange on which the Company is listed | Description |
|---|---|---|---|---|
| Common stock | 4,833,463,387 | 4,833,463,387 | Tokyo, Nagoya | The number of shares per one unit of shares is 1,000 shares. (Note 2) |
| Total | 4,833,463,387 | 4,833,463,387 | − | − |

(Notes) 1. The "Number of shares issued as of the filing date" does not include shares issued upon exercise of stock acquisition rights from June 1, 2018 to the filing date.

2. At the Board of Directors meeting held on April 27, 2018, the Company decided to change the number of shares per one unit from 1,000 shares to 100 shares on October 1, 2018.

(2) Information on the stock acquisition rights, etc.

1) Details of stock option plans

| Name | The First Stock Acquisition Rights of Hitachi, Ltd. (Note 1) | The Second Stock Acquisition Rights of Hitachi, Ltd. (Note 1) | The Third Stock Acquisition Rights of Hitachi, Ltd. (Note 2) |
|---|---|---|---|
| Date of resolution | June 29, 2016 | April 6, 2017 | April 11, 2018 |
| Category and number of person to whom stock acquisition rights are granted | 31 Executive Officers of the Company<br>42 Corporate Officers of the Company | 33 Executive Officers of the Company<br>37 Corporate Officers of the Company | 33 Executive Officers of the Company<br>35 Corporate Officers of the Company |
| Number of stock acquisition rights | 21,731<br>[15,750] | 22,758<br>[17,090] | 17,399 |
| Class, detail and number of shares to be issued upon exercise of stock acquisition rights | Common stock<br>2,173,100 shares<br>(Note 3)<br>[1,575,000 shares]<br>(Note 3) | Common stock<br>2,275,800 shares<br>(Note 3)<br>[1,709,000 shares]<br>(Note 3) | Common stock<br>1,739,900 shares<br>(Note 3) |
| Amount to be paid in upon exercise of stock acquisition rights | ¥1 per share | ¥1 per share | ¥1 per share |
| Exercise period of stock acquisition rights | From July 15, 2016<br>to July 14, 2046 | From April 27, 2017<br>to April 26, 2047 | From April 27, 2018<br>to April 26, 2048 |
| Issue price for shares issued upon exercise of stock acquisition rights and amount of capitalization | Issue price: ¥269<br>(Note 4)<br>Amount of capitalization:<br>(Note 5) | Issue price: ¥368.6<br>(Note 4)<br>Amount of capitalization:<br>(Note 5) | Issue price: ¥486.2<br>(Note 4)<br>Amount of capitalization:<br>(Note 5) |
| Conditions for the exercise of stock acquisition rights | (Note 6, 7) | (Note 6, 7) | (Note 6, 7) |
| Matters regarding acquisition of stock acquisition rights through transfer | Acquisition of stock acquisition rights through transfer shall be subject to the approval of the Board of Directors. | Acquisition of stock acquisition rights through transfer shall be subject to the approval of the Board of Directors. | Acquisition of stock acquisition rights through transfer shall be subject to the approval of the Board of Directors. |
| Matters regarding substitute payment | — | — | — |
| Matters regarding grant of stock acquisition rights upon organizational restructuring | (Note 8) | (Note 8) | (Note 8) |

(Notes) 1. The information regarding the First Stock Acquisition Rights and the Second Stock Acquisition Rights are that as of the end of fiscal year (March 31, 2018). The number of stock acquisition rights and the number of shares to be issued upon exercise of stock acquisition rights in brackets in the lower row is information as of the end of the last month ended before the filing date (May 31, 2018). With regard to the other items, there is no change from the information as of the end of fiscal year.

2. The information regarding the Third Stock Acquisition Rights, information as of the last month ended before the filing date (May 31, 2018).

3. If the Company implements a stock split (including gratis allotment of shares of common stock; the same shall apply to references to a stock split hereinafter) or a reverse stock split with respect to common stock of the Company after

the date of allotment of the stock acquisition rights, the Number of Shares to be Issued with respect to the stock acquisition rights not exercised at that time will be adjusted in accordance with following formula:

$$\text{Number of Shares to be Issued after adjustment} = \text{Number of Shares to be Issued before adjustment} \times \text{Ratio of stock split or reverse stock split}$$

In addition, if there is an unavoidable ground requiring an adjustment of the Number of Shares to be Issued, the Number of Shares to be Issued may be adjusted to the extent necessary by a resolution of the Board of Directors.
Any fractions of less than one share resulting from the adjustment will be rounded down.

4. Issue price for shares issued upon exercise of stock acquisition rights is the sum of the amount to be paid in upon exercise of each of the stock acquisition rights (¥1 per share) and the fair value of each of the stock acquisition right as calculated at the date of allotment.
5. The amount of common stock to be increased upon issuing shares through the exercise of stock acquisition rights shall be one half of the maximum amount of common stock, etc. to be increased calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Company Accounting. Any fractions of less than one yen resulting from the calculation shall be rounded up to the nearest yen.
6. A holder of stock acquisition rights may exercise all the stock acquisition rights together only within 10 days (in case the last day is not a business day, the following business day) from the day immediately following the date on which he/she ceases to be an Executive Officer, a Director or a Corporate Officer of the Company.
7. The number of stock acquisition rights which a holder of stock acquisition rights may exercise shall be determined based on the ratio of (i) the total shareholder return for shares of Hitachi for three years from the beginning of the fiscal year in which the date of allotment of the stock acquisition rights falls to (ii) the growth rate of TOPIX (Tokyo Stock Price Index) for the same period (the "TSR/TOPIX Growth Rate Ratio"), in accordance with the stock price conditions:
   a. In case the TSR/TOPIX Growth Rate Ratio is 120% or more
      All the stock acquisition rights allotted (the "Allotted Rights") may be exercised.
   b. In case the TSR/TOPIX Growth Rate Ratio is 80% or more but less than 120%
      Only a part of the Allotted Rights may be exercised according to the degree of the TSR/TOPIX Growth Rate Ratio (*).

$$\text{*Number of stock acquisition rights exercisable} = \text{Number of Allotted Rights} \times \{(\text{TSR/TOPIX Growth Rate Ratio} \times 1.25) - 0.5\}$$

      Any fraction less than one stock acquisition right will be rounded down.
   c. In case the TSR/TOPIX Growth Rate Ratio is less than 80%
      No Allotted Rights may be exercised.
8. In the event that the Company engages in a merger (only if the Company is to be dissolved as a result of the merger), an absorption-type company split or incorporation-type company split (in each case, only if the Company is to be a split company), or share exchange or share transfer (in each case, only if the Company is to be a wholly-owned subsidiary) (hereafter all of which are collectively referred to as "Corporate Reorganization"), then stock acquisition rights for the entities specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (such entity hereinafter referred to as the "Reorganized Company") shall be issued to the Stock Acquisition Right Holders holding stock acquisition rights remaining in effect (the "Remaining Stock Acquisition Rights") immediately prior to the effective date of the Corporate Reorganization (hereinafter respectively referring to an effective date of absorption-type merger in case of an absorption-type merger, a date of incorporation of a company incorporated through a consolidation-type merger in case of a consolidation-type merger, an effective date of absorption-type company split in case of an absorption-type company split, a date of incorporation of a company incorporated through an incorporation-type company split in case of an incorporation-type company split, an effective date of a share exchange in case of a share exchange, or a date of incorporation of a wholly owning parent company incorporated through share transfer). However, these stock acquisition rights shall be granted only if provisions for issuing the stock acquisition rights of the Reorganized Company in accordance with the following conditions are included in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement, or a share transfer plan.
   (1) The number of stock acquisition rights of the Reorganized Company to be issued
      The number of stock acquisition rights equal to the number of Remaining Stock Acquisition Rights held by respective Stock Acquisition Right Holders shall be issued.
   (2) The class of shares of the Reorganized Company to be issued upon exercise of stock acquisition rights
      Common shares of the Reorganized Company shall be issued.
   (3) The number of shares of the Reorganized Company to be issued upon exercise of stock acquisition rights
      The number shall be determined in accordance with terms and conditions of Remaining Stock Acquisition Rights, taking into account the conditions and other factors concerning Corporate Reorganization.
   (4) Amount of assets to be contributed upon the exercise of stock acquisition rights
      The amount of assets contributed upon the exercise of stock acquisition rights to be issued shall be amount derived by multiplying the amount to be paid in per share to be delivered upon exercise of stock acquisition rights of the Reorganized Company (the "Post-reorganization Exercise Price") prescribed below by the number of shares of the Reorganized Company to be issued determined in accordance with paragraph (3) of this section. The Post-Reorganization exercise price shall be one yen.
   (5) Exercise period of stock acquisition rights
      The exercise period of stock acquisition rights shall be from the later of the first day of the exercise period of stock acquisition rights or the effective date of the Corporate Reorganization to the expiration date of the exercise period of stock acquisition rights.
   (6) Matters concerning common stock and capital reserve to be increased due to the issuance of shares upon the exercise of stock acquisition rights
      The matters shall be determined in accordance with terms and conditions of Remaining Stock Acquisition Rights.
   (7) Restrictions on acquisition of stock acquisition rights through transfer
      The acquisition of stock acquisition rights through transfer shall be subject to the approval of the Reorganized Company.
   (8) Conditions for the exercise of stock acquisition rights

The matters shall be determined in accordance with terms and conditions of Remaining Stock Acquisition Rights.

(9) Matters concerning the acquisition of stock acquisition rights

The matters shall be determined in accordance with terms and conditions of Remaining Stock Acquisition Rights.

2) Details of shareholder right plans

Not applicable.

3) Details of other stock acquisition rights, 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 (shares) | Balance of the total number of issued shares (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, 2013 to March 31, 2014 | - | 4,833,463,387 | - | 458,790 | - | 176,757 |
| From April 1, 2014 to March 31, 2015 | - | 4,833,463,387 | - | 458,790 | - | 176,757 |
| From April 1, 2015 to March 31, 2016 | - | 4,833,463,387 | - | 458,790 | - | 176,757 |
| From April 1, 2016 to March 31, 2017 | - | 4,833,463,387 | - | 458,790 | - | 176,757 |
| From April 1, 2017 to March 31, 2018 | - | 4,833,463,387 | - | 458,790 | - | 176,757 |

(5) Shareholders composition

(As of March 31, 2018)

| Class of shareholders | Status of shares (one unit of stock: 1,000 shares) | | | | | | | | Number of shares less than one unit (shares) |
|---|---|---|---|---|---|---|---|---|---|
| | Government and municipality | Financial institution | Financial instruments business operator | Other institution | Foreign corporations, etc. | | Individuals and others | Total | |
| | | | | | Non-individuals | Individuals | | | |
| Number of shareholders | 2 | 236 | 76 | 2,505 | 1,061 | 123 | 261,271 | 265,274 | - |
| Share ownership (units) | 46 | 1,502,220 | 111,309 | 75,784 | 2,165,509 | 441 | 957,520 | 4,812,829 | 20,634,387 |
| Ownership percentage of shares (%) | 0.00 | 31.21 | 2.31 | 1.57 | 44.99 | 0.01 | 19.90 | 100.00 | - |

(Notes) 1. Of 5,735,947 shares of treasury stock, 5,735 units are included in the “Individuals and others” column, while 947 shares are included in the “Number of shares less than one unit” column.

2. Of the shares registered in the name of Japan Securities Depository Center, Incorporated (account for managing stocks whose shareholders have not transferred titles), 26 units are included in the “Other institution” column and 827 shares are included in the “Number of shares less than one unit” column.

(6) Major shareholders

(As of March 31, 2018)

| Name | Address | Share Ownership (shares) | Ownership percentage to the total number of issued shares (excluding treasury stock) (%) |
|---|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo | 315,175,000 | 6.53 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo | 289,061,315 | 5.99 |
| Hitachi Employees' Shareholding Association | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo | 99,765,384 | 2.07 |
| Nippon Life Insurance Company | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo | 93,264,995 | 1.93 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo | 92,858,000 | 1.92 |
| State Street Bank West Client-Treaty 505234 (Standing proxy: Mizuho Bank, Ltd.) | 1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (15-1, Konan 2-chome, Minato-ku, Tokyo) | 92,679,162 | 1.92 |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo | 91,756,000 | 1.90 |
| The Dai-ichi Life Insurance Company, Limited | 13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo | 71,361,222 | 1.48 |
| Japan Trustee Services Bank, Ltd. (Trust Account 7) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo | 70,797,000 | 1.47 |
| Japan Trustee Services Bank, Ltd. (Trust Account 1) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo | 68,201,000 | 1.41 |
| Total | - | 1,284,919,078 | 26.62 |

(Notes) 1. The number of shares held by The Dai-ichi Life Insurance Company, Limited includes its contribution of 6,560,000 shares to the retirement allowance trust (the holder of said shares, as listed in the Shareholders' Register, is "Dai-ichi Life Insurance Account, Retirement Allowance Trust, Mizuho Trust & Banking Co., Ltd.").

2. Some reports on substantial shareholdings regarding the Company under the Financial Instruments and Exchange Act are available for public inspection. However, the information in the reports is not described in the above table since the Company does not confirm the actual status of shareholdings as of the record date for the annual general meeting of shareholders held on June 20, 2018. The major contents of the reports are as follows.

| | |
|---|---|
| Holders | Mitsubishi UFJ Trust and Banking Corporation and two other persons |
| Date on which the duty to file report | November 13, 2017 |
| Number of shares | 266,423,703 shares |
| Ownership percentage to the total number of issued shares | 5.51% |

| | |
|---|---|
| Holders | BlackRock Japan Co. Ltd and seven other persons |
| Date on which the duty to file report | April 14, 2017 |
| Number of shares | 304,755,969 shares |
| Ownership percentage to the total number of issued shares | 6.31% |

| | |
|---|---|
| Holders | Sumitomo Mitsui Trust Bank, Limited and two other persons |
| Date on which the duty to file report | July 31, 2014 |
| Number of shares | 244,372,374 shares |
| Ownership percentage to the total number of issued shares | 5.06% |

The following report on substantial shareholding regarding the Company under the Financial Instruments and Exchange Act has become available for public inspection from April 1, 2018 to the filing date.

| | |
|---|---|
| Holders | Asset Management One Co., Ltd. and three other persons |
| Date on which the duty to file report | May 15, 2018 |
| Number of shares | 242,554,448 shares |
| Ownership percentage to the total number of issued shares | 5.02% |

(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 right | – | – | – |
| Shares with restricted voting right (treasury stock, etc.) | – | – | – |
| Shares with restricted voting right (others) | – | – | – |
| Shares with full voting right (treasury stock, etc.) | Common stock 5,901,000 | – | – |
| Shares with full voting right (others) | Common stock 4,806,928,000 | 4,806,928 | – |
| Shares less than one unit | Common stock 20,634,387 | – | – |
| Number of issued shares | 4,833,463,387 | – | – |
| Total number of voting rights | – | 4,806,928 | – |

(Note) The "Shares with full voting right (others)" column includes 26,000 shares registered in the name of Japan Securities Depository Center, Incorporated (account for managing stocks whose shareholders have not transferred titles) and 26 voting rights for those shares.

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 (%) |
|---|---|---|---|---|---|
| Hitachi, Ltd. | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo | 5,735,000 | – | 5,735,000 | 0.12 |
| Aoyama Special Steel Co., Ltd. | 1-12, Minato 1-chome, Chuo-ku, Tokyo | 10,000 | – | 10,000 | 0.00 |
| ISHII DENKOSHA Co., Ltd. | 1-11, Oroshishinmachi 3-chome, Higashi-ku, Niigata-shi, Niigata | 1,000 | – | 1,000 | 0.00 |
| SAITA KOUGYOU CO., LTD. | 5-3, Takinogawa 5-chome, Kita-ku, Tokyo | 88,000 | – | 88,000 | 0.00 |
| Nitto Jidosha Kiki K.K. | 3268, Nagaoka, Ibarakimachi, Higashiibaraki-gun, Ibaraki | 52,000 | – | 52,000 | 0.00 |
| Mizuho Co., Inc. | 4-1, Koishikawa 5-chome, Bunkyo-ku, Tokyo | 15,000 | – | 15,000 | 0.00 |
| Total | – | 5,901,000 | – | 5,901,000 | 0.12 |

2. Information on Acquisition, etc. of Treasury Stock

Class of shares
Acquisition of common stock under Article 155, Item 7 of the Companies Act

(1) Acquisition of treasury stock resolved at the general meeting of shareholders
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 of the general meeting of shareholders or the Board of Directors meetings

Acquisition of stock less than one unit shares due to purchase requests from shareholders under Article 192, Paragraph 1 of the Companies Act

| Classification | Number of shares (shares) | Total amount (yen) |
|---|---|---|
| Treasury stock acquired during the fiscal year ended March 31, 2018 | 375,918 | 292,870,934 |
| Treasury stock acquired during the current period (Note) | 25,538 | 20,835,823 |

(Note) The number of treasury stock acquired due to requests to purchase stock less than one unit shares from June 1, 2018 to the filing date is not included.

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

| Classification | Fiscal year ended March 31, 2018 | | Current period (Note) | |
|---|---|---|---|---|
| | 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 canceled | - | - | - | - |
| Acquired treasury stock which was transferred due to merger, share exchange or company split | - | - | - | - |
| Others (Acquired treasury stock which was transferred upon exercise of stock acquisition rights, and which was sold due to requests from shareholders holding shares less than one unit shares to sell additional shares) | 100,543 | 72,189,610 | 577,885 | 416,845,993 |
| Total number of treasury stock held | 5,735,947 | - | 5,183,600 | - |

(Note) The follwings are not included: the number of treasury stock which was transferred upon exercise of stock aquisition rights from June 1, 2018 to the filing date; the number of treasury stock which was sold due to requests from shareholders holding less than one unit shares to sell additional shares from June 1, 2018 to the filing date; and the number of treasury stock acquired due to purchase requests from shareholders holding shares less than one unit shares from June 1, 2018 to the filing date.

3. Dividend Policy

The Company views enhancement of the long-term and overall interests of shareholders as an important management objective.

The industrial sector encompassing energy, information systems, social infrastructure and other primary businesses of the Company is undergoing rapid technological innovation and changes in market structure. This makes vigorous upfront investment in R&D and plant and equipment essential for securing and maintaining market competitiveness and improving profitability. Dividends are therefore decided based on medium-to-long term business plans with an eye to ensuring the availability of internal funds for reinvestment and the stable growth of dividends, with appropriate consideration of a range of factors, including the Company's financial condition, results of operations and dividend payout ratio.

The Company provides in its Articles of Incorporation that distribution of surplus will be made to shareholders of record as of March 31 and September 30 of each year and that the Company may make further distribution of surplus to shareholders of record as of another record date for the purpose of distributing surplus. The Company also provides in its Articles of Incorporation that the Company may make distribution of surplus by resolution of its Board of Directors, without resolution at the General Meeting of Shareholders.

The Company believes that the repurchase of its shares should be undertaken, when necessary, as part of its policy on distribution to shareholders to complement the dividend payout. In addition, the Company will repurchase its own shares in order to flexibly implement a capital strategy, including business restructuring, to maximize shareholder value so far as consistent with the dividend policy. Such action will be taken by the Company after considering its future capital requirement under its business plans, market conditions and other relevant factors.

Based on the above policy, annual dividends of ¥15.0 per share were paid for the fiscal year ended March 31, 2018. At the Board of Directors meeting held on October 26, 2017, it was resolved to pay interim dividends of ¥7.0 per share, resulting in the total amount of interim dividends of ¥33,795 million. In addition, at the Board of Directors meeting held on May 10, 2018, it was resolved to pay year-end dividends of ¥8.0 per share, resulting in the total amount of year-end dividends of ¥38,621 million.

4. Changes in Share Prices

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

| Fiscal year | 145th business term | 146th business term | 147th business term | 148th business term | 149th business term |
|---|---|---|---|---|---|
| Year end | March 2014 | March 2015 | March 2016 | March 2017 | March 2018 |
| Highest (yen) | 877 | 939.9 | 858.0 | 679.5 | 944.2 |
| Lowest (yen) | 508 | 660 | 431.0 | 400.0 | 566.3 |

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

| Month | October 2017 | November 2017 | December 2017 | January 2018 | February 2018 | March 2018 |
|---|---|---|---|---|---|---|
| Highest (yen) | 900.0 | 908.7 | 894.7 | 944.2 | 899.1 | 830.2 |
| Lowest (yen) | 793.1 | 825.2 | 813.5 | 863.0 | 789.0 | 736.7 |

(Note) The share prices are market prices on the first section of the Tokyo Stock Exchange.

5. Directors and Senior Management

Men: 43 persons, Women: 2 persons

(Women's percentage to total number of Directors and Senior Management: 4%)

The Company is a company with Nominating Committee, etc. pursuant to the Companies Act. (See " 6. Corporate Governance, etc. - (1)Corporate governance - 1) Outline of corporate organizations.") The information on its Directors and Executive Officers is as follows.

(1) Directors

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director | Member of Audit Committee and Compensation Committee | Katsumi Ihara | Sept. 24 1950 | 6/2005 | Executive Deputy President, Representative Corporate Executive Officer, Member of the Board, Sony Corporation | (Note 1) | 0 |
| | | | | 4/2009 | Executive Deputy President, Corporate Executive, Sony Corporation | | |
| | | | | 6/2009 | Executive Vice President, Representative Director, Sony Financial Holdings Inc. | | |
| | | | | 6/2010 | President, Representative Director, Sony Financial Holdings Inc. | | |
| | | | | 6/2011 | President, Representative Director, Sony Life Insurance Co., Ltd. | | |
| | | | | 4/2015 | Charman, Director, Sony Life Insurance Co., Ltd. (Retired in June 2017) | | |
| | | | | 6/2016 | Chariman, Director, Sony Financial Holdings Inc. (Retired in June 2017) | | |
| | | | | 6/2018 | Director, Hitachi, Ltd. | | |
| Director | Member of Nominating Committee | Cynthia Carroll | Nov. 13, 1956 | 10/1991 | General Manager, Foil Products, Alcan Inc. | (Note 1) | 4,000 |
| | | | | 1/1996 | Managing Director, Aughinish Alumina Ltd., Alcan Inc. | | |
| | | | | 10/1998 | President, Bauxite, Alumina and Speciality Chemicals, Alcan Inc. | | |
| | | | | 1/2002 | President & CEO, Primary Metal Group, Alcan Inc. | | |
| | | | | 3/2007 | CEO, Anglo American plc. (Retired in April 2013) | | |
| | | | | 6/2013 | Director, Hitachi, Ltd. | | |
| Director | | Joe Harlan | May 5, 1959 | 9/1999 | Vice President and Chief Financial Officer, Lighting Business, General Electric Company (USA) | (Note 1) | 0 |
| | | | | 9/2001 | Vice President, Corporate Financial Planning and Analysis, 3M Company (USA) | | |
| | | | | 11/2002 | President and Chief Executive Officer, Sumitomo 3M Ltd. | | |
| | | | | 10/2004 | Executive Vice President, Electro and Communications Business, 3M Company (USA) | | |
| | | | | 10/2009 | Executive Vice President, Consumer and Office Business, 3M Company (USA) | | |
| | | | | 9/2011 | Executive Vice President, Performance Materials, The Dow Chemical Company (USA) | | |
| | | | | 9/2012 | Executive Vice President, Chemicals, Energy and Performance Materilas, The Dow Chemical Company (USA) | | |
| | | | | 10/2014 | Chief Commercial Officer and Vice Chairman, Market Business, The Dow Chemical Company (USA) | | |
| | | | | 10/2015 | Vice Chairman and Chief Commercial Officer, The Dow Chemical Company (USA) (Retired in August 2017) | | |
| | | | | 6/2018 | Director, Hitachi, Ltd. | | |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director | | George Buckley | Feb. 23, 1947 | 2/1993<br>9/1994<br>7/1997<br>4/2000<br>6/2000<br>12/2005<br>2/2012<br>6/2012 | Chief Technology Officer, Motors, Drives and Appliances, Emerson Electric Company<br>President, US Electrical Motors, Emerson Electric Company<br>President, Mercury Marine Division and Corporate Vice President, Brunswick Corporation<br>President and Chief Operating Officer, Brunswick Corporation<br>Chairman and Chief Executive Officer, Brunswick Corporation<br>Chairman of the Board, President and Chief Executive Officer, 3M Company<br>Executive Chairman of the Board, 3M Company (Retired in May 2012)<br>Chairman, Arle Capital Partners Limited (Retired in December 2015)<br>Director, Hitachi, Ltd. | (Note 1) | 22,000 |
| Director | | Louise Pentland | Apr. 11, 1972 | 8/1997<br>7/2001<br>9/2007<br>7/2008<br>6/2009<br>2/2011<br>4/2015<br>6/2015<br>7/2015<br>9/2016 | Admitted as a Solicitor (UK)<br>Senior Legal Counsel, Nokia Networks, Nokia Corporation<br>Vice President, Acting Chief Legal Officer and Head of IP Legal, Nokia Corporation<br>Senior Vice President and Chief Legal Officer, Nokia Corporation<br>Admitted to New York State Bar Association<br>Executive Vice President and Chief Legal Officer, Nokia Corporation (Retired in May, 2014)<br>General Counsel, PayPal, eBay Inc.<br>Director, Hitachi, Ltd.<br>Senior Vice President and Chief Legal Officer, PayPal Holdings, Inc.<br>Executive Vice President and Chief Business Affairs & Legal Officer, PayPal Holdings, Inc. (Currently in office) | (Note 1) | 2,000 |
| Director | Member of Audit Committee, Nominating Committee (Chair) and Compensation Committee (Chair) | Harufumi Mochizuki | Jul. 26, 1949 | 7/2002<br>7/2003<br>7/2006<br>7/2008<br>8/2010<br>10/2010<br>6/2012<br>6/2013 | Director-General for Commerce and Distribution Policy, Minister's Secretariat, Ministry of Economy, Trade and Industry of Japan ("METI")<br>Director-General, Small and Medium Enterprise Agency, METI<br>Director-General, Agency for Natural Resources and Energy, METI<br>Vice-Minister of Economy, Trade and Industry of Japan<br>Special Advisor to the Cabinet of Japan (Retired in September 2011)<br>Senior Adviser to the Board, Nippon Life Insurance Company (Retired in April 2013)<br>Director, Hitachi, Ltd.<br>President and Representative Director, Tokyo Small and Medium Business Investment & Consultation Co., Ltd. (Currently in office) | (Note 1) | 11,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director | Member of Audit Committee and Compensation Committee | Takatoshi Yamamoto | Oct. 20, 1952 | 12/1995<br>6/1999<br><br>7/2005<br>6/2009<br>6/2011<br>6/2016 | Managing Director, Morgan Stanley Japan Limited<br>Managing Director and Vice Chairman, Tokyo Branch, Morgan Stanley Japan Limited<br>Managing Director and Vice Chairman, UBS Securities Japan Co., Ltd.<br>Managing Director, CASIO COMPUTER CO., LTD.<br>Advisor, CASIO COMPUTER CO., LTD. (Retired in June 2012)<br>Director, Hitachi, Ltd. | (Note 1) | 30,000 |
| Director | Member of Nominating Committee and Audit Committee (Chair) | Hiroaki Yoshihara | Feb. 9, 1957 | 11/1978<br>7/1996<br>10/1997<br>10/2003<br>6/2014 | Joined Peat Marwick Mitchell & Co.<br>National Managing Partner, the Pacific Rim Practice, KPMG LLP<br>The Board Member, KPMG LLP<br>Vice Chairman and Global Managing Partner, KPMG International (Retired in April 2007)<br>Director, Hitachi, Ltd. | (Note 1) | 7,000 |
| Director | Member of Audit Committee | Kazuyuki Tanaka | Apr. 29, 1953 | 4/1977<br>4/2005<br>4/2006<br>6/2006<br>4/2008<br>4/2009<br>6/2009<br>4/2016<br>6/2016 | Joined Hitachi Chemical Company, Ltd.<br>Executive Officer, Hitachi Chemical Company, Ltd.<br>Senior Executive Director, Hitachi Media Electronics Co., Ltd.<br>Representative Director and President, Hitachi Media Electronics Co., Ltd.<br>Vice President and Executive Officer, Hitachi Chemical Company, Ltd.<br>Representative Executive Officer, President & Chief Executive Officer, Hitachi Chemical Company, Ltd.<br>Director, Representative Executive Officer, President & Chief Executive Officer, Hitachi Chemical Company, Ltd.<br>Chairman of the Board, Hitachi Chemical Company, Ltd. (Currently in office)<br>Director, Hitachi, Ltd. | (Note 1) | 14,000 |
| Chairman of the Board | Member of Nominating Committee | Hiroaki Nakanishi | Mar. 14, 1946 | 4/1970<br>4/2003<br>6/2003<br>4/2004<br>6/2005<br><br>4/2006<br>4/2009<br>4/2010<br>6/2010<br>4/2014<br>4/2016<br>4/2018 | Joined Hitachi, Ltd.<br>General Manager, Global Business<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer<br>Senior Vice President and Executive Officer, Hitachi, Ltd.<br>Chairman and Chief Executive Officer, Hitachi Global Storage Technologies, Inc.<br>Executive Vice President and Executive Officer, Hitachi, Ltd. (Retired in December 2006)<br>Executive Vice President and Executive Officer, Hitachi, Ltd.<br>President, Hitachi, Ltd.<br>President and Director, Hitachi, Ltd.<br>Chairman & CEO and Director, Hitachi, Ltd.<br>Chairman of the Board and Representative Executive Officer, Hitachi, Ltd.<br>Chairman of the Board and Executive Officer, Hitachi, Ltd. | (Note 1) | 149,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Director | Member of Audit Committee (Standing) | Toyoaki Nakamura | Aug. 3, 1952 | 4/1975<br>1/2006<br>4/2007<br><br>6/2007<br><br>6/2009<br><br>4/2012<br><br>6/2016 | Joined Hitachi, Ltd.<br>General Manager, Finance Department I<br>Senior Vice President and Executive Officer<br>Senior Vice President, Executive Officer and Director<br>Senior Vice President and Executive Officer<br>Executive Vice President and Executive Officer (Retired in March 2016)<br>Director | (Note 1) | 76,000 |
| Director | Member of Compensation Committee | Toshiaki Higashihara | Feb. 16, 1955 | 4/1977<br>4/2006<br><br>4/2007<br><br>4/2008<br>4/2010<br><br>6/2010<br><br>4/2011<br><br>4/2013<br><br>4/2014<br>6/2014<br><br>4/2016 | Joined Hitachi, Ltd.<br>Chief Operating Officer, Information & Telecommunication Systems<br>Vice President and Executive Officer (Retired in March 2008)<br>President, Hitachi Power Europe GmbH<br>President and Chief Executive Officer, Hitachi Plant Technologies, Ltd.<br>President and Representative Director, Hitachi Plant Technologies, Ltd.<br>Vice President and Executive Officer, Hitachi, Ltd.<br>Senior Vice President and Executive Officer, Hitachi, Ltd.<br>President & COO, Hitachi, Ltd.<br>President & COO and Director, Hitachi, Ltd.<br>President & CEO and Director, Hitachi, Ltd. | (Note 1) | 67,000 |
| Total | | | | | | | 382,000 |

(Notes) 1. The term of office of the Directors starts upon the election at the Annual General Meeting of Shareholders on June 20, 2018 and expires at the close of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2019.

2. Messrs. Katsumi Ihara, Joe Harlan, George Buckley, Harufumi Mochizuki, Takatoshi Yamamoto and Hiroaki Yoshihara and Mses. Cynthia Carroll and Louise Pentland are directors who fulfill the qualification requirements to be outside directors as provided for in Article 2, Item 15 of the Companies Act.

(2) Executive Officers

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Representative Executive Officer President & CEO | Overall management | Toshiaki Higashihara | Feb. 16, 1955 | See "(1)Directors" | | (Note 2) | 67,000 |
| Representative Executive Officer Executive Vice President and Executive Officer | Assistant to the President (business for industry and distribution sectors, water business and industrial products business) | Masakazu Aoki | Jun. 23, 1954 | 4/1977<br>4/2012<br><br><br>10/2014<br><br>4/2016<br><br>4/2017 | Joined Hitachi, Ltd.<br>President and Director, Hitachi Industrial Equipment Systems Co., Ltd.<br>Vice President and Executive Officer, Hitachi, Ltd.<br>Senior Vice President and Executive Officer, Hitachi, Ltd.<br>Executive Vice President and Executive Officer, Hitachi, Ltd. Chairman of the Board, Hitachi Industrial Equipment Systems Co., Ltd. | (Note 2) | 13,000 |
| Representative Executive Officer Executive Vice President and Executive Officer | Assistant to the President (building systems business, railway systems business, smart life & ecofriendlty systems business and atuomotive systems business) and information security management | Keiji Kojima | Oct. 9, 1956 | 4/1982<br>4/2011<br><br>4/2012<br><br>4/2016<br><br>4/2018 | Joined Hitachi, Ltd.<br>General Manager, Hitachi Research Laboratory<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer<br>Executive Vice President and Executive Officer | (Note 2) | 26,000 |
| Representative Executive Officer Executive Vice President and Executive Officer | Assistant to the President (systems & services business, healthcare business and defense systems business), systems & services business and social innovation business promotion | Keiichi Shiotsuka | May 8, 1954 | 4/1977<br>4/2012<br><br><br><br><br><br>4/2013<br><br>4/2015<br><br>4/2017 | Joined Hitachi, Ltd.<br>Chief Operating Officer, System Solutions Business, Information & Telecommunication Systems Company, Information & Telecommunication Systems Group<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer<br>Executive Vice President and Executive Officer | (Note 2) | 25,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Representative Executive Officer Executive Vice President and Executive Officer | Assistant to the President (cost structure reform and supply chain management), cost structure reform and supply chain management (MONOZUKURI and quality assurance) | Hideaki Takahashi | Aug. 20, 1952 | 4/1978<br>4/2005<br><br>4/2007<br><br><br>4/2011<br><br>6/2011<br><br><br>6/2013<br>7/2013<br><br><br>4/2014<br><br><br>4/2017<br><br><br>4/2018 | Joined Hitachi, Ltd.<br>President, Hitachi Building Systems Co., Ltd.<br>Vice President and Executive Officer, Hitachi, Ltd. (Retired in March 2011)<br>President and Chief Executive Officer, Hitachi Cable, Ltd.<br>President and Chief Executive Officer, Director, Hitachi Cable, Ltd.<br>Director, Hitachi Metals, Ltd.<br>Executive Vice President and Executive Officer, Director, Hitachi Metals, Ltd.<br>President and Chief Executive Officer, Director, Hitachi Metals, Ltd.<br>Chairperson of the Board, Hitachi Metals, Ltd. (Retired in June 2018)<br>Executive Vice President and Executive Officer | (Note 2) | 24,000 |
| Representative Executive Officer Executive Vice President and Executive Officer | Assistant to the President (nuclear energy business and power business) | Toshikazu Nishino | Jan. 9, 1955 | 4/1980<br>4/2010<br><br><br>4/2011<br><br>4/2013<br><br>4/2015 | Joined Hitachi, Ltd.<br>Senior Manager, Strategy & Project Office, Supervisory Office for Management Reforms<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer<br>Executive Vice President and Executive Officer | (Note 2) | 15,000 |
| Senior Vice President and Executive Officer | Cost structure reform and information technology strategies | Shinichiro Omori | Feb. 6, 1956 | 4/1978<br>9/2008<br><br>4/2012<br><br>4/2016 | Joined Hitachi, Ltd.<br>General Manager, Corporate Procurement Division<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer | (Note 2) | 29,000 |
| Senior Vice President and Executive Officer | Management strategies, investment strategies and strategies for next generation business | Yoshihiko Kawamura | Aug.20, 1956 | 4/1979<br>4/2010<br><br><br><br>4/2015<br><br><br><br>4/2016<br><br><br><br>4/2017<br><br>4/2018 | Joined Mitsubishi Corporation<br>Senior Vice President, Division COO, IT Service Division, Mitsubishi Corporation (Retired in March 2015)<br>Joined Hitachi, Ltd.<br>Executive Strategist, Information & Telecommunication Systems Group<br>Deputy General Manager of IoT Business Promotion Division and General Manager of Incubation Division, Hitachi, Ltd.<br>Vice President and Executive Officer, Hitachi, Ltd.<br>Senior Vice President and Executive Officer, Hitachi, Ltd. | (Note 2) | 12,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Senior Vice President and Executive Officer | Regional strategies (China) | Kenichi Kokubo | Nov. 25, 1955 | 4/1979<br>4/2011<br>4/2014<br><br>4/2018 | Joined Hitachi, Ltd.<br>President, Hitachi (China) Ltd.<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer | (Note 2) | 20,000 |
| Senior Vice President and Executive Officer | Services & platforms business | Setsuo Shibahara | Feb. 3, 1958 | 4/1982<br>4/2014<br><br><br><br><br>4/2015<br><br><br><br>4/2016<br><br>4/2018 | Joined Hitachi, Ltd.<br>Chief Operating Officer of Systems & Solutions Business, and General Manager of Service Division Group, Information & Telecommunication Systems Company, Information & Telecommunication Systems Group<br>Chief Strategy Officer of Information & Telecommunication Systems Company, and Chief Operating Officer of Systems & Services Business, Information & Telecommunication Systems Company, Information & Telecommunication Systems Group<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer | (Note 2) | 31,000 |
| Senior Vice President and Executive Officer | Building systems business | Hideaki Seki | Mar. 10, 1957 | 4/1979<br>4/2011<br><br>4/2013<br><br>4/2014<br><br>4/2015<br><br>4/2016<br><br>4/2018 | Joined Hitachi, Ltd.<br>Board Director, Hitachi Automotive Systems, Ltd.<br>Vice President, Board Director, Hitachi Automotive Systems, Ltd.<br>Executive Vice President, Board Director, Hitachi Automotive Systems, Ltd.<br>President & COO, Director, Hitachi Automotive Systems, Ltd.<br>President & CEO, Representative Director, Hitachi Automotive Systems, Ltd. (Retired in March 2018)<br>Senior Vice President and Executive Officer | (Note 2) | 17,000 |
| Representative Executive Officer<br>Senior Vice President and Executive Officer | Marketing & sales, regional strategies and social innovation business promotion | Yoshitaka Tsuda | Jul. 3, 1955 | 4/1979<br>4/2012<br><br>4/2014<br><br>4/2017<br><br>4/2018 | Joined Hitachi, Ltd.<br>Chief Marketing Officer, Information & Telecommunication Systems Company<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer<br>Senior Vice President and Executive Officer | (Note 2) | 61,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Senior Vice President and Executive Officer | Railway systems business | Alistair Dormer | Aug. 29, 1963 | 2/2001<br>6/2003<br>10/2009<br>9/2012<br>4/2014<br>4/2015<br>4/2016 | Director of Business Development, Alstom Transport U.K. Ltd.<br>Joined Hitachi Europe Ltd.<br>Managing Director, Hitachi Rail Europe Ltd.<br>Executive Chairman and CEO, Hitachi Rail Europe Ltd. (Retired in April 2018)<br>Global CEO of Rail Systems business, Hitachi, Ltd.<br>Vice President and Executive Officer, Hitachi, Ltd.<br>Senior Vice President and Executive Officer, Hitachi, Ltd. | (Note 2) | 2,000 |
| Representative Executive Officer<br>Senior Vice President and Executive Officer | Corporate communications, legal matters, risk management, corporate auditing and human capital | Hidenobu Nakahata | Jan. 24, 1961 | 4/1983<br>10/2013<br>4/2014<br>4/2018 | Joined Hitachi, Ltd.<br>Deputy General Manager, Human Capital Group<br>Vice President and Executive Officer<br>Senior Vice President and Executive Officer | (Note 2) | 29,000 |
| Representative Executive Officer<br>Senior Vice President and Executive Officer | Finance and corporate pension system | Mitsuaki Nishiyama | Sep. 25, 1956 | 4/1979<br>4/2008<br>4/2011<br>6/2012<br>4/2013<br>7/2013<br>4/2014<br>4/2015<br>4/2016 | Joined Hitachi, Ltd.<br>General Manager, Finance Department I<br>Executive Officer, Hitachi Cable, Ltd. (Currently Hitachi Metals, Ltd.)<br>Executive Officer, Board Director, Hitachi Cable, Ltd.<br>Vice President and Executive Officer, Board Director, Hitachi Cable, Ltd.<br>Vice President and Managing Officer, Hitachi Metals, Ltd.<br>Vice President and Executive Officer, Hitachi Metals, Ltd. (Retired in March 2015)<br>Vice President and Executive Officer, Hitachi, Ltd.<br>Senior Vice President and Executive Officer, Hitachi, Ltd. | (Note 2) | 13,000 |
| Vice President and Executive Officer | Marketing & sales (business for financial institutions, government, public corporation and social infrastructure systems, healthcare business and defense systems business) | Keiichi Akino | Oct.13, 1958 | 4/1981<br>4/2016<br>4/2018 | Joined Hitachi, Ltd.<br>General Manager, Kansai Area Operation<br>Vice President and Executive Officer | (Note 2) | 14,000 |
| Vice President and Executive Officer | Business for industry & distribution sectors | Jun Abe | Jun. 14, 1961 | 4/1984<br>4/2016<br>4/2018 | Joined Hitachi, Ltd.<br>Senior General Manager, Control System Platform Division, Services & Platforms Business Unit<br>Vice President and Executive Officer | (Note 2) | 21,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Vice President and Executive Officer | Governments & external relations | Hitoshi Ito | Feb. 19, 1959 | 4/1982<br><br>8/2011<br>1/2013<br><br>7/2014<br><br>10/2016<br><br><br>1/2018<br>4/2018 | Joined Ministry of International Trade and Industry<br>Councillor, Cabinet Secretariat<br>Director-General, Reconstruction Agency<br>Commissioner, Japan Patent Office (Retired in June 2016)<br>Advisor, Tokio Marine & Nichido Fire Insurance Co., Ltd. (Retired in December 2017)<br>Joined Hitachi, Ltd.<br>Vice President and Executive Officer | (Note 2) | 0 |
| Vice President and Executive Officer | Water business | Kenji Urase | Jun. 18, 1961 | 4/1986<br>3/2015<br><br><br>4/2017 | Joined Hitachi, Ltd.<br>President, Hitachi Power Solutions Co., Ltd. (Retired in March 2017)<br>Vice President and Executive Officer, Hitachi, Ltd. | (Note 2) | 15,000 |
| Vice President and Executive Officer | Regional strategies | Ryuichi Otsuki | Mar. 15, 1958 | 4/1981<br>4/2014<br><br><br><br><br><br><br><br>4/2015 | Joined Hitachi, Ltd.<br>Chief Strategy Officer and General Manager of Group Business Development Division, Information & Telecommunication Systems Company, Information & Telecommunication Systems Group<br>Vice President and Executive Officer | (Note 2) | 31,000 |
| Vice President and Executive Officer | Power business | Atsushi Oda | Feb. 19, 1958 | 4/1980<br>4/2015<br><br><br><br><br><br><br>4/2016 | Joined Hitachi, Ltd.<br>General Manager of Transmission & Distribution Systems Division, Energy Solutions Company and Chief Operating Officer of Power Systems Company, Power & Infrastructure Systems Group<br>Vice President and Executive Officer | (Note 2) | 28,000 |
| Vice President and Executive Officer | Legal matters, risk management and corporate auditing | Kohei Kodama | May 24, 1961 | 4/1987<br>4/2017<br><br><br>4/2018 | Joined Hitachi, Ltd.<br>Chief Business Risk management Officer, Systems & Services Business Division<br>Vice President and Executive Officer | (Note 2) | 0 |
| Vice President and Executive Officer | Industrial products business | Keizo Kobayashi | Jan. 23, 1960 | 4/1983<br>5/2015<br><br><br><br>4/2016 | Joined Hitachi, Ltd.<br>Chief Operating Officer of Industrial Products Company, Power & Infrastructure Systems Group<br>Vice President and Executive Officer | (Note 2) | 11,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Vice President and Executive Officer | Research & development | Norihiro Suzuki | Dec. 5, 1961 | 4/1986<br>10/2014<br>4/2015<br>4/2016 | Joined Hitachi, Ltd.<br>General manager of Central Research Laboratory<br>General Manager of Global Center for Social Innovation, Research & Development Group, and General Manager of Central Research Laboratory Group<br>Vice President and Executive Officer | (Note 2) | 6,000 |
| Vice President and Executive Officer | Nuclear energy business | Hidetoshi Takehara | Jun. 25, 1957 | 4/1981<br>4/2013<br>4/2017<br>4/2018 | Joined Hitachi, Ltd.<br>President, Hitachi-GE Nuclear Energy, Ltd.<br>Chief Operating Officer of Nuclear Power Business Unit, Hitachi, Ltd.<br>Vice President and Executive Officer, Hitachi, Ltd. | (Note 2) | 23,000 |
| Vice President and Executive Officer | Governments & external relations, CSR & environmental strategy and executive support | Osamu Naito | Feb. 6, 1959 | 4/1983<br>4/2016<br>4/2018 | Joined Hitachi, Ltd.<br>General Manager of Board of Directors Office<br>Vice President and Executive Officer | (Note 2) | 20,000 |
| Vice President and Executive Officer | Business for government, public corporation and social infrastructure systems | Katsuya Nagano | Aug. 30, 1958 | 4/1983<br>4/2016<br>4/2017 | Joined Hitachi, Ltd.<br>General Manager of Social Infrastructure Information Systems Division, Information & Communication Technology Business Division<br>Vice President and Executive Officer | (Note 2) | 17,000 |
| Vice President and Executive Officer | Marketing & sales (nuclear energy business and power business) | Isao Narukawa | Sep. 8, 1955 | 4/1978<br>4/2013<br>4/2015 | Joined Hitachi, Ltd.<br>General Manager, Chubu Area Operation<br>Vice President and Executive Officer | (Note 2) | 34,000 |
| Vice President and Executive Officer | Supply chain management (MONOZUKURI and quality assurance) | Kentaro Masai | May 22, 1959 | 4/1982<br>4/2014<br>4/2016 | Joined Hitachi, Ltd.<br>President & CEO of Rail Systems Company, Infrastructure Systems Group<br>Vice President and Executive Officer | (Note 2) | 20,000 |
| Vice President and Executive Officer | Marketing & sales (business for industry & distribution sectors, water business, building systems business and railway systems business) | Yasushi Manabe | Dec. 15, 1956 | 4/1979<br>4/2016<br>4/2017 | Joined Hitachi, Ltd.<br>Deputy General Manager of Corporate Sales & Marketing Group and Chief Marketing Officer of Industry & Distribution, Water and Urban businesses<br>Vice President and Executive Officer | (Note 2) | 27,000 |
| Vice President and Executive Officer | Railway systems business | Shinya Mitsudomi | Jul. 5, 1958 | 4/1982<br>4/2017<br>4/2018 | Joined Hitachi, Ltd.<br>Group Head of Sales and Managing Director, Japan / Asia Pacific, Railway Systems Business Unit<br>Vice President and Executive Officer | (Note 2) | 7,000 |

| Position | Responsibility | Name | Date of birth | Business experience, including experience in Hitachi, and functions | | Term of office | Share ownership (shares) |
|---|---|---|---|---|---|---|---|
| Vice President and Executive Officer | Management strategies | Mamoru Morita | Apr. 12, 1959 | 4/1983<br>4/2015<br><br>4/2016 | Joined Hitachi, Ltd.<br>General Manager of Strategy Planning Division<br>Vice President and Executive Officer | (Note 2) | 42,000 |
| Vice President and Executive Officer | Business for financial institutions | Tsugio Yamamoto | Aug. 27, 1959 | 3/1978<br>4/2016<br><br><br><br>4/2017 | Joined Hitachi, Ltd.<br>CEO of Financial Institutions Business Unit and CEO of Government & Public Corporation Business Unit<br>Vice President and Executive Officer | (Note 2) | 8,000 |
| Vice President and Executive Officer | Healthcare business | Masaya Watanabe | Jan. 31, 1958 | 4/1982<br>4/2011<br><br><br><br>4/2012 | Joined Hitachi, Ltd.<br>Chief Strategy Officer, Information & Telecommunication Systems Company<br>Vice President and Executive Officer | (Note 2) | 56,000 |
| Executive Officer | General | Hiroaki Nakanishi | Mar. 14, 1946 | See “(1)Directors” | | (Note 2) | 149,000 |
| Total | | | | | | | 913,000 |

(Notes) 1. The “Responsibility” column describes matters delegated to each of the Executive Officers by the Board of Directors.

2. The term of office of the Executive Officers expires on March 31, 2019.

6. Corporate Governance, etc.

(1) Corporate governance

1) Outline of corporate organizations

The Company is a company with Nominating Committee, etc. under the Companies Act, aiming to establish a framework for quick business operation and to realize highly transparent management by separating responsibilities for management oversight and those for execution of business operations.

Board of Directors

The Board of Directors approves basic management policy for the Hitachi Group and supervises the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and the shareholders' common interests. The basic management policy includes medium-term management plan and annual budget compilation. The Board of Directors focuses on strategic issues related to the basic management policy as well as other items to be resolved that are provided in laws, regulations, the Articles of Incorporation and Board of Directors Regulations. As of June 29, 2018, the Board of Directors was made up of 12 Directors, and eight of whom are outside Directors and two concurrently serve as Executive Officers. Within the Board of Directors, there are three statutory committees of the Nominating Committee, the Audit Committee and the Compensation Committee with outside Directors accounting for the majority of members of each committee. The Board of Directors meetings were held 9 days during the fiscal year ended March 31, 2018, and the attendance rate of Directors at those meetings was 97%. The Nominating Committee meetings were held 8 days, the Audit Committee meetings were held 14 days, and the Compensation Committee meetings were held 4 days during the fiscal year ended March 31, 2018.

The Nominating Committee has the authority to determine particular proposals submitted to the general meeting of shareholders for the election and dismissal of Directors, and consists of four Directors, three of whom are outside Directors.

The Audit Committee has the authority to audit the execution of duties of Directors and Executive Officers and to determine on proposals submitted to the general meeting of shareholders for the election and dismissal of accounting auditors, and consists of six Directors, including four outside Directors and one standing Audit Committee member. Mr. Hiroaki Yoshihara, the Chair of the Audit Committee, has considerable knowledge of finance and accounting based on his long experience at KPMG Group with businesses related to accounting, etc. Mr. Toyoaki Nakamura, the member of the Audit Committee, has considerable knowledge of finance and accounting due to his long experience as the General Manager of accounting and finance of the Company as well as Executive Officer responsible for accounting and finance for many years.

The Compensation Committee has the authority to determine remuneration policies for Directors and Executive Officers and remuneration for individuals based on them. The Compensation Committee consists of four Directors, three of whom are outside Directors.

With regard to the number of Directors and their election, the Company stipulates in its Articles of Incorporation that the Company shall have no more than 20 Directors. With regard to the adoption of resolution for the election of Directors, the Company stipulates in its Articles of Incorporation that the presence of shareholders representing one-third or more of the voting, that resolutions for the election of Directors shall be approved by attending shareholders possessing one-third or more of all voting rights of the shareholders who are entitled to exercise their votes, and that the resolution shall not be made by cumulative voting.

The Company maintains a limited liability agreement (hereinafter referred to as "Agreement") stipulated in Article 427, Paragraph 1 of the Companies Act with each director (excluding Executive Director, etc.) The general intent of the Agreement is to limit the liability of Directors to the aggregate amount stipulated in each item under Article 425, Paragraph 1 of the Companies Act.

Executive Officers

Executive Officers decide on matters delegated to them by the Board of Directors and execute the Company's business affairs within the scope of assignments determined by the Board of Directors. As of June 29, 2018, the Company has 35 Executive Officers.

The Company stipulates in its Articles of Incorporation that the Company shall have no more than 40 Executive Officers.

Senior Executive Committee

The Senior Executive Committee is a council to ensure that President deliberately decides on important managerial matters, which may affect the Company or the Hitachi Group business, through discussing from diverse viewpoints. It consists of 12 members as of June 29, 2018; President & CEO, five Executive Vice President and Executive Officers, five Senior Vice President and Executive Officers and one Vice President and Executive Officer.

2) Matters determined by resolution of the Board of Directors without resolution at the general meeting of shareholders pursuant to the provisions of the Articles of Incorporation

The Company stipulates in the Articles of Incorporation that it may, unless otherwise provided in the applicable laws, determine on matters specified in each item of Article 459, Paragraph 1 of the Companies Act by the resolution of the Board of Directors, without resolution at the general meeting of shareholders.

For the repurchase of the company's own shares (Article 459, Paragraph 1, Item 1 of the Companies Act), the Board of Directors shall determine on the matter in order to enable timely implementation of capital strategies.

Regarding reduction of capital reserve or earned surplus reserve (Article 459, Paragraph 1, Item 2 of the Companies Act), appropriation of surplus (excluding dividends of surplus and disposal of the property of the Company) (Article 459, Paragraph 1, Item 3 of the Companies Act) and dividends of surplus (Article 459, Paragraph 1, Item 4 of the Companies Act), since the Company was a company with committees as of the date of enforcement of the Companies Act, it was deemed that its Articles of Incorporation had stipulations that the Board of Directors was able to decide the above matters without resolution at the general meeting of shareholders and that it should not stipulate that such matters shall be resolved at the resolution of the general meeting of shareholders, in accordance with Article 57 of the Act on Arrangement of Relevant Acts Incidental to Enforcement of the Companies Act (July 26, 2005, Act No. 87). Even after the enforcement of the Companies Act, the Company has made it a rule to timely decide on these important business judgments by the Board of Directors to enhance the shareholders' common interests.

The Company has stipulated in its Articles of Incorporation that it may, by resolution of the Board of Directors, exempt any Director (including former Director) and Executive Officer (including former Executive Officer) from liabilities as provided Article 423, Paragraph 1 of the Companies Act to the extent as provided in laws or regulations.

3) Requirement for special resolution of the general meeting of shareholders

To enable to securely meet the quorum of the general meeting of shareholders under Article 309, Paragraph 2 of the Companies Act, 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 general meeting of shareholders where shareholders representing one-third or more of the voting rights of all the shareholders shall be present, 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.

4) Internal control system and risk management system

Outlines of the internal control system and the risk management system of the Company are as follows. In addition, these systems were resolved by the Board of Directors as the basic policy for internal control system under the Companies Act.

i) The following measures shall be taken to ensure the effectiveness of audits by the Audit Committee.

(a) When necessary, the Board of Directors may appoint one or more director(s), who does not serve concurrently as an executive officer, as a director responsible for assisting with the duties of the Audit Committee. In addition, the Board of Directors' Office (the "Office") shall be established specifically to assist with the duties of each Committee and the Board of Directors.

(b) In order to ensure the independence of the Office personnel from Executive Officers and the effect of instructions by the Audit Committee, the Office is staffed with personnel who work only for the Office and are not subject to orders and instructions of Executive Officers, and the Audit Committee shall be informed in advance of planned transfers of the Office personnel.

(c) Executive Officers and employees shall report without delay to the members of the Audit Committee significant matters affecting the Company and its subsidiaries, results of internal audits, and the implementation status of reporting under the internal reporting system. It shall be provided for in the company regulation that reporters using the internal reporting system, which applies to the employees of the Company and its subsidiaries, shall not receive disadvantageous treatment for reason of having made a report, and the secretariat of the system shall thoroughly administer this provision.

(d) The Office shall be in charge of payment for the expenses incurred in connection with the execution of the duties of the Audit Committee members and other administrative duties, and shall promptly process the payment for the expense or debt except in the case where the expense or debt of the claim is clearly found to be unnecessary to the execution of the duties of them.

(e) Standing Committee member(s) shall be appointed to the Audit Committee, and activity plans of the Audit Committee shall be prepared in coordination with the audit plans of Internal Auditing Office.

ii) The following measures shall be effective to ensure the adequacy of business operations within the Company and the Hitachi Group.

(a) Such fundamental policies as the emphasis of the social responsibilities of business enterprises shall be shared with the subsidiaries of the Company.

(b) Each subsidiary of the Company shall develop systems to ensure the appropriateness of operations corresponding to its size and other characteristics, basic framework of which is similar to ones employed in the Company. In order to ensure development of such systems in each subsidiary, directors and auditors shall be sent from the Company to its subsidiary, and regular audits shall be conducted for the subsidiary.

(c) A reporting system to Directors shall be established to ensure that the execution of duties by Executive Officers of the Company is in compliance with laws, regulations, and the Articles of Incorporation.

(d) Information pertaining to the execution of duties by Executive Officers of the Company shall be prepared and maintained in accordance with internal rules.

(e) A structure shall be established in which each relevant department shall establish regulations and guidelines, conduct training, prepare and distribute manuals, and carry out other such measures with respect to various risks. Efforts shall be made to identify possible new risks through such things as progress reports on business operations and, should it become necessary to respond to a new risk, an Executive Officer responsible for responding thereto shall be appointed promptly.

(f) Efficient performance of duties of the Executive Officers of the Company, and Directors and Executive Officers of the subsidiaries shall be ensured through the following business management systems.
  - The Senior Executive Committee shall be established in order to deliberate on and facilitate the formulation of decisions based on due consideration of diverse factors regarding important issues that affect the Company and/or the Hitachi Group.
  - Based on the management policy, medium-term business plans and annual budgets, on which performance management is based, shall be prepared in order to operate business in a planned and efficient manner.
  - Internal audits of the Company and its subsidiaries shall be conducted to monitor and identify the status of their business operations and to facilitate improvements.
  - The Audit Committee shall receive the audit plans of the accounting auditors in advance, and the prior approval of the Audit Committee shall be required with respect to the fees to be paid to the accounting auditors.
  - Documented business processes for matters to be reflected in financial reports shall be executed at the Company and its subsidiaries, and internal and external auditors shall examine said processes in order to ensure the reliability of financial reports.
  - A structure for the adequate and efficient conduct of business operations common to the Hitachi Group companies shall be established.

(g) Continuous maintenance of a legal and regulatory compliance structure shall be ensured through the following business management systems.
  - Internal audits shall be conducted, and various committees shall be established for legal and regulatory compliance activities. Furthermore, an internal reporting system for employees of the Company and its subsidiaries shall be established and education on legal and regulatory compliance shall be provided.
  - Various policies and rules on compliance with laws shall be established, aiming to ensure that the employees are aware of the internal control systems overall and that the systems are effective.

(h) A system shall be established, in which the subsidiaries report on important issues and the progress in measures for operations to the Company through the Company’s Senior Executive Committee, medium-term business plans and the budget system.

(i) The policy on transactions within the Hitachi Group is to trade fairly based on market prices.

5) Internal audit and audit by the Audit Committee

(a) Internal audit

The Internal Auditing Office is in charge of internal audit within Hitachi Group and audits business units, corporate divisions of headquarters and subsidiaries and affiliates. The number of staff of the Internal Auditing Office is 39 as of March 31, 2018.

The Internal Auditing Office monitors and assesses whether overall business operations, including marketing, personnel management, labor management, compliance, procurement transactions, production, environment, disaster prevention, export regulations, information system, accounting and financing activities, and property management of Hitachi Group are properly carried out pursuant to audit standards established by the Company, and points out items required to be improved based on the results of auditing and follows up their improvements. The Internal Auditing Office reports in advance its internal audit plan to the Audit Committee, and reports results of auditing to the President & CEO and the Audit Committee. Furthermore, relating to the internal control over financial reporting, the internal control division in the Internal Audit Office promotes to establish and maintain the internal control systems pursuant to the Company’s guideline, assesses its effectiveness, and reports the results to the President & CEO and the Audit Committee.

(b) Audit by the Audit Committee

The Audit Committee conducts audits for whether corporate administration by Directors and Executive Officers are properly carried out under appropriate internal control systems.

The Audit Committee develops the audit policy and the audit plan, and periodically receives reports or conducts hearing for execution of duties from Directors and Executive Officers. In addition, the members of the Audit Committee, who are in charge of internal investigation, investigate business units of the Company and receive reports from subsidiaries in order to check whether business transaction and property management are properly carried out, and then report the results to the Audit Committee. Furthermore, such members of the Audit Committee attend the important meetings including the budget meeting, the Senior Executive Committee and the Disclosure Committee, inspect audit reports from internal audit divisions, and provide internal audit divisions with instructions about divisions to be subject to auditing and items to be focused, if necessary.

The Audit Committee receives reports and explanations about the audit plan and results of the audit from the accounting auditor, and based on the reports, verifies results of financial audits and internal control audits. In addition, the Audit Committee receives reports and explanations of quality control systems of the accounting auditor. Furthermore, the Company makes it a rule to obtain the prior approval of the Audit Committee for remuneration to the accounting auditor.

6) Outside Directors

(a) Qualification for the outside Directors and criteria for the independency

For electing an outside Director, the Nominating Committee of the Company considers, in addition to the following criteria for the independency, whether the outside Director has the highest personal and professional ethics, integrity and insight, and distinguished records of leadership or experience at policy making levels in business, law, administration, accounting or education, etc.

For the independency of an outside Director, the Company considers the outside director to be independent unless:

- his or her immediate family member* is, or has been within the last three 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 three fiscal years, exceeds 2% of any of the companies' consolidated gross revenues;
- he or she has received during any of the last three 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; 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 three fiscal years are more than ¥10 million and 2% of that organization's annual gross revenues.

* An "immediate family member" includes a person's spouse, parents, children, siblings, grand-parents, grand-children, mothers and fathers-in-law, sons and daughters-in-law, spouses of siblings, grand-children-in-law, and brothers and sisters-in-law.

(b) Function of the outside Directors

Following the policy stated in "(a) Qualification for outside Directors and criteria for the independency," the Company has elected eight persons; Messrs. Katsumi Ihara, Joe Harlan, George Buckley, Harufumi Mochizuki, Takatoshi Yamamoto and Hiroaki Yoshihara and Mses. Cynthia Carroll and Louise Pentland, as outside Directors under Article 2, Item 15 of the Companies Act. Each outside Director is expected to enhance functions of the Company's Board of Directors through supervising execution of duties of Executive Officers and others from an independent perspective, based on rich experiences and insights in the area of global corporate management in the cases of Messrs. Katsumi Ihara and Joe Harlan, based on rich experiences and insights as top executive of major global companies in the cases of Ms. Cynthia Carroll and Mr. George Buckley, based on deep insight into corporate legal matters and corporate governance gained through her rich experience as the chief legal officer of major global companies in the case of Ms. Louise Pentland, based on diverse experiences and insights in such areas as public administration in the cases of Mr. Harufumi

Mochizuki, based on a broad range of insight in business and management gained through his experience in the area of corporate analysis and global corporate management in the case of Mr. Takatoshi Yamamoto and based on rich experiences and insights in the area of global corporate management and accounting in the case of Mr. Hiroaki Yoshihara.

(c) Supervising by the outside Directors

Outside Directors, comprising of majority of Directors, supervise execution of duties of Executive Officers from an independent perspective. As described in the item "5) Internal audit and audit by the Audit Committee" above, the Audit Committee, of which majority members are outside Directors, receives reports and explanations about results of internal audits, accounting audit and internal control audit, and verifies the matters reported or explained. In addition, the Audit Committee reports the results of its verification to the Board of Directors.

(d) Relationship between outside Directors and the Company

Each of outside Directors has no relationship with the Company regarding his or her independency as described in "(a) Qualification for the outside Directors and criteria for the independency." In addition, there is no particular conflict of interest between each of outside Directors and the Company.

The Company considers that all outside Directors are independent, and therefore has notified them as independent directors to each of the Company's listing stock exchanges in Japan.

In addition, the number of shares of the Company owned by each outside Director is described in "5. Directors and Senior Management."

7) Status of accounting audit

Certified public accountants (CPAs) who executed accounting audit of the Company are as follows. In addition, other CPAs and staff belonging to Ernst & Young ShinNihon LLC assisted execution of accounting audit works as instructed by the three CPAs.

| CPA having executed accounting audit works | Audit corporation to which CPA belongs |
| --- | --- |
| Takashi Ouchida | Ernst & Young ShinNihon LLC |
| Takuya Tanaka | Ernst & Young ShinNihon LLC |
| Ken Sudo | Ernst & Young ShinNihon LLC |

8) Compensation to Directors and Executive Officers

(a) Policy on the determination of Compensation of Directors and Executive Officers

[Method of Determination of Policy]

The Company's Compensation Committee sets forth the policy on the determination of the amount of compensation, etc. of each Director and Executive Officer pursuant to applicable provisions of the Companies Act.

[Basic Policy]

Compensation for Directors and Executive Officers shall be determined in accordance with the following basic policy.

- Compensation shall be such that it enables the company to attract necessary personnel to achieve an improvement in corporate value through global business growth.
- Compensation shall be commensurate with roles and responsibilities of each Directors and Executive Officers.
- Compensation for Directors shall be such that it enables them to exercise functions of supervision of management effectively.
- Compensation for Executive Officers shall be such that it enables them to contribute to sustained improvement in corporate value through the execution of business and employs an appropriate balance between short-term performance and medium and long-term performance.
- The level of compensation shall be determined taking into account compensation levels at other companies as well as economic and market trends.
- The Compensation Committee utilizes external experts to gain expert advice and an objective viewpoint, if necessary, for considering the details and amounts of compensation.

[Compensation Structure]

(i) Matters relating to Directors

Compensation for Directors will consist of a basic remuneration and a year-end allowance.

- Basic remuneration will be decided by adjusting basic amount that reflect full-time or part-time status, committee membership and position, travel from place of residence, etc.
- Year-end allowance will be a pre-determined amount equivalent to about 20% of the Director's annual income based on basic remuneration, although this amount may be reduced depending on financial results.

A Director concurrently serving as an Executive Officer will not be paid compensation as a Director.

(ii) Matters relating to Executive Officers

Compensation for Executive Officers will consist of a basic remuneration, a performance-linked compensation and a medium and long-term incentive compensation. The higher position Executive Officers hold, the higher proportion of variable pay (the sum of performance-linked compensation and medium and long-term incentive compensation, except basic remuneration as fixed pay) will be set to the total annual compensation.

- Basic remuneration will be decided by adjusting a basic amount to reflect the results of an assessment. The basic amount is set in accordance with the relevant position.
- Performance-linked compensation will be decided within the range of 0 to 200% of a basic amount by adjusting that amount to reflect financial results and individual performance. The basic amount is set within the range of about 25 to 35% of the total annual compensation of each Executive Officer in accordance with the relevant position.
- Medium and long-term incentive compensation will be stock options as stock-based compensation with share price conditions (stock acquisition rights with the strike price of one yen), the number of which to be granted will be determined within the range of about 10 to 40% of the total annual compensation of each Executive Officer in accordance with the relevant position. The number of stock acquisition rights that may be exercised will be determined within the range of 0 to 100% of the stock acquisition rights granted in accordance with the conditions.

(iii) Miscellaneous

It was decided at the Compensation Committee meetings held on December 18, 2007 and March 26, 2008 that the compensation structure for Directors and Executive Officers will be re-examined starting with the compensation for fiscal 2008 and that the retirement allowance will be abolished. The payment of retirement allowance to Directors and Executive Officers due to the abolition of the retirement allowance system will be in an amount determined by the Compensation Committee at the time of the retirement of a relevant Director or Executive Officer.

(b) Amount of compensation

| Category | Total amount of compensation, etc. (Millions of yen) | Total amount of each type (Millions of yen) | | | Number of persons |
|---|---|---|---|---|---|
| | | Basic remuneration | Year-end allowance and performance-linked compensation | Medium and long-term incentive compensation | |
| Directors (excluding outside Directors) | 65 | 58 | 6 | — | 2 |
| Outside Directors | 355 | 338 | 16 | — | 9 |
| Executive Officers | 3,285 | 1,488 | 1,189 | 607 | 35 |
| Total | 3,705 | 1,885 | 1,213 | 607 | 46 |

(Notes) The number of Directors indicated excludes two Directors who concurrently serve as Executive Officers.

In addition, Directors or Executive Officers whose compensation from the Company and its subsidiaries is not less than ¥100 million and the amount of their compensation are as follows:

| Name | Company | Category | Total amount of each type (Millions of yen) | | | | | Total amount of compensation, etc. (Millions of yen) |
|---|---|---|---|---|---|---|---|---|
| | | | Basic remuneration | Incentives | | Year-end allowance | Others (Note 3) | |
| | | | | Short-term (Note 1) | Medium and Long-term (Note 2) | | | |
| Toshiaki Higashihara | Hitachi, Ltd. (The Company) | Executive Officer (Note 4) | 107 | 83 | 113 | - | - | 303 |
| Masakazu Aoki | Hitachi, Ltd. (The Company) | Executive Officer | 30 | 29 | 21 | - | - | 141 |
| | Hitachi Industrial Equipment Systems Co., Ltd. (Consolidated subsidiary) | Chairman of the Board | 30 | 29 | - | - | - | |
| Ryuichi Kitayama | Hitachi, Ltd. (The Company) | Executive Officer | 53 | 44 | 30 | - | - | 132 |
| | Hitachi High-Technologies Corporation (Consolidated subsidiary) | Director | 3 | - | - | 0 | - | |
| Yutaka Saito | Hitachi, Ltd. (The Company) | Executive Officer | 49 | 44 | 30 | - | - | 138 |
| | Hitachi Kokusai Electric Inc. (Consolidated subsidiary) | Chairman of the Board | 7 | - | - | 1 | - | |
| | Hitachi Construction Machinery Co., Ltd. (Consolidated subsidiary) | Director | 5 | - | - | 0 | - | |
| Keiichi Shiotsuka | Hitachi, Ltd. (The Company) | Executive Officer | 61 | 58 | 21 | - | - | 141 |
| Koji Tanaka | Hitachi, Ltd. (The Company) | Executive Officer | 59 | 46 | 30 | - | - | 137 |
| | Hitachi Chemical Company, Ltd. (Consolidated subsidiary) | Director | 1 | - | - | - | - | |

| Name | Company | Category | Total amount of each type (Millions of yen) | | | | | Total amount of compensation, etc. (Millions of yen) |
|---|---|---|---|---|---|---|---|---|
| | | | Basic remuneration | Incentives | | Year-end allowance | Others (Note 3) | |
| | | | | Short-term (Note 1) | Medium and Long-term (Note 2) | | | |
| Toshikazu Nishino | Hitachi, Ltd. (The Company) | Executive Officer | 56 | 43 | 30 | - | - | 138 |
| | Hitachi Automotive Systems, Ltd. (Consolidated subsidiary) | Director | 4 | 3 | - | - | - | |
| Shinichiro Omori | Hitachi, Ltd. (The Company) | Executive Officer | 46 | 38 | 12 | - | - | 100 |
| | Hitachi Chemical Company, Ltd. (Consolidated subsidiary) | Director | 2 | - | - | 0 | - | |
| Toshiaki Kuzuoka | Hitachi, Ltd. (The Company) | Executive Officer | 51 | 39 | 12 | - | - | 104 |
| Keiji Kojima | Hitachi, Ltd. (The Company) | Executive Officer | 37 | 35 | 12 | - | - | 114 |
| | Hitachi Vantara Corporation (Consolidated subsidiary) (Note 6) | Chairman | 14 | 13 | - | - | - | |
| Hiroshi Sato | Hitachi, Ltd. (The Company) | Executive Officer | 26 | 18 | 12 | - | - | 101 |
| | Hitachi Building Systems Co., Ltd. | President and Director | 24 | 18 | - | - | - | |
| Yasuo Tanabe | Hitachi, Ltd. (The Company) | Executive Officer | 51 | 39 | 12 | - | - | 104 |
| Yoshitaka Tsuda | Hitachi, Ltd. (The Company) | Executive Officer | 51 | 49 | 11 | - | - | 112 |
| Alistair Dormer (Note 5) | Hitachi Rail Europe Ltd. (Consolidated subsidiary) (Note 6) | Executive Chairman and CEO | 79 | 82 | 85 | - | - | 247 |
| Mitsuaki Nishiyama | Hitachi, Ltd. (The Company) | Executive Officer | 51 | 42 | 12 | - | - | 107 |

| Name | Company | Category | Total amount of each type (Millions of yen) | | | | | Total amount of compensation, etc. (Millions of yen) |
|---|---|---|---|---|---|---|---|---|
| | | | Basic remuneration | Incentives: Short-term (Note 1) | Incentives: Medium and Long-term (Note 2) | Year-end allowance | Others (Note 3) | |
| Ryuichi Otsuki | Hitachi, Ltd. (The Company) | Executive Officer | - | - | 8 | - | - | 111 |
| | Hitachi Vantara Corporation (Consolidated subsidiary) (Note 6) | CEO | 68 | 33 | - | - | 1 | |
| Kenichi Kokubo | Hitachi, Ltd. (The Company) | Executive Officer | - | - | 8 | - | - | 100 |
| | Hitachi (China), Ltd. (Consolidated subsidiary) (Note 6) | Chairman | 59 | 31 | - | - | - | |
| Hiroaki Nakanishi | Hitachi, Ltd. (The Company) | Executive Officer (Note 4) | 97 | 75 | 70 | - | - | 243 |

(Notes) 1. Compensations from the Company and consolidated subsidiaries paid depending on finacial results and individual performances in the short term are collectively called.
2. Medium and long-term incentive compensation for Executive Officers of the Company is stock options as stock-based compensation, etc.
3. The "Others" column shows the fringe benefit equivalent.
4. Although concurrently serving as Director for the fiscal year ended March 31, 2018, Messrs. Toshiaki Higashihara and Hiroaki Nakanishi did not receive compensation as Director.
5. Although concurrently served as Executive Officer of the Company for the fiscal year ended March 31, 2018, Mr. Alistair Dormer did not receive compensation as Executive Officer of the Company.
6. The amount of the remuneration, etc. from foreign subsidiaries shows yen equivalent.

9) Information on shareholdings

(a) Equity securities held for purposes other than pure investment

Number of stock names: 288 stock names

Total amount recorded in the balance sheet: ¥270,336 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

(Fiscal year ended March 31, 2017)

Specified investment securities

| Stock name | Number of shares (shares) | Balance sheet amount (Millions of yen) | Purpose of holding |
|---|---|---|---|
| Renesas Electronics Corporation | 127,725,748 | 149,055 | Received in relation to the reorganization, etc. of Renesas Technology Corp. which was an affiliate of the Company |
| Western Digital Corporation | 6,250,000 | 57,869 | Maintaining and enhancing business relationship |
| Central Japan Railway Company | 900,000 | 16,326 | Maintaining and enhancing business transactions |
| Hitachi Maxell, Ltd. | 7,797,100 | 15,835 | Maintaining business relationship |
| East Japan Railway Company | 812,400 | 7,875 | Maintaining and enhancing business transactions |
| Yungtay Engineering Co., Ltd. | 31,817,168 | 6,160 | Maintaining and enhancing business relationship |
| Shin-Etsu Chemical Co., Ltd. | 521,000 | 5,024 | Maintaining and enhancing business transactions |
| Electric Power Development Co., Ltd. | 980,780 | 2,554 | Maintaining and enhancing business transactions |
| Seibu Holdings Inc. | 1,286,900 | 2,364 | Maintaining and enhancing business transactions |
| The Chiba Bank, Ltd. | 3,269,000 | 2,337 | Maintaining and enhancing business transactions |
| Sapporo Holdings Limited | 597,600 | 1,798 | Maintaining and enhancing business transactions |
| West Japan Railway Company | 215,000 | 1,556 | Maintaining and enhancing business transactions |
| NGK INSULATORS, LTD. | 607,000 | 1,529 | Maintaining and enhancing business transactions |
| Ono Pharmaceutical Co., Ltd. | 600,000 | 1,382 | Maintaining and enhancing business transactions |
| Benefit One Inc. | 400,000 | 1,366 | Maintaining and enhancing business transactions |
| Toho Gas Co., LTD. | 1,524,471 | 1,199 | Maintaining and enhancing business transactions |
| eREX Co., Ltd. | 750,000 | 984 | Maintaining and enhancing business relationship |
| Keio Corporation | 1,032,873 | 910 | Maintaining and enhancing business transactions |
| The Japan Steel Works, LTD. | 505,000 | 905 | Maintaining and enhancing business transactions |

| Stock name | Number of shares (shares) | Balance sheet amount (Millions of yen) | Purpose of holding |
|---|---|---|---|
| Kintetsu Group Holdings Co., Ltd | 2,242,913 | 899 | Maintaining and enhancing business transactions |
| Chubu Electric Power Co., Inc. | 600,254 | 894 | Maintaining and enhancing business transactions |
| Japan Tobacco Inc. | 225,000 | 814 | Maintaining and enhancing business transactions |
| Sotetsu Holdings, Inc. | 1,570,518 | 811 | Maintaining and enhancing business transactions |
| Showa Denko K.K. | 400,000 | 794 | Maintaining and enhancing business transactions |
| Seiko Electric Co., Ltd. | 1,180,320 | 790 | Maintaining and enhancing business transactions |
| Tohoku Electric Power Co., Inc. | 505,000 | 761 | Maintaining and enhancing business transactions |
| DAIICHI SANKYO COMPANY, LIMITED | 300,000 | 752 | Maintaining and enhancing business transactions |
| Kyushu Electric Power Company Inc. | 592,500 | 702 | Maintaining and enhancing business transactions |
| Tosoh Corporation | 657,000 | 642 | Maintaining and enhancing business transactions |
| TOKYU CORPORATION | 788,032 | 620 | Maintaining and enhancing business transactions |

(Note) Since the number of stock of which balance sheet amount exceeds 1% of the amount of the Company's common stock on the balance sheet is less than 30, the top 30 stocks in balance sheet amount are listed.

(Fiscal year ended March 31, 2018)
Specified investment securities

| Stock name | Number of shares (shares) | Balance sheet amount (Millions of yen) | Purpose of holding |
|---|---|---|---|
| Renesas Electronics Corporation | 92,530,648 | 99,007 | Received in relation to the reorganization, etc. of Renesas Technology Corp. which was an affiliate of the Company |
| Western Digital Corporation | 6,250,000 | 61,267 | Maintaining and enhancing business relationship |
| Central Japan Railway Company | 900,000 | 18,117 | Maintaining and enhancing business transactions |
| East Japan Railway Company | 812,400 | 8,011 | Maintaining and enhancing business transactions |
| Yungtay Engineering Co., Ltd. | 31,817,168 | 6,543 | Maintaining and enhancing business relationship |
| Shin-Etsu Chemical Co., Ltd. | 521,000 | 5,733 | Maintaining and enhancing business transactions |
| Maxell Holdings, Ltd. | 1,603,000 | 3,321 | Maintaining and enhancing business relationship |
| The Chiba Bank, Ltd. | 3,269,000 | 2,794 | Maintaining and enhancing business transactions |
| Seibu Holdings Inc. | 1,286,900 | 2,383 | Maintaining and enhancing business transactions |
| Benefit One Inc. | 800,000 | 2,354 | Maintaining and enhancing business transactions |
| Ono Pharmaceutical Co., Ltd. | 600,000 | 1,976 | Maintaining and enhancing business transactions |

| Stock name | Number of shares (shares) | Balance sheet amount (Millions of yen) | Purpose of holding |
|---|---|---|---|
| Sapporo Holdings Limited | 597,600 | 1,852 | Maintaining and enhancing business transactions |
| Showa Denko K.K. | 400,000 | 1,800 | Maintaining and enhancing business transactions |
| Electric Power Development Co., Ltd. | 653,980 | 1,753 | Maintaining and enhancing business transactions |
| The Japan Steel Works, LTD. | 505,000 | 1,714 | Maintaining and enhancing business transactions |
| West Japan Railway Company | 215,000 | 1,597 | Maintaining and enhancing business transactions |
| NGK INSULATORS, LTD. | 607,000 | 1,113 | Maintaining and enhancing business transactions |
| DAIICHI SANKYO COMPANY, LIMITED | 300,000 | 1,057 | Maintaining and enhancing business transactions |
| Seiko Electric Co., Ltd. | 1,030,320 | 971 | Maintaining and enhancing business transactions |
| Keio Corporation | 206,574 | 938 | Maintaining and enhancing business transactions |
| Chubu Electric Power Co., Inc. | 600,254 | 902 | Maintaining and enhancing business transactions |
| Kyushu Electric Power Company Inc. | 592,500 | 751 | Maintaining and enhancing business transactions |
| Tohoku Electric Power Co., Inc. | 505,000 | 717 | Maintaining and enhancing business transactions |
| Japan Tobacco Inc. | 225,000 | 689 | Maintaining and enhancing business transactions |
| Tosoh Corporation | 328,500 | 685 | Maintaining and enhancing business transactions |
| Kintetsu Group Holdings Co., Ltd | 164,291 | 680 | Maintaining and enhancing business transactions |
| TOKYU CORPORATION | 394,016 | 653 | Maintaining and enhancing business transactions |
| Yamaguchi Financial Group, Inc. | 484,310 | 623 | Maintaining and enhancing business transactions |
| eREX Co., Ltd. | 750,000 | 621 | Maintaining and enhancing business relationship |
| Sotetsu Holdings, Inc. | 214,103 | 605 | Maintaining and enhancing business transactions |

(Note) Since the number of stock of which balance sheet amount exceeds 1% of the amount of the Company's common stock on the balance sheet is less than 30, the top 30 stocks in balance sheet amount are listed.

(c) Equity securities held for pure investment

None.

(2) Audit Fees

1) Fees to Certified Public Accountants

| Category | Fiscal year ended March 31, 2017 | | Fiscal 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 | 485 | 34 | 502 | 58 |
| Consolidated subsidiaries | 1,009 | 118 | 914 | 61 |
| Total | 1,494 | 152 | 1,416 | 119 |

2) Other fees

Audit fees paid by the Company and its consolidated subsidiaries to the Company's accounting auditor, Ernst & Young ShinNihon LLC Group (including Ernst & Young and its group firms which belong to the same network as Ernst & Young ShinNihon LLC), were ¥2,993 million for the fiscal year ended March 31, 2017, and ¥3,166 million for the fiscal year ended March 31, 2018, respectively. These fees are mainly paid for audit services to its overseas consolidated subsidiaries.

3) Descriptions of non-audit services to the Company

Non-audit services to the Company in the fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2018 were various consulting services.

4) Policy on determination of audit fees

For determining the amount of audit fees, the Company conducts hearing of the audit plan and verify efficiency of audit services, including the number of days, hours for auditing, the number of subjects to be audited and the scope of audit, etc., and appropriateness of the estimate. The Company also discusses with the accounting auditor taking into consideration the formation of auditors and audit fees for the preceding fiscal year. In addition, the Audit Committee receives the audit plans of the accounting auditors and the results of discussion between the auditors and Executive Officers of the Company and approves the amount of the fees in advance of the Company's decision.

## V. Financial Information

Refer to the consolidated financial statements incorporated in this Annual Securities Report.

VI. Stock-Related Administration for the Company

| | |
|---|---|
| Fiscal year | From April 1 to March 31 |
| Annual General Meeting of Shareholders | To be held within three months from the following day of the end of every fiscal year |
| Record date | End of every fiscal year |
| Record date for distribution of surplus | End of March and end of September |
| Number of shares constituting one unit | 1,000 shares |
| Purchase and sale of shares less than one unit<br><br>Handling office<br><br>Transfer agent<br><br>Forward office<br><br>Purchasing and selling fee | <br><br>(Special account)<br>11, Kanda Nishikicho 3-chome, Chiyoda-ku, Tokyo<br>Main Office, Tokyo Securities Transfer Agent Co., Ltd.<br>(Special account)<br>Tokyo Securities Transfer Agent Co., Ltd.<br>-<br>Free of charge |
| Method of public notice | The Company's method of public notice is through electronic public notice. However, if the Company cannot use the above-mentioned method of public notice due to an accident or other inevitable reasons, Nihon Keizai Shimbun will be adopted as its medium. |
| Special benefit for Shareholders | None |

(Notes) 1. Under the Articles of Incorporation, distribution of surplus through dividend payment, if any, will be made to shareholders of record as of March 31 and September 30 of each year. In addition, the Company may make further distributions of surplus to shareholders of record as of another record date.

2. The Articles of Incorporation provide that a holder of shares representing less than one unit does not have any other rights of a shareholder in respect of those shares, other than those specified in the Articles of Incorporation. This includes:

(1) Rights under each item of Article 189, Paragraph 2 of the Companies Act;

(2) Rights to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders; or

(3) Rights stipulated in the Articles of Incorporation

## VII. Reference Information on the Company

### 1. Information on a Parent Company, etc. of the Company

The Company has no parent company.

### 2. Other Reference Information

The Company filed the following documents during the period from the commencing date of the fiscal year ended March 31, 2018 to the filing date of the Annual Securities Report.

| | | |
|---|---|---|
| (1) | Annual Securities Report and documents attached, and Confirmation Letter<br>(The 148th business term (from April 1, 2016 to March 31, 2017)) | Filed with the Director of the Kanto Local Finance Bureau on June 21, 2017 |
| (2) | Internal Control Report | Filed with the Director of the Kanto Local Finance Bureau on June 21, 2017 |
| (3) | Shelf Registration Statement and documents attached | Filed with the Director of the Kanto Local Finance Bureau on June 22, 2017 |
| (4) | Quarterly Report and Confirmation Letter<br>(The First Quarter of the 149th business term (from April 1, 2017 to June 30, 2017)) | Filed with the Director of the Kanto Local Finance Bureau on August 7, 2017 |
| (5) | Extraordinary Report<br>(pursuant to Article 19, Paragraph 2, Item 6 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.) | Filed with the Director of the Kanto Local Finance Bureau on August 22, 2017 |
| (6) | Quarterly Report and Confirmation Letter<br>(The Second Quarter of the 149th business term (from July 1, 2017 to September 30, 2017)) | Filed with the Director of the Kanto Local Finance Bureau on November 14, 2017 |
| (7) | Extraordinary Report<br>(pursuant to Article 19, Paragraph 2, Item 9 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.) | Filed with the Director of the Kanto Local Finance Bureau on January 31, 2018 |
| (8) | Quarterly Report and Confirmation Letter<br>(The Third Quarter of the 149th business term (from October 1, 2017 to December 31, 2017)) | Filed with the Director of the Kanto Local Finance Bureau on February 7, 2018 |
| (9) | Extraordinary Report<br>(pursuant to Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.) | Filed with the Director of the Kanto Local Finance Bureau on April 11, 2018 |
| (10) | Amended Extraordinary Report<br>(Amendment to Extraordinary Report (9) above) | Filed with the Director of the Kanto Local Finance Bureau on April 27, 2018 |
| (11) | Extraordinary Report<br>(pursuant to Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.) | Filed with the Director of the Kanto Local Finance Bureau on June 21, 2018 |
| (12) | Amended Shelf Registration Statement<br>(Amended Shelf Registration Statement concerning the Shelf Registration Statement (3) above) | Filed with the Director of the Kanto Local Finance Bureau on July 6, 2017<br>August 9, 2017<br>August 22, 2017<br>October 12, 2017<br>January 31, 2018<br>April 11, 2018<br>April 27, 2018 and<br>June 21, 2018 |

## Part II Information on Guarantors, etc. for the Company

Not applicable.

**Consolidated Financial Statements**


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## Consolidated Financial Statements

### Consolidated Statement of Financial Position

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents (note 26) | 697,964 | 765,242 |
| Trade receivables (notes 6, 7 and 26) | 2,501,414 | 2,433,149 |
| Inventories (note 8) | 1,375,232 | 1,225,907 |
| Investments in securities and other financial assets (notes 2, 9 and 26) | 373,324 | 388,792 |
| Other current assets (note 2) | 203,866 | 189,516 |
| Total current assets | 5,151,800 | 5,002,606 |
| Non-current assets | | |
| Investments accounted for using the equity method (note 10) | 743,407 | 691,251 |
| Investments in securities and other financial assets (notes 2, 9 and 26) | 716,431 | 758,350 |
| Property, plant and equipment (note 11) | 2,124,827 | 1,998,411 |
| Intangible assets (note 12) | 1,054,370 | 919,201 |
| Other non-current assets (note 13) | 315,768 | 294,098 |
| Total non-current assets | 4,954,803 | 4,661,311 |
| Total assets | 10,106,603 | 9,663,917 |
| **Liabilities** | | |
| Current liabilities | | |
| Short-term debt (note 26) | 121,439 | 196,357 |
| Current portion of long-term debt (notes 9 and 26) | 117,191 | 190,233 |
| Other financial liabilities (note 26) | 254,735 | 274,270 |
| Trade payables (note 14) | 1,536,983 | 1,402,233 |
| Accrued expenses | 697,185 | 687,905 |
| Advances received (note 7) | 551,182 | 472,132 |
| Other current liabilities (notes 15 and 30) | 516,679 | 497,729 |
| Total current liabilities | 3,795,394 | 3,720,859 |
| Non-current liabilities | | |
| Long-term debt (notes 9 and 26) | 811,664 | 790,013 |
| Retirement and severance benefits (note 16) | 575,156 | 635,684 |
| Other non-current liabilities (notes 2, 13, 15 and 26) | 412,718 | 420,366 |
| Total non-current liabilities | 1,799,538 | 1,846,063 |
| Total liabilities | 5,594,932 | 5,566,922 |
| **Equity** | | |
| Hitachi, Ltd. stockholders' equity | | |
| Common stock (note 17) | 458,790 | 458,790 |
| Capital surplus (notes 17 and 20) | 575,809 | 577,573 |
| Retained earnings (notes 17 and 19) | 2,105,395 | 1,793,570 |
| Accumulated other comprehensive income (note 18) | 142,167 | 141,068 |
| Treasury stock, at cost (note 17) | (4,137) | (3,916) |
| Total Hitachi, Ltd. stockholders' equity | 3,278,024 | 2,967,085 |
| Non-controlling interests | 1,233,647 | 1,129,910 |
| Total equity | 4,511,671 | 4,096,995 |
| Total liabilities and equity | 10,106,603 | 9,663,917 |

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Profit or Loss**

Years ended March 31, 2018 and 2017 — Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Revenues | 9,368,614 | 9,162,264 |
| Cost of sales | (6,866,522) | (6,782,677) |
| Gross profit | 2,502,092 | 2,379,587 |
| Selling, general and administrative expenses | (1,787,462) | (1,792,278) |
| Other income (note 21) | 12,068 | 100,742 |
| Other expenses (note 21) | (140,686) | (146,568) |
| Financial income (note 22) | 7,005 | 7,091 |
| Financial expenses (note 22) | (11,243) | (26,206) |
| Share of profits (losses) of investments accounted for using the equity method (note 10) | 62,483 | (47,186) |
| EBIT (Earnings before interest and taxes) | 644,257 | 475,182 |
| Interest income | 14,928 | 12,923 |
| Interest charges | (20,539) | (19,014) |
| Income from continuing operations, before income taxes | 638,646 | 469,091 |
| Income taxes (note 13) | (131,708) | (125,112) |
| Income from continuing operations | 506,938 | 343,979 |
| Loss from discontinued operations (notes 15 and 23) | (16,020) | (5,950) |
| Net income | 490,918 | 338,029 |
| Net income attributable to: | | |
| Hitachi, Ltd. stockholders | 362,988 | 231,261 |
| Non-controlling interests | 127,930 | 106,768 |
| | | |
| Earnings per share from continuing operations, attributable to Hitachi, Ltd. stockholders (note 24) | | Yen |
| Basic | 78.50 | 49.13 |
| Diluted | 78.43 | 49.12 |
| Earnings per share attributable to Hitachi, Ltd. stockholders (note 24) | | |
| Basic | 75.19 | 47.90 |
| Diluted | 75.12 | 47.88 |

**Consolidated Statement of Comprehensive Income**

Years ended March 31, 2018 and 2017 — Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Net income | 490,918 | 338,029 |
| | | |
| Other comprehensive income (OCI) (note 18) | | |
| Items not to be reclassified into net income | | |
| Net changes in financial assets measured at fair value through OCI | 1,530 | 59,934 |
| Remeasurements of defined benefit plans | 22,753 | 46,086 |
| Share of OCI of investments accounted for using the equity method | 3,302 | (1,887) |
| Total items not to be reclassified into net income | 27,585 | 104,133 |
| | | |
| Items that can be reclassified into net income | | |
| Foreign currency translation adjustments | (8,042) | (64,761) |
| Net changes in cash flow hedges | 5,703 | 21,303 |
| Share of OCI of investments accounted for using the equity method | (45) | 1,166 |
| Total items that can be reclassified into net income | (2,384) | (42,292) |
| | | |
| Other comprehensive income (OCI) | 25,201 | 61,841 |
| Comprehensive income | 516,119 | 399,870 |
| Comprehensive income attributable to: | | |
| Hitachi, Ltd. stockholders | 382,341 | 299,397 |
| Non-controlling interests | 133,778 | 100,473 |

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Year ended March 31, 2018 Millions of yen

| | Common stock (note 17) | Capital surplus (note 17) | Retained earnings (notes 17 and 19) | Accumulated other comprehensive income (note 18) | Treasury stock, at cost (note 17) | Total Hitachi, Ltd. stockholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | |
| Balance at beginning of year | 458,790 | 577,573 | 1,793,570 | 141,068 | (3,916) | 2,967,085 | 1,129,910 | 4,096,995 |
| Changes in equity | | | | | | | | |
| Reclassified into retained earnings | - | - | 16,428 | (16,428) | - | - | - | - |
| Net income | - | - | 362,988 | - | - | 362,988 | 127,930 | 490,918 |
| Other comprehensive income | - | - | - | 19,353 | - | 19,353 | 5,848 | 25,201 |
| Dividends to Hitachi, Ltd. stockholders | - | - | (67,591) | - | - | (67,591) | - | (67,591) |
| Dividends to non-controlling interests | - | - | - | - | - | - | (34,395) | (34,395) |
| Acquisition of treasury stock | - | - | - | - | (292) | (292) | - | (292) |
| Sales of treasury stock | - | (27) | - | - | 71 | 44 | - | 44 |
| Changes in non-controlling interests | - | (1,737) | - | (1,826) | - | (3,563) | 4,354 | 791 |
| Total changes in equity | - | (1,764) | 311,825 | 1,099 | (221) | 310,939 | 103,737 | 414,676 |
| Balance at end of year | 458,790 | 575,809 | 2,105,395 | 142,167 | (4,137) | 3,278,024 | 1,233,647 | 4,511,671 |

Year ended March 31, 2017 Millions of yen

| | Common stock (note 17) | Capital surplus (note 17) | Retained earnings (notes 17 and 19) | Accumulated other comprehensive income (note 18) | Treasury stock, at cost (note 17) | Total Hitachi, Ltd. stockholders' equity | Non-controlling interests (note 5) | Total equity |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | | | | |
| Balance at beginning of year | 458,790 | 586,790 | 1,609,761 | 83,543 | (3,806) | 2,735,078 | 1,390,492 | 4,125,570 |
| Changes in equity | | | | | | | | |
| Reclassified into retained earnings | - | - | 10,486 | (10,486) | - | - | - | - |
| Net income | - | - | 231,261 | - | - | 231,261 | 106,768 | 338,029 |
| Other comprehensive income (loss) | - | - | - | 68,136 | - | 68,136 | (6,295) | 61,841 |
| Dividends to Hitachi, Ltd. stockholders | - | - | (57,938) | - | - | (57,938) | - | (57,938) |
| Dividends to non-controlling interests | - | - | - | - | - | - | (38,283) | (38,283) |
| Acquisition of treasury stock | - | - | - | - | (153) | (153) | - | (153) |
| Sales of treasury stock | - | (15) | - | - | 43 | 28 | - | 28 |
| Changes in non-controlling interests | - | (9,202) | - | (125) | - | (9,327) | (322,772) | (332,099) |
| Total changes in equity | - | (9,217) | 183,809 | 57,525 | (110) | 232,007 | (260,582) | (28,575) |
| Balance at end of year | 458,790 | 577,573 | 1,793,570 | 141,068 | (3,916) | 2,967,085 | 1,129,910 | 4,096,995 |

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Cash Flows**

Years ended March 31, 2018 and 2017

| | Millions of yen | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | 490,918 | 338,029 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 364,432 | 415,183 |
| Impairment losses | 48,656 | 68,587 |
| Income taxes | 131,659 | 124,039 |
| Share of (profits) losses of investments accounted for using the equity method | (62,483) | 47,186 |
| Financial income and expenses | (862) | 324 |
| Net gain on business reorganization and others | (9,774) | (81,369) |
| (Gain) loss on sale of property, plant and equipment | 2,395 | (15,103) |
| Change in trade receivables | 47,216 | (196,824) |
| Change in inventories | (181,207) | (22,731) |
| Change in other assets | (17,321) | 13,299 |
| Change in trade payables | 97,923 | 111,589 |
| Change in retirement and severance benefits | (40,137) | (56,539) |
| Change in other liabilities | 44,320 | 16,408 |
| Other | (7,743) | 1,050 |
| Subtotal | 907,992 | 763,128 |
| Interest received | 9,767 | 13,307 |
| Dividends received | 17,902 | 14,113 |
| Interest paid | (21,582) | (20,664) |
| Income taxes paid | (186,911) | (140,302) |
| Net cash provided by (used in) operating activities | 727,168 | 629,582 |
| Cash flows from investing activities (note 25): | | |
| Purchase of property, plant and equipment | (349,388) | (316,116) |
| Purchase of intangible assets | (90,924) | (101,034) |
| Purchase of leased assets | (3,263) | (292,943) |
| Proceeds from sale of property, plant and equipment, and intangible assets | 27,448 | 52,208 |
| Proceeds from sale of leased assets | 9,628 | 14,539 |
| Collection of lease receivables | - | 180,726 |
| Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | (243,124) | (177,303) |
| Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | 178,188 | 248,956 |
| Other | (2,893) | 53,012 |
| Net cash provided by (used in) investing activities | (474,328) | (337,955) |
| Cash flows from financing activities (note 25): | | |
| Change in short-term debt, net | (104,819) | (233,818) |
| Proceeds from long-term debt | 143,354 | 512,898 |
| Payments on long-term debt | (256,944) | (397,394) |
| Proceeds from payments from non-controlling interests | 3,953 | 7,638 |
| Dividends paid to Hitachi, Ltd. stockholders | (67,568) | (57,935) |
| Dividends paid to non-controlling interests | (32,066) | (36,508) |
| Acquisition of common stock for treasury | (292) | (153) |
| Proceeds from sales of treasury stock | 49 | 28 |
| Purchase of shares of consolidated subsidiaries from non-controlling interests | (6,982) | (4,305) |
| Proceeds from partial sales of shares of consolidated subsidiaries to non-controlling interests | 205 | 60 |
| Other | (344) | (47) |
| Net cash provided by (used in) financing activities | (321,454) | (209,536) |
| Effect of exchange rate changes on cash and cash equivalents | 1,336 | (16,164) |
| Change in cash and cash equivalents | (67,278) | 65,927 |
| Cash and cash equivalents at beginning of year | 765,242 | 699,315 |
| Cash and cash equivalents at end of year | 697,964 | 765,242 |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

**(1) Nature of Operations**

Hitachi, 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 subsidiaries and the Company's interests in associates and joint ventures. The Company's and its subsidiaries' businesses are global and diverse, and include manufacturing and services in eight segments consisting of information and telecommunication systems, social infrastructure and industrial systems, electronic systems and equipment, construction machinery, high functional materials and components, automotive systems, smart life and ecofriendly systems and others.

**(2) Basis of Presentation**

As the Company meets the requirements of a "Specified Company applying Designated International Financial Reporting Standards" pursuant to Article 1-2 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance of Japan No. 28 of 1976), 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 assets and liabilities, 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.

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. Actual results could differ from those estimates.

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

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

・note 3. *(a) Basis of Consolidation*
・note 3. *(d) Financial Instruments* and note 26. Financial Instruments and Related Disclosures

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

・note 3. *(h) Impairment of Non-financial Assets*
・note 3. *(i) Retirement and Severance Benefits* and note 16. Employee Benefits
・note 3. *(j) Provisions,* note 3. *(k) Contingencies,* note 15. Provisions and note 30. Commitments and Contingencies
・note 3. *(l) Revenue Recognition* and note 7. Construction Contracts
・note 3. *(m) Income Taxes* and note 13. Deferred Taxes and Income Taxes

Regarding the consolidated statement of financial position, changes in presentation have been made effective the fiscal year beginning April 1, 2017 due to materiality of some account balances as a result of business reorganization and others. "Investments in securities and other financial assets," which were included in "Other current assets" as of March 31, 2017, have been reclassified and presented separately. "Lease receivables," which were separately presented under current and non-current assets, have been included in "Investments in securities and other financial assets" under current and non-current assets, respectively. "Other financial liabilities," which were separately presented under non-current liabilities, have been included in "Other non-current liabilities." The consolidated statement of financial position as of March 31, 2017 has been reclassified in order to reflect these changes in presentation.

As a result, regarding the consolidated statement of financial position as of March 31, 2017, "Other current assets" of ¥346,427 million have been reclassified as "Investments in securities and other financial assets." In addition, "Lease receivables" of ¥42,365 million and ¥38,646 million, which were presented separately under current and non-current assets, have been reclassified as "Investments in securities and other financial assets" under current and non-current assets, respectively. "Other financial liabilities" of ¥53,422 million, which were presented separately under non-current liabilities, have been reclassified as "Other non-current liabilities."

**(3) Summary of Significant Accounting Policies**

***(a) Basis of Consolidation***

**(i) Subsidiaries**

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.

Subsidiaries' financial statements are adjusted as necessary if their accounting policies differ from those of the Company.

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

**(ii) Associates and Joint Ventures**

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

Joint ventures are jointly controlled by more than one party, including the Company, and require unanimous agreement of all parties in deciding operational and financial policies of the entity.

Investments in associates and joint ventures are accounted for using the equity method. The consolidated financial statements of the Company include changes in profit or loss and other comprehensive income (OCI) of these associates and joint ventures 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 associates and joint ventures are adjusted as necessary if their accounting policies differ from those of the Company.

**(iii) Structured Entities**

The Company consolidates structured entities in case it is exposed or has rights to variable returns from its involvement with such entities and has the ability to affect those returns through its power over the entities.

***(b) Cash Equivalents***

Cash equivalents are highly liquid 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 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 each company 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, and presented in AOCI.

**(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, and revenue and expense items are translated using the average exchange rates during the period. Gains or losses derived from translating foreign entities' financial statements are recognized in OCI, and presented in AOCI.

***(d) Financial Instruments***

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

**(i) Non-derivative Financial Assets**

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

The Company 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 Company continues to recognize the financial assets to the extent of its continuing involvement and derecognizes such financial assets only if 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 in case they meet the following requirements:

・The financial asset is held within a business model with the objective of collecting contractual cash flows.

・The contractual terms of the financial asset provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value (including direct transaction costs). 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 Interest income in the consolidated statement of profit or loss.

**FVTOCI Financial Assets**

The Company 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**

Equity instruments not designated as FVTOCI financial assets and debt instruments not classified as financial assets measured at amortized cost are classified 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 Company evaluates financial assets measured at amortized cost for impairment. Impairment is deemed to have occurred if there is an objective evidence of impairment after initial recognition and in case 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 if 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 and other receivables requires a considerable amount of judgment, involving historical experience and analysis, including the current creditworthiness of each customer. The Company measures an impairment loss based on the credit loss ratio calculated taking into consideration factors including historical experience or the estimate of collectible amount after assessing multiple potential risks associated with the country in which a debtor conducts business or business environment including special business customs particular to the region.

Impairment losses on debt instruments directly reduce the carrying amount of the assets, while the impairment losses on trade receivables and other receivables indirectly reduce the carrying amount through the use of an allowance account. For trade receivables and other 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. In case that subsequent events or circumstances decrease the amount of the impairment loss recognized, the impairment loss is reversed through profit or loss.

**(ii) Non-derivative Financial Liabilities**

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

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

Non-derivative financial liabilities the Company holds include bonds, debts, trade payables and other financial liabilities. They are initially measured at fair value (less direct transaction costs), and bonds and long-term debt are subsequently measured at amortized cost using the effective interest method. Interest accrued on these financial liabilities is included in Interest charges in the consolidated statement of profit or loss.

**(iii) Derivatives and Hedge Accounting**

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

The Company accounts for hedging derivatives as follows:

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

The Company 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 statement of financial position, only if the Company 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***

Property, plant and equipment are measured using the cost model and 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. Each asset is depreciated mainly using the straight-line method over the following estimated useful lives for major classes of assets:

| | |
|---|---|
| Buildings and structures | 2 to 60 years |
| Machinery, equipment and vehicles | 2 to 17 years |
| Tools, furniture and fixtures | 2 to 20 years |

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

***(g) Intangible Assets***

Intangible assets with finite useful lives are measured using the cost model and stated at cost less accumulated amortization and impairment losses. Each asset is amortized mainly using the straight-line method over the following estimated useful lives for major classes of assets:

| | |
|---|---|
| Software for internal use | 2 to 10 years |
| Software for sale | 2 to 10 years |
| Other | 2 to 20 years |

Intangible assets with indefinite useful lives and goodwill are stated at cost less accumulated impairment losses.

***(h) Impairment of Non-Financial Assets***

For each non-financial asset, the Company reviews the carrying amount and tests for impairment if there are events or circumstances indicating an asset's carrying amount may not be recoverable. For an asset that does not generate cash flows that are largely independent of the cash flows from other assets, the Company considers indicators of impairment based on a cash generating unit (CGU) or a group of CGUs. Irrespective of any indicators of impairment, the Company tests intangible assets with indefinite useful lives and goodwill for impairment annually, mainly in the fourth quarter, by estimating the recoverable amount of each CGU (or group of CGUs) to which such assets are allocated.

The Company measures the recoverable amount of an asset or a CGU (or a group of CGUs) as the higher of fair value less costs of disposal and value in use. In measuring fair values, the Company and its subsidiaries primarily use 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 or the market approach to derive reasonable estimates of values in orderly market transactions, such as comparisons of similar public companies and the current gross value of the asset. The Company consults with outside specialists, as appropriate, depending on the complexity of estimating fair values. 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 has a maximum of five years. Since the Company and its subsidiaries are engaged in a wide range of business activities from development, production and sales of diverse products and the provision of various services, appropriate external information for each business activity is used for evaluating value in use for each business. 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 asset belongs.

If the carrying amount of the asset or the CGU (or the group of CGUs) exceeds its recoverable amount, an impairment loss is recognized at the excess amount.

For an asset or a CGU (or a group of CGUs) other than goodwill, its recoverable amount is subsequently estimated if 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, 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.

***(i) Retirement and Severance Benefits***

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

The present value of defined benefit obligations less the fair value of plan assets is presented as the net amount of defined benefit liability or asset in non-current liabilities or assets.

***(j) Provisions***

The Company recognizes provisions if 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.

In case that 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.

***(k) Contingencies***

The Company discloses contingent liabilities 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 *(j) Provisions*, excluding those where the possibility of an outflow of resources is remote.

The Company and its subsidiaries have financial guarantee contracts that require them to make payments to compensate the holder for a loss it incurs if a specified debtor defaults on payment based on the terms of a debt instrument.

***(l) Revenue Recognition***

**(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 Company 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 Company

Revenue from the sale of goods is recognized upon delivery of goods to the customer. Typical revenue is from the sale of information technology system products, software licenses, construction equipment, disk drives, air conditioners, high functional materials, cable products, automotive equipment, semiconductor processing equipment, test and measurement equipment, railway vehicles, medical devices, industrial machinery and equipment, elevators and escalators. Revenue from a software arrangement that requires significant production, modification or customization of software is recognized using the percentage of completion method, provided that there are reasonable and reliable estimates related to contract revenue, cost and the extent of progress toward completion.

**(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 Company

Service revenues from facility maintenance, facility operations, outsourcing, logistics and others are recognized as services are provided. Revenue from long-term fixed price service contracts such as support or maintenance contracts is recognized ratably over the contractual period. If historical data shows that service cost does not accrue ratably over the contractual period and the service is rendered in proportion to the accrual of the cost for the service, revenue is recognized based on the pattern of the cost accrual. Finance lease income is recognized using the effective interest method, and operating lease income is recognized on a straight-line basis over the term of the lease.

**(iii) Construction Contracts**

The operating cycles of construction contracts, such as infrastructure systems, are generally greater than one year. Revenues from these long-term construction contracts are recognized using the percentage of completion method, provided that the progress of the construction can be reliably estimated. 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 estimated total cost of the construction. Any anticipated losses on fixed price contracts are expensed in profit or loss when such losses are estimated. If the outcome of a construction contract cannot be reliably estimated, revenue is recognized only to the extent that the recoverability of contract costs incurred is highly probable, and contract costs are recognized as an expense in the period in which they are incurred.

**(iv) Multiple Element Transactions**

The Company offers multiple solutions to meet its customers' needs. Those solutions may involve the delivery or performance of multiple elements, such as goods and services, and performance may occur at different points in time or over different periods of time. When one element is delivered prior to the other in an arrangement, revenue is deferred until the last element is delivered, unless transactions are such that the delivered item has value to the customer on a standalone basis, or delivery or performance of the undelivered item is considered probable and substantially in the control of the Company if the arrangement includes a general right of return relative to the delivered item.

If both described conditions above are met, each element in an arrangement is considered to be separately identifiable, and consideration is allocated to the separately identifiable components of a single arrangement based on the relative selling price of each component. The Company determines the relative selling price by taking into account various factors such as an overall market conditions, including geographically or regionally specific market factors, competitors' prices for similar items, profit objective and pricing practices.

***(m) Income Taxes***

Deferred tax assets and liabilities resulting from temporary differences and others are accounted for based on a liability method. A deferred tax liability is 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 subsidiaries, associates and joint ventures where that the Company 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. A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which unused tax loss carryforwards, unused tax credits and future deductible temporary differences can be utilized. Current tax and deferred tax on items recognized in OCI are also recognized in OCI.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss and OCI in the period that includes the enactment date.

***(n) Consumption Tax***

Consumption tax collected and remitted to taxing authorities is excluded from revenues, cost of sales and expenses in the consolidated statement of profit or loss.

***(o) Earnings per Share***

Basic earnings per share (EPS) for net income attributable to Hitachi, Ltd. stockholders is calculated based on the weighted average number of ordinary shares outstanding during the period. Diluted EPS for net income attributable to Hitachi, Ltd. stockholders 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.

***(p) 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.

***(q) New Accounting Standards not yet Adopted by the Company***

The following table lists the principal 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 Company as of the reporting date. The impact of adopting IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Company's financial position and business performance will not be material. The Company is currently evaluating the potential impact of adopting IFRS 16 "Leases" on its financial position and business performance.

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

## (4) Segment Information

**Business Segments**

The operating segments of the Company 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 Company discloses its business in eight reportable segments, corresponding to categories of activities classified primarily by the similarities for the nature of markets, products and services, and economic characteristics. Several operating segments are aggregated into Social Infrastructure & Industrial Systems, Electronic Systems & Equipment and High Functional Materials & Components for financial reporting purposes so that users of the financial statements better understand the Company's financial position and business performance. The Company aggregates operating segments based on the similarities of economic characteristics mainly using profit margin ratios of operating segments. The primary products and services included in each segment are as follows:

**Information & Telecommunication Systems:**

Systems integration, Consulting, Cloud services, Servers, Storage, Software, Telecommunications & network and ATMs

**Social Infrastructure & Industrial Systems:**

Industrial machinery and plants, Elevators, Escalators, Railway systems, Thermal, Nuclear and Renewable energy power generation systems and Transmission & distribution systems

**Electronic Systems & Equipment:**

Semiconductor processing equipment, Test and measurement equipment, Advanced industrial products and Medical electronics equipment

**Construction Machinery:**

Hydraulic excavators, Wheel loaders and Mining machinery

**High Functional Materials & Components:**

Semiconductor and display related materials, Circuit boards and materials, Automotive parts, Energy storage devices, Specialty steel products, Magnetic materials and applications, Functional components and equipment and Wires, cables and related products

**Automotive Systems:**

Engine powertrain systems, Electric powertrain systems, Integrated vehicle control systems and Car information systems

**Smart Life & Ecofriendly Systems:**

Air-conditioning equipment, Room air conditioners, Refrigerators and Washing machines

**Others:**

Optical disk drives, Property management and others

In October 2016, the Company sold a certain number of shares of Hitachi Capital Corporation (Hitachi Capital). As a result, Hitachi Capital and its subsidiaries, which were included in the Financial Services segment, became equity-method associates of the Company. Accordingly, total assets and investments accounted for using the equity method of the Financial Services segment as of March 31, 2018 and 2017 are left blank "-". From the beginning of the third quarter of the year ended March 31, 2017, the Company includes its share of profits (losses) of investments accounted for using the equity method of Hitachi Capital and its subsidiaries in Corporate items and Eliminations.

The following tables show business segment information for the years ended March 31, 2018 and 2017.

**Revenues from Outside Customers**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 1,888,394 | 1,815,085 |
| Social Infrastructure & Industrial Systems | 2,136,313 | 2,053,607 |
| Electronic Systems & Equipment | 976,252 | 1,067,237 |
| Construction Machinery | 958,630 | 747,122 |
| High Functional Materials & Components | 1,603,582 | 1,408,622 |
| Automotive Systems | 996,202 | 988,928 |
| Smart Life & Ecofriendly Systems | 509,442 | 528,633 |
| Others | 292,402 | 375,903 |
| Financial Services | - | 170,583 |
| Subtotal | 9,361,217 | 9,155,720 |
| Corporate items | 7,397 | 6,544 |
| Total | 9,368,614 | 9,162,264 |

**Revenues from Intersegment Transactions**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 120,513 | 167,736 |
| Social Infrastructure & Industrial Systems | 238,699 | 278,324 |
| Electronic Systems & Equipment | 110,299 | 103,138 |
| Construction Machinery | 523 | 6,825 |
| High Functional Materials & Components | 53,955 | 56,065 |
| Automotive Systems | 4,834 | 3,356 |
| Smart Life & Ecofriendly Systems | 30,710 | 28,682 |
| Others | 265,374 | 277,891 |
| Financial Services | - | 8,629 |
| Subtotal | 824,907 | 930,646 |
| Corporate items and Eliminations | (824,907) | (930,646) |
| Total | - | - |

**Total Revenues**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 2,008,907 | 1,982,821 |
| Social Infrastructure & Industrial Systems | 2,375,012 | 2,331,931 |
| Electronic Systems & Equipment | 1,086,551 | 1,170,375 |
| Construction Machinery | 959,153 | 753,947 |
| High Functional Materials & Components | 1,657,537 | 1,464,687 |
| Automotive Systems | 1,001,036 | 992,284 |
| Smart Life & Ecofriendly Systems | 540,152 | 557,315 |
| Others | 557,776 | 653,794 |
| Financial Services | - | 179,212 |
| Subtotal | 10,186,124 | 10,086,366 |
| Corporate items and Eliminations | (817,510) | (924,102) |
| Total | 9,368,614 | 9,162,264 |

**Segment Profit (Loss)**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 139,279 | 76,458 |
| Social Infrastructure & Industrial Systems | 101,257 | (19,993) |
| Electronic Systems & Equipment | 88,852 | 66,772 |
| Construction Machinery | 97,095 | 22,735 |
| High Functional Materials & Components | 98,672 | 123,342 |
| Automotive Systems | 42,429 | 65,830 |
| Smart Life & Ecofriendly Systems | 33,352 | 31,840 |
| Others | 21,874 | 20,630 |
| Financial Services | - | 22,841 |
| Subtotal | 622,810 | 410,455 |
| Corporate items and Eliminations | 21,447 | 64,727 |
| Total | 644,257 | 475,182 |
| Interest income | 14,928 | 12,923 |
| Interest charges | (20,539) | (19,014) |
| Income from continuing operations, before income taxes | 638,646 | 469,091 |

Segment profit (loss) is measured by EBIT.
Intersegment transactions are generally recorded at the same prices used in arm's length transactions. Corporate items include corporate expenses not allocated to individual business segments, such as expenditures for leading-edge R&D, a part of net gain on business reorganization and share of profits (losses) of investments accounted for using the equity method, and others.

**Total Assets**

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Information & Telecommunication Systems | 1,729,842 | 1,672,386 |
| Social Infrastructure & Industrial Systems | 3,430,705 | 3,205,656 |
| Electronic Systems & Equipment | 1,050,025 | 967,731 |
| Construction Machinery | 1,125,791 | 1,036,800 |
| High Functional Materials & Components | 1,787,348 | 1,666,879 |
| Automotive Systems | 797,101 | 743,095 |
| Smart Life & Ecofriendly Systems | 331,810 | 326,373 |
| Others | 1,581,745 | 1,552,003 |
| Financial Services | - | - |
| Subtotal | 11,834,367 | 11,170,923 |
| Corporate assets and Eliminations | (1,727,764) | (1,507,006) |
| Total | 10,106,603 | 9,663,917 |

Corporate assets mainly consist of cash and cash equivalents, investments in securities and other financial assets, and investments accounted for using the equity method.

**Investments Accounted for Using the Equity Method**

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Information & Telecommunication Systems | 15,414 | 14,523 |
| Social Infrastructure & Industrial Systems | 407,923 | 390,653 |
| Electronic Systems & Equipment | 1,221 | 385 |
| Construction Machinery | 29,238 | 22,815 |
| High Functional Materials & Components | 36,136 | 36,501 |
| Automotive Systems | 5,217 | 5,213 |
| Smart Life & Ecofriendly Systems | 58,877 | 50,715 |
| Others | 6,126 | 6,607 |
| Financial Services | - | - |
| Subtotal | 560,152 | 527,412 |
| Corporate items and Eliminations | 183,255 | 163,839 |
| Total | 743,407 | 691,251 |

**Depreciation and Amortization**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 87,493 | 95,921 |
| Social Infrastructure & Industrial Systems | 47,583 | 44,646 |
| Electronic Systems & Equipment | 20,046 | 24,325 |
| Construction Machinery | 38,833 | 35,843 |
| High Functional Materials & Components | 81,105 | 71,549 |
| Automotive Systems | 53,524 | 51,656 |
| Smart Life & Ecofriendly Systems | 10,122 | 11,791 |
| Others | 21,580 | 26,078 |
| Financial Services | - | 49,559 |
| Subtotal | 360,286 | 411,368 |
| Corporate items and Eliminations | 4,146 | 3,815 |
| Total | 364,432 | 415,183 |

Depreciation consists of that of property, plant and equipment and investment properties.

**Impairment Losses**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 22,370 | 37,579 |
| Social Infrastructure & Industrial Systems | 3,073 | 10,083 |
| Electronic Systems & Equipment | 2,579 | 8,272 |
| Construction Machinery | 549 | 3,883 |
| High Functional Materials & Components | 11,088 | 2,732 |
| Automotive Systems | 613 | 691 |
| Smart Life & Ecofriendly Systems | 6 | 4,862 |
| Others | 467 | 854 |
| Financial Services | - | - |
| Subtotal | 40,745 | 68,956 |
| Corporate items and Eliminations | 7,911 | (369) |
| Total | 48,656 | 68,587 |

Impairment losses mainly consist of those recognized on property, plant and equipment, investment properties and intangible assets.

**Share of Profits (Losses) of Investments Accounted for Using the Equity Method**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 1,252 | 1,657 |
| Social Infrastructure & Industrial Systems | 18,844 | (73,986) |
| Electronic Systems & Equipment | 220 | 142 |
| Construction Machinery | 4,355 | (311) |
| High Functional Materials & Components | 6,654 | 4,703 |
| Automotive Systems | 100 | 562 |
| Smart Life & Ecofriendly Systems | 10,798 | 8,253 |
| Others | 167 | 292 |
| Financial Services | - | 995 |
| Subtotal | 42,390 | (57,693) |
| Corporate items and Eliminations | 20,093 | 10,507 |
| Total | 62,483 | (47,186) |

Share of profits (losses) of investments accounted for using the equity method include impairment losses on investments accounted for using the equity method.

**Capital Expenditures**

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Information & Telecommunication Systems | 81,346 | 80,568 |
| Social Infrastructure & Industrial Systems | 98,629 | 85,436 |
| Electronic Systems & Equipment | 23,939 | 29,606 |
| Construction Machinery | 23,933 | 17,312 |
| High Functional Materials & Components | 135,385 | 104,417 |
| Automotive Systems | 72,434 | 59,418 |
| Smart Life & Ecofriendly Systems | 9,173 | 7,186 |
| Others | 18,984 | 22,218 |
| Financial Services | - | 76,645 |
| Subtotal | 463,823 | 482,806 |
| Corporate items and Eliminations | 2,792 | 3,883 |
| Total | 466,615 | 486,689 |

Capital expenditures represent additions to property, plant and equipment, investment properties and intangible assets.

**Geographic Information**

The following table shows revenues attributed to geographic areas based on the location of the customers for the years ended March 31, 2018 and 2017.

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Japan | 4,643,080 | 4,757,685 |
| Asia | 2,081,150 | 1,860,716 |
| North America | 1,177,581 | 1,144,029 |
| Europe | 964,474 | 972,661 |
| Other Areas | 502,329 | 427,173 |
| Overseas Revenues Subtotal | 4,725,534 | 4,404,579 |
| Total Revenues | 9,368,614 | 9,162,264 |

Revenues in China for the years ended March 31, 2018 and 2017 were ¥1,041,046 million and ¥928,983 million, respectively. Revenues in the U.S.A. for the years ended March 31, 2018 and 2017 were ¥1,082,593 million and ¥1,051,535 million, respectively. Revenues from outside customers attributable to any individual country and region other than Japan, China and the U.S.A. were not material for the years ended March 31, 2018 and 2017.

The following table shows the balances of property, plant and equipment, investment properties and intangible assets for each geographic area as of March 31, 2018 and 2017.

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Japan | 1,684,732 | 1,627,391 |
| Asia | 383,729 | 365,774 |
| North America | 531,270 | 445,119 |
| Europe | 459,968 | 360,991 |
| Other Areas | 142,922 | 127,551 |
| Subtotal | 3,202,621 | 2,926,826 |
| Corporate items and Eliminations | 22,798 | 34,791 |
| Total | 3,225,419 | 2,961,617 |

The balances of property, plant and equipment, investment properties and intangible assets in the U.S.A. as of March 31, 2018 and 2017 were ¥519,432 million and ¥431,364 million, respectively. The balances of property, plant and equipment, investment properties and intangible assets in any individual country and region other than Japan and the U.S.A. were not material as of March 31, 2018 and 2017.

**Significant Customer Information**

There was no concentration of revenues from a specific customer for the years ended March 31, 2018 and 2017.

**(5) Business Acquisitions and Divestitures**

The following are the main Business Acquisitions and Divestitures for the year ended March 31, 2018, including the period up to the approval date of the consolidated financial statements.

***(a) Sale of shares and business reorganization of Hitachi Kokusai Electric Inc. (Hitachi Kokusai)***

On April 26, 2017, the Company signed a basic agreement with HKE Holdings K.K. (HKE), which is indirectly held and operated by a related investment fund whose equity interests are wholly owned by Kohlberg Kravis Roberts & Co. L.P. and with HVJ Holdings Inc. (HVJ), in which is invested by funds which are managed, operated, provided with information and the like by Japan Industrial Partners, Inc., regarding (i) a tender offer to be conducted by HKE for the common shares of Hitachi Kokusai, which was a consolidated subsidiary of the Company in the Electronic Systems & Equipment segment and a share consolidation of the share of Hitachi Kokusai, and the acquisition of treasury shares by Hitachi Kokusai, through which Hitachi Kokusai becomes a wholly-owned subsidiary of HKE, (ii) an absorption-type company split of the thin-film process solutions business of Hitachi Kokusai, whereby HKE is the company succeeding in the absorption-type split, to be conducted by HKE and Hitachi Kokusai after Hitachi Kokusai becomes a wholly-owned subsidiary of HKE, and (iii) the transfer by HKE of 20% of the share of Hitachi Kokusai to the Company and 20% of the share of Hitachi Kokusai to HVJ to take place after the absorption-type company split, and other transactions that are incidental or related to those transactions. Furthermore, on October 11, 2017, on November 24, 2017 and on March 30, 2018, the Company signed a memorandum of understanding to amend the basic agreement (the Amendment Memorandum) with HKE and HVJ.

HKE commenced the tender offer on October 12, 2017 pursuant to the Amendment Memorandum, and the tender offer was completed on December 8, 2017. Following the completion of the tender offer, the above related transactions, such as the share consolidation of Hitachi Kokusai shares, took place and the all related transactions were completed on June 4, 2018. As a result, the Company's ownership ratio of shares of Hitachi Kokusai decreased from 51.7% to 20.0% and Hitachi Kokusai turned into an equity-method associate of the Company. The effects of this transaction on the Company’s consolidated financial statements are currently being evaluated.

On June 1, 2018, HKE changed its name to Kokusai Electric Corporation.

***(b) Acquisition of* “*Sullair*” *business***

On April 25, 2017, the Company signed an agreement with Accudyne Industries Borrower, S.C.A. (Accudyne) to acquire Accudyne’s subsidiaries and certain related assets that manufacture and sell air compressors under the “Sullair” brand mainly in North America, in order to expand global business of industrial equipment business. In accordance with the agreement, on July 12, 2017 (the acquisition date), the Company and Hitachi America, Ltd., a subsidiary of the Company, acquired the Sullair business by acquiring all the shares of holding companies of the Sullair business.

The following table summarizes the fair value of the consideration paid for the Sullair business and the amounts of the assets acquired and liabilities assumed recognized as of the acquisition date.

| | Millions of yen |
|---|---|
| Cash and cash equivalents | 9,341 |
| Trade receivables | 9,351 |
| Inventories | 7,409 |
| Other current assets | 790 |
| Non-current assets (excluding intangible assets) | 10,102 |
| Intangible assets | |
| Goodwill (deductible for tax purposes) | 16,294 |
| Goodwill (not deductible for tax purposes) | 55,361 |
| Other intangible assets | 52,709 |
| Total | 161,357 |
| | |
| Current liabilities | 66,805 |
| Non-current liabilities | 1,264 |
| Total | 68,069 |
| | |
| Cash paid for the acquisition | 93,288 |

The goodwill mainly comprises excess earning power and expected synergies arising from the acquisition.

Hitachi America, Ltd. repaid USD 517 million (¥57,502 million) of loans which were included in the Sullair business, in addition to the acquisition.

The operating results of the Sullair business for the period from the acquisition date to March 31, 2018 were not material.

On a pro forma basis, revenues and net income attributable to Hitachi, Ltd. stockholders using an assumed acquisition date for the Sullair business of April 1, 2017 would not differ materially from the amounts reported in the consolidated financial statements for the year ended March 31, 2018.

The following are the main Business Acquisitions and Divestitures for the year ended March 31, 2017.

***(a) Sale of all shares of Hitachi Koki Co., Ltd. (Hitachi Koki)***

On January 13, 2017, the Company and Hitachi Urban Investment, Ltd., a subsidiary of the Company, signed an agreement with HK Holdings Co., Ltd., all of whose issued shares are owned by investment funds controlled by Kohlberg Kravis Roberts & Co. L.P., regarding a tender offer made by HK Holdings Co., Ltd. The objective of the tender offer was to acquire common stock of Hitachi Koki, a subsidiary of the Company in the Electronic Systems & Equipment segment, and stock acquisition rights issued based on a resolution at the Hitachi Koki's board of directors' meeting held on July 28, 2015. The agreement provided that the Company and Hitachi Urban Investment, Ltd. would subscribe all shares of common stock of Hitachi Koki owned by the Company and Hitachi Urban Investment, Ltd. to the tender offer and in accordance with this agreement, the transfer of shares was completed on March 29, 2017.

As a result of this transfer of shares, the Company's ownership ratio of shares of Hitachi Koki decreased from 51.2% to zero, and Hitachi Koki was deconsolidated. A gain on the sale of shares of Hitachi Koki in the amount of ¥28,097 million was recognized in Other income in the consolidated statement of profit or loss. Changes in non-controlling interests in the consolidated statement of changes in equity include derecognition of non-controlling interest in Hitachi Koki as a result of its deconsolidation.

On June 1, 2018, Hitachi Koki changed its name to Koki Holdings Co., Ltd.

***(b) Acquisition of Bradken Limited (Bradken)***

On October 3, 2016, Hitachi Construction Machinery Co., Ltd. (HCM), a subsidiary of the Company in the Construction Machinery segment, signed a bid implementation agreement with Bradken to implement a tender offer for all issued shares of common stock of Bradken, which conducts metal casting and operates manufacture and distribution services for metal casting products, in order to complement and bolster the parts service business in the mining business of HCM. The tender offer was executed from November 1, 2016 to April 7, 2017, and HCM had acquired the majority of the ownership ratio of voting rights in Bradken and Bradken became a consolidated subsidiary of HCM on March 20, 2017.

As a result of the tender offer, HCM acquired over 90% of the total number of issued shares of Bradken. Since HCM proceeded with a squeeze-out procedure to acquire the remaining shares of Bradken held by its minority shareholders aiming to make Bradken a wholly owned subsidiary, HCM accounted for the acquisition as if it had substantially acquired 100% of the shares of Bradken.

The following table summarizes the fair value of the consideration paid for Bradken and the amounts of the assets acquired and liabilities assumed recognized as of the acquisition date.

| | Millions of yen |
|---|---|
| Cash and cash equivalents | 3,572 |
| Trade receivables | 7,950 |
| Inventories | 17,593 |
| Other current assets | 3,895 |
| Property, plant and equipment | 36,188 |
| Intangible assets | |
| Goodwill (not deductible for tax purposes) | 20,792 |
| Other intangible assets | 19,870 |
| Other non-current assets | 5,562 |
| Total | 115,422 |
| | |
| Current liabilities | 43,150 |
| Non-current liabilities | 13,658 |
| Total | 56,808 |
| | |
| Consideration for the acquisition | 58,614 |

The goodwill mainly comprises excess earning power and expected synergies arising from the acquisition.

The consideration, paid in cash, for the 68.62% ownership interest by March 31, 2017 was ¥40,336 million. Unpaid consideration of ¥18,278 million as of March 31, 2017 was recognized in Other financial liabilities in the consolidated statement of financial position. HCM paid the remaining amount in full during the year ended March 31, 2018.

The results of operations of Bradken for the period from the acquisition date to March 31, 2017 were not material.

On a pro forma basis, revenues and net income attributable to Hitachi, Ltd. stockholders using an assumed acquisition date for Bradken of April 1, 2016 would not differ materially from the amounts reported in the consolidated financial statements for the year ended March 31, 2017.

Since these adjustments to the amounts of assets acquired and liabilities assumed recognized as of the acquisition date are not material, the amounts as of March 31, 2017 disclosed as comparative information in the consolidated statement of financial position have not been retrospectively adjusted.

***(c) Sale of shares of Hitachi Capital***

On May 13, 2016, the Company concluded an agreement regarding the transfer of common stock of Hitachi Capital, a subsidiary of the Company in the Financial Services segment, in order to strengthen finance functions and accelerate the concentration of management resources in the Social Innovation Business. In accordance with this agreement, a certain number of shares of Hitachi Capital common stock owned by the Company were transferred to Mitsubishi UFJ Financial Group, Inc. and Mitsubishi UFJ Lease & Financial Co., Ltd on October 3, 2016.

As a result of this transfer of shares, the Company's ownership ratio of shares of Hitachi Capital decreased from 60.6% to 33.4%, and Hitachi Capital ceased to be the Company's consolidated subsidiary and became its equity-method associate. The resulting loss on the sale of the shares of Hitachi Capital was not material. Changes in non-controlling interests in the consolidated statement of changes in equity include derecognition of non-controlling interest in Hitachi Capital as a result of its deconsolidation.

The following table shows the assets, liabilities and equity of Hitachi Capital as of March 31, 2016.

| | Millions of yen |
|---|---|
| | March 31, 2016 |
| Assets | |
| Current assets | |
| Cash and cash equivalents [1] | 157,091 |
| Trade receivables [1] | 710,713 |
| Lease receivables [1] | 311,992 |
| Inventories | 3,701 |
| Other current assets | 73,316 |
| Total current assets | 1,256,813 |
| Non-current assets | |
| Investments accounted for using the equity method | 20,457 |
| Investments in securities and other financial assets | 675,964 |
| Lease receivables | 729,876 |
| Property, plant and equipment | 307,582 |
| Intangible assets | 62,656 |
| Other non-current assets | 38,139 |
| Total non-current assets | 1,834,674 |
| Total assets | 3,091,487 |
| Liabilities | |
| Current liabilities | |
| Short-term debt [1] | 497,695 |
| Current portion of long-term debt [1] | 485,611 |
| Other financial liabilities | 40,121 |
| Trade payables [1] | 228,989 |
| Accrued expenses | 15,581 |
| Advances received | 23,269 |
| Other current liabilities | 31,974 |
| Total current liabilities | 1,323,240 |
| Non-current liabilities | |
| Long-term debt [1] | 1,356,212 |
| Other financial liabilities | 28,717 |
| Retirement and severance benefits | 9,540 |
| Other non-current liabilities | 26,698 |
| Total non-current liabilities | 1,421,167 |
| Total liabilities | 2,744,407 |
| Equity | |
| Hitachi, Ltd. stockholders' equity | 201,349 |
| Non-controlling interests | 145,731 |
| Total equity | 347,080 |
| Total liabilities and equity | 3,091,487 |

[1] In the above table, the amounts corresponding to internal transactions are as follows:

Millions of yen

| | March 31, 2016 |
|---|---|
| Cash and cash equivalents (deposits to the Company) | 118,701 |
| Trade receivables | 152,078 |
| Lease receivables | 59,569 |
| Short-term debt | 37,368 |
| Current portion of long-term debt | 17,367 |
| Trade payables | 30,036 |
| Long-term debt | 24,871 |

***(d) Sale of shares of Hitachi Transport System, Ltd. (HTS)***

On March 30, 2016, the Company concluded an agreement regarding the transfer of common stocks of HTS, a subsidiary of the Company included in the Others in segment information, in order to expand the scope of the Social Innovation Business by enhancing logistics platforms. In accordance with this agreement, a certain number of shares of HTS common stock owned by the Company were transferred to SG Holdings Co., Ltd. on May 19, 2016.

As a result of this transfer of shares, the Company's ownership ratio of shares of HTS decreased from 59.0% to 30.0%, and HTS ceased to be the Company's consolidated subsidiary and became its equity-method associate. A gain on the sale of shares of HTS in the amount of ¥44,958 million was recognized in Other income in the consolidated statement of profit or loss. Changes in non-controlling interests in the consolidated statement of changes in equity include derecognition of non-controlling interest in HTS as a result of its deconsolidation.

**(6) Trade Receivables**

The components of trade receivables are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Accounts receivable | 2,322,554 | 2,295,199 |
| Others | 178,860 | 137,950 |
| Total | 2,501,414 | 2,433,149 |

Trade receivables are stated as net of the allowance for doubtful receivables.

Others include notes receivable and electronically recorded monetary claims.

**(7) Construction Contracts**

Total costs incurred and profits recognized, advances received and retentions for construction contracts in progress as of March 31, 2018 and 2017 are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Total costs incurred and profits recognized | 2,985,931 | 2,589,474 |
| Advances received | 242,157 | 195,847 |
| Retentions | 13,976 | 14,938 |

Gross amount due from and due to customers for contract work as of March 31, 2018 and 2017 are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Gross amount due from customers for contract work | 456,856 | 506,086 |
| Gross amount due to customers for contract work | 345,978 | 276,270 |

Revenues recognized from construction contracts for the years ended March 31, 2018 and 2017 were ¥1,130,748 million and ¥1,096,376 million, respectively.

**(8) Inventories**

The components of inventories are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Finished goods | 561,548 | 512,539 |
| Semi-finished goods and work in process | 554,354 | 492,284 |
| Raw materials | 259,330 | 221,084 |
| Total | 1,375,232 | 1,225,907 |

For the years ended March 31, 2018 and 2017, the amounts of inventories expensed and included as cost of sales were ¥5,821,340 million and ¥5,598,611 million, respectively, and the write-downs of inventories were ¥52,407 million and ¥27,444 million, respectively.

**(9) Leases**

***(a) Lessee***

The Company and certain subsidiaries use leased facilities and equipment, including buildings, machinery and equipment and vehicles under finance leases or operating leases.

The following table shows the undiscounted amounts and present value of minimum lease payments under finance leases as of March 31, 2018 and 2017.

Millions of yen

| | March 31, 2018 | | March 31, 2017 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| Within 1 year | 16,988 | 15,537 | 16,447 | 15,198 |
| After 1 year but not more than 5 years | 33,817 | 30,840 | 34,241 | 31,496 |
| More than 5 years | 4,254 | 3,101 | 4,007 | 3,009 |
| Total | 55,059 | 49,478 | 54,695 | 49,703 |
| Finance charges | (5,581) | | (4,992) | |
| Present value of minimum lease payments, total | 49,478 | | 49,703 | |

The following table shows the future minimum lease payments under non-cancelable operating leases as of March 31, 2018 and 2017.

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Within 1 year | 30,098 | 21,391 |
| After 1 year but not more than 5 years | 61,777 | 59,307 |
| More than 5 years | 33,458 | 21,516 |
| Total | 125,333 | 102,214 |

Total operating lease expenses for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Operating lease expenses | 125,000 | 121,135 |

***(b) Lessor***

The Company and certain subsidiaries lease certain assets such as manufacturing machinery and equipment under finance and operating lease arrangements.

The following table shows the undiscounted amounts and present value of minimum lease payments receivable under finance leases as of March 31, 2018 and 2017.

Millions of yen

| | March 31, 2018 | | March 31, 2017 | |
|---|---|---|---|---|
| | Gross investment in lease | Present value of minimum lease payments receivable | Gross investment in lease | Present value of minimum lease payments receivable |
| Within 1 year | 51,467 | 47,903 | 45,620 | 42,788 |
| After 1 year but not more than 5 years | 46,488 | 43,908 | 41,579 | 39,327 |
| More than 5 years | 1,532 | 1,301 | 219 | 210 |
| Total | 99,487 | 93,112 | 87,418 | 82,325 |
| Unearned income | (5,518) | | (4,130) | |
| Net investment in the lease | 93,969 | | 83,288 | |
| Unguaranteed residual value | (857) | | (963) | |
| Present value of minimum lease payments receivable, total | 93,112 | | 82,325 | |

The amounts of the allowance for uncollectable minimum lease payments receivable as of March 31, 2018 and 2017 were ¥1,771 million and ¥2,277 million, respectively.

The following table shows the future minimum lease payments receivable under non-cancelable operating leases as of March 31, 2018 and 2017.

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Within 1 year | 5,361 | 3,034 |
| After 1 year but not more than 5 years | 5,938 | 3,782 |
| More than 5 years | 4,280 | 15 |
| Total | 15,579 | 6,831 |

**(10) Investments Accounted for Using the Equity Method**

The aggregated carrying amounts of investments accounted for using the equity method as of March 31, 2018 and 2017, and the Company and certain subsidiaries' share of total comprehensive income (loss) of equity-method associates and joint ventures for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | Associates | | Joint ventures | |
|---|---|---|---|---|
| | March 31, 2018 | March 31, 2017 | March 31, 2018 | March 31, 2017 |
| Carrying amount of investments | 712,406 | 664,857 | 31,001 | 26,394 |

As of March 31, 2018 and 2017, the Company and certain subsidiaries' interests in certain joint ventures operating at a loss have the cumulative loss exceeding the Company and certain subsidiaries' investments, and thus the negative amounts of ¥99,276 million and ¥104,176 million, respectively, were recognized in other non-current liabilities.

Millions of yen

| | Associates | | Joint ventures | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) from continuing operations | 51,890 | (8,193) | 10,593 | 5,849 |
| Other comprehensive income (loss) | 330 | (7,116) | 2,927 | 6,395 |
| Total comprehensive income (loss) | 52,220 | (15,309) | 13,520 | 12,244 |

In addition to the share of Net income (loss) from continuing operations of equity method associates and joint ventures, impairment losses on investments accounted for using the equity method were recognized in Share of profit (loss) of investments accounted for using the equity method. The amount of impairment losses recognized in the consolidated statement of profit or loss for the year ended March 31, 2017 was ¥44,842 million.

Share of profit (loss) of investments accounted for using the equity method in the year ended March 31, 2017 includes ¥66,477 million of losses related to the exit from the commercial development of a laser-based uranium enrichment technology by an associate in the U.S.A. in the Social Infrastructure & Industrial Systems segment. The losses include ¥39,659 million of impairment loss on the investment accounted for using the equity method. The recoverable amount was determined based on value in use, which was measured at ¥9,536 million as of March 31, 2017. In assessing value in use, future cash flows were discounted using a discount rate of 11.1% (before tax).

Of the associates and joint ventures accounted for using the equity method, Hitachi Capital is the only associate that is material to the Company's consolidated financial statements. Hitachi Capital provides a diverse range of leasing and financial services to the Company and other customers. Hitachi Capital's summarized financial information is as follows, and it includes fair value adjustments on assets and liabilities of Hitachi Capital.

| | | Millions of yen |
|---|---|---|
| | March 31, 2018 | March 31, 2017 |
| Total assets | 3,411,017 | 3,177,606 |
| Total liabilities | 3,072,962 | 2,879,127 |
| Equity | | |
| Equity attributable to owners of the parent | 323,765 | 285,142 |
| Non-controlling interests | 14,290 | 13,337 |

| | Year ended March 31, 2018 | Year ended March 31, 2017 |
|---|---|---|
| Revenues | 404,087 | 371,110 |
| Income from continuing operations | 42,737 | 42,549 |
| Other comprehensive income (loss) | 8,779 | (8,546) |
| Comprehensive income | 51,516 | 34,003 |

The amount of dividends the Company has received from Hitachi Capital during the year ended March 31, 2018 was ¥3,356 million. Hitachi Capital became an equity-method associate of the Company during the year ended March 31, 2017, and the Company has received no dividends from Hitachi Capital as an equity-method associate during the year ended March 31, 2017.

Reconciliation of Equity attributable to owners of the parent in the above summarized financial information to the carrying amount of the investment in Hitachi Capital is as follows.

| | | Millions of yen |
|---|---|---|
| | March 31, 2018 | March 31, 2017 |
| Equity attributable to owners of the parent | 323,765 | 285,142 |
| Share (%) | 33.4 | 33.4 |
| Carrying amount of the Company's investment in Hitachi Capital | 108,105 | 95,209 |

The fair values of the Company's investment in Hitachi Capital based on the market price of its shares as of March 31, 2018 and 2017 were ¥104,644 million and ¥105,074 million, respectively.

**(11) Property, Plant and Equipment**

The following table shows the changes in the net carrying amounts of property, plant and equipment.

Millions of yen

| | Land | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Net carrying amount | | | | | | | |
| March 31, 2016 | 426,569 | 748,656 | 560,791 | 193,440 | 426,681 | 144,089 | 2,500,226 |
| Additions | 601 | 5,793 | 25,544 | 24,455 | 72,839 | 245,446 | 374,678 |
| Transfers between accounts | 955 | 64,398 | 109,796 | 38,966 | (1,021) | (213,094) | - |
| Sales and disposals | (4,055) | (7,677) | (4,614) | (7,201) | (14,447) | (4,758) | (42,752) |
| Depreciation | - | (53,951) | (113,101) | (71,104) | (62,294) | - | (300,450) |
| Impairment losses | (2,598) | (6,989) | (10,992) | (4,070) | (10) | (185) | (24,844) |
| Acquisitions and divestitures | (50,749) | (57,374) | (26,622) | (7,176) | (321,190) | (5,643) | (468,754) |
| Currency translation effect | (9,364) | (6,730) | (5,526) | (1,860) | (24,005) | (8,180) | (55,665) |
| Other | (1,029) | 1,116 | (1,754) | 6,223 | 16,475 | (5,059) | 15,972 |
| March 31, 2017 | 360,330 | 687,242 | 533,522 | 171,673 | 93,028 | 152,616 | 1,998,411 |
| Additions | 1,192 | 5,919 | 25,049 | 25,781 | 10,926 | 303,375 | 372,242 |
| Transfers between accounts | 1,990 | 42,024 | 130,842 | 35,776 | 216 | (210,848) | - |
| Sales and disposals | (3,882) | (6,178) | (4,913) | (3,598) | (4,059) | (3,557) | (26,187) |
| Depreciation | - | (52,859) | (118,324) | (69,027) | (23,899) | - | (264,109) |
| Impairment losses | (5,658) | (6,077) | (8,286) | (1,133) | (1,238) | (2,313) | (24,705) |
| Acquisitions and divestitures | 1,720 | 5,525 | 4,438 | 1,662 | 1,784 | 1,330 | 16,459 |
| Currency translation effect | 3,596 | 1,944 | (5,526) | (24) | (559) | 4,133 | 3,564 |
| Other | 2,470 | 9,016 | 774 | 11,839 | 26,485 | (1,432) | 49,152 |
| March 31, 2018 | 361,758 | 686,556 | 557,576 | 172,949 | 102,684 | 243,304 | 2,124,827 |

The amount of depreciation recognized is included in Cost of sales and Selling, general and administrative expenses in the consolidated statement of profit or loss. Impairment losses are included in Other expenses in the consolidated statement of profit or loss.

Finance lease assets are included in Other in the table above, and their carrying amounts as of March 31, 2018 and 2017 were ¥29,269 million and ¥28,032 million, respectively.

The following table shows the gross carrying amounts and accumulated depreciation and impairment losses of property, plant and equipment.

Millions of yen

| | Land | Buildings and structures | Machinery and vehicles | Tools, furniture and fixtures | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Gross carrying amount | | | | | | | |
| March 31, 2016 | 446,536 | 1,900,807 | 2,362,660 | 975,628 | 1,498,628 | 146,260 | 7,330,519 |
| March 31, 2017 | 377,817 | 1,723,950 | 2,391,448 | 937,139 | 216,120 | 153,007 | 5,799,481 |
| March 31, 2018 | 383,862 | 1,760,206 | 2,475,707 | 961,975 | 230,553 | 245,630 | 6,057,933 |
| Accumulated depreciation and impairment losses | | | | | | | |
| March 31, 2016 | (19,967) | (1,152,151) | (1,801,869) | (782,188) | (1,071,947) | (2,171) | (4,830,293) |
| March 31, 2017 | (17,487) | (1,036,708) | (1,857,926) | (765,466) | (123,092) | (391) | (3,801,070) |
| March 31, 2018 | (22,104) | (1,073,650) | (1,918,131) | (789,026) | (127,869) | (2,326) | (3,933,106) |

**Impairment Losses Recognized for the Year Ended March 31, 2018:**
The High Functional Materials & Components segment recognized impairment losses of ¥11,012 million, of which ¥8,011 million was attributable to the lower than expected future revenue projected for its aluminum wheel business relating to business assets of buildings and machinery. The recoverable amount was determined on the basis of fair value less costs of disposal, which was measured at ¥3,514 million as of March 31, 2018. A market approach was used in measuring the fair value of the relevant assets. These fair value measurements were based on real estate appraisal value, and thus classified as Level 3 of fair value hierarchy.

Impairment losses of ¥7,910 million were recognized on corporate assets, of which ¥7,717 million was attributable to the lower than expected future revenue projected for the office leasing business, due to a decrease in the number of occupants of a part of rental assets. The recoverable amount of the CGU was largely determined on the basis of fair value less costs of disposal. The costs of disposal exceeded the fair value thus the recoverable amount of the CGU was recorded at nominal value as of March 31, 2018. A market approach was used in measuring the fair value of the relevant assets. These fair value measurements were based on real estate appraisal value corresponding to the selling prices of comparable properties, or published market prices, and thus classified as Level 2 of fair value hierarchy.

**Impairment Losses Recognized for the Year Ended March 31, 2017:**
The Social Infrastructure & Industrial Systems segment recognized impairment losses of ¥8,097 million, of which ¥6,129 million was attributable to the lower than expected future revenue projected for its compressor business, mainly due to the downturn in the oil and gas market. The recoverable amount of the CGU was largely determined on the basis of fair value less costs of disposal, which was measured at ¥3,427 million as of March 31, 2017. A market approach was used in measuring the fair value of the relevant assets. These fair value measurements were based on real estate appraisal value, and thus classified as Level 3 of fair value hierarchy.

The Information & Telecommunications Systems segment recognized impairment losses of ¥5,685 million, mainly due to the lower than expected future revenue from the Telecommunications & Network Systems business as a result of changes in market trends.

The Smart Life & Ecofriendly Systems segment recognized impairment losses of ¥4,846 million, mainly due to the lower than expected future revenue because of severe competition in the home appliances market.

**(12) Intangible Assets**

The following table shows the changes in the net carrying amounts of goodwill and other intangible assets.

Millions of yen

| | Goodwill | Software for internal use | Software for sale | Intangible lease assets | Other | Total |
|---|---|---|---|---|---|---|
| Net carrying amount | | | | | | |
| March 31, 2016 | 528,565 | 136,438 | 57,213 | 48,452 | 299,735 | 1,070,403 |
| Internal developments | - | 1,541 | 2,123 | - | 64,176 | 67,840 |
| Purchases | - | 10,026 | 849 | 8,045 | 21,727 | 40,647 |
| Transfers between accounts | - | 30,914 | 33,564 | - | (64,478) | - |
| Amortization | - | (49,616) | (28,005) | (9,097) | (25,708) | (112,426) |
| Impairment losses | (3,062) | (1,285) | (19,182) | - | (12,115) | (35,644) |
| Disposals | - | (2,934) | (432) | (539) | (3,091) | (6,996) |
| Acquisitions and divestitures | 14,473 | (9,622) | (2,150) | (45,974) | (40,774) | (84,047) |
| Currency translation effect | (12,729) | (218) | (370) | (1) | (8,227) | (21,545) |
| Other | - | (376) | 1,595 | 487 | (737) | 969 |
| March 31, 2017 | 527,247 | 114,868 | 45,205 | 1,373 | 230,508 | 919,201 |
| Internal developments | - | 2,032 | 1,632 | - | 53,141 | 56,805 |
| Purchases | - | 7,170 | 1,595 | 597 | 24,561 | 33,923 |
| Transfers between accounts | - | 34,118 | 20,218 | 7 | (54,343) | - |
| Amortization | - | (46,704) | (22,629) | (532) | (29,154) | (99,019) |
| Impairment losses | (922) | (2,367) | (3,981) | (15) | (16,194) | (23,479) |
| Disposals | - | (1,233) | (150) | (20) | (1,732) | (3,135) |
| Acquisitions and divestitures | 100,125 | 406 | (978) | - | 90,833 | 190,386 |
| Currency translation effect | (10,066) | 297 | 145 | - | (4,953) | (14,577) |
| Other | (28,219) | (262) | (19) | 36 | 22,729 | (5,735) |
| March 31, 2018 | 588,165 | 108,325 | 41,038 | 1,446 | 315,396 | 1,054,370 |

The amount of amortization recognized is included in Cost of sales and Selling, general and administrative expenses in the consolidated statement of profit or loss. Impairment losses are included in Other expenses in the consolidated statement of profit or loss.

The following table shows the gross carrying amount and accumulated amortization and impairment losses of goodwill and other intangible assets.

Millions of yen

| | Goodwill | Software for internal use | Software for sale | Intangible lease assets | Other | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount | | | | | | |
| March 31, 2016 | 534,533 | 648,278 | 540,503 | 253,706 | 528,139 | 2,505,159 |
| March 31, 2017 | 536,277 | 593,412 | 552,868 | 2,807 | 485,123 | 2,170,487 |
| March 31, 2018 | 592,870 | 617,264 | 530,778 | 3,292 | 603,114 | 2,347,318 |
| Accumulated amortization and impairment losses | | | | | | |
| March 31, 2016 | (5,968) | (511,840) | (483,290) | (205,254) | (228,404) | (1,434,756) |
| March 31, 2017 | (9,030) | (478,544) | (507,663) | (1,434) | (254,615) | (1,251,286) |
| March 31, 2018 | (4,705) | (508,939) | (489,740) | (1,846) | (287,718) | (1,292,948) |

The Company writes off goodwill if it has been fully impaired.

**Impairment Losses Recognized for the Year Ended March 31, 2018:**
The Information & Telecommunication Systems segment recognized impairment losses of ¥22,007 million, of which ¥6,425 million was attributable to the lower than expected future revenue projected for its ATM service business in India as a result of changes in market trends relating to other intangible assets. The recoverable amount of the CGU was determined on the basis of value in use, which was measured at ¥4,050 million as of March 31, 2018. The value in use was discounted at 22.1% (before tax), which was derived from the weighted average cost of capital.

**Impairment Losses Recognized for the Year Ended March 31, 2017:**
The Information & Telecommunication Systems segment recognized impairment losses of ¥29,068 million, mainly due to the lower than expected future revenue on software for sale and other intangible assets as a result of changes in market trends.

The Electronic Systems & Equipment segment recognized impairment losses of ¥6,098 million, mainly due to the lower than expected future revenue on software for sale because of severe competition in the Medical Information Systems business.

The carrying amounts of intangible assets with indefinite useful lives as of March 31, 2018 and 2017 amounted to ¥9,952 million and ¥9,932 million, respectively. The main components of such assets are acquired brands and trademarks. They are assessed to have indefinite useful lives because there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the entity.

Expenditures on research activities aimed at obtaining 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 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 Company to complete the development, and it is highly probable that the Company will obtain the future economic benefit. Otherwise, the expenditures are recognized as an expense when incurred.

The carrying amounts of internally generated intangible assets (at cost less accumulated amortization and impairment losses) as of March 31, 2018 and 2017 amounted to ¥173,267 million and ¥174,840 million, respectively. These assets are mainly included in software for internal use or software for sale.

Research and development expenditures recognized as an expense for the years ended March 31, 2018 and 2017 were ¥332,920 million and ¥323,963 million, respectively, and they are included in Cost of sales and Selling, general and administrative expenses in the consolidated statement of profit or loss.

The Company tests goodwill acquired through business combinations for impairment by comparing the carrying amount and the recoverable amount per CGU (or group of CGUs).

As of March 31, 2018 and 2017, the group of CGUs with a significant proportion of goodwill allocated was the System & Service Business Division, which belongs to the Information & Telecommunication Systems segment, and the carrying amounts of goodwill allocated to the System & Service Business Division were ¥184,530 million and ¥191,251 million, respectively. From the beginning of the year ended March 31 2018, the System & Service Business Division changed its name from the Information & Communication Technology Business Division. The recoverable amount used for the impairment test of goodwill of the System & Service Business Division for the years ended March 31, 2018 and 2017 was calculated based on the value in use. The value in use was calculated by the estimated future cash flows based on the business plans approved by the management, discounted at the discount rate which was derived from the weighted average cost of capital. The business plan reflected past experience based on external information. For the years ended March 31, 2018 and 2017, cash flows were projected over three years, the discount rates(before tax) used were 6.90% and 7.61%, respectively, and the growth rate used was 1.0% for both years.

The Company considers it unlikely for the carrying amount of each CGU (or group of CGUs), together with allocated goodwill, would exceed the respective recoverable amounts of the CGU (or group of CGUs) even if the primary assumptions used for the impairment test changed within a reasonable range.

**(13) Deferred Taxes and Income Taxes**

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

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Income taxes | | |
| Current tax expense | 160,514 | 178,405 |
| Deferred tax expense | | |
| Temporary differences originated and reversed | 10,110 | (18,950) |
| Changes in realizability of deferred tax assets | (38,916) | (34,343) |
| Total | 131,708 | 125,112 |
| Deferred taxes recognized in OCI | | |
| Net changes in financial assets measured at fair value through OCI | 368 | 30,685 |
| Remeasurements of defined benefit plans | 4,766 | 1,960 |
| Net changes in cash flow hedges | 1,222 | 6,553 |
| Foreign currency translation adjustments | - | (364) |
| Total | 6,356 | 38,834 |

The Company and its Japanese subsidiaries were subject to a national corporate tax, an inhabitant tax and business tax, for the years ended March 31, 2018 and 2017, which in the aggregate resulted in a combined statutory income tax rate of approximately 30.8%.

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

On November 18, 2016, amendments to corporation tax law were enacted in Japan, resulting in reclassifying the combined statutory income tax rate without changing the total tax rate. The effect of those changes on the Company's deferred tax balances as of March 31, 2017 amounted to ¥451 million of additional expenses and is included in Temporary differences originated and reversed under Income taxes.

## Notes to Consolidated Financial Statements

Reconciliations between the combined statutory income tax rate and the effective income tax rate are as follows:

| | 2018 | 2017 |
|---|---|---|
| Combined statutory income tax rate | 30.8% | 30.8% |
| Share of profits of investments accounted for using the equity method | (3.0) | 3.1 |
| Change in excess amounts over the tax basis of investments in subsidiaries and investments accounted for using the equity method | 0.2 | (9.5) |
| Gain or loss on sale of investments in subsidiaries and investments accounted for using the equity method | (0.1) | 10.3 |
| Expenses not deductible for tax purposes | 0.9 | 1.2 |
| Impairment of goodwill | 0.1 | 0.2 |
| Change in realizability of deferred tax assets | (6.1) | (7.3) |
| Difference in statutory tax rates of foreign subsidiaries | (2.5) | (2.3) |
| Other, net | 0.3 | 0.2 |
| Effective income tax rate | 20.6% | 26.7% |

Changes in deferred tax assets and liabilities are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Deferred tax assets, net at beginning of year | 114,811 | 112,446 |
| Recognized in profit or loss | 28,806 | 53,293 |
| Recognized in OCI | (6,356) | (38,834) |
| Acquisitions, divestitures and others | (8,193) | (13,280) |
| Discontinued operations | 37 | 1,186 |
| Deferred tax assets, net at end of year | 129,105 | 114,811 |

Significant components of the deferred tax assets and liabilities are as follows:

Millions of yen

| | Consolidated statement of financial position | | Consolidated statement of profit or loss | |
|---|---|---|---|---|
| | March 31, 2018 | March 31, 2017 | 2018 | 2017 |
| Deferred tax assets | | | | |
| Retirement and severance benefits | 75,553 | 67,719 | (1,198) | (7,545) |
| Accrued expenses | 107,954 | 105,384 | 11,630 | 34,323 |
| Depreciation of property, plant and equipment | 11,384 | 12,605 | 7,280 | 2,472 |
| Net operating loss carryforwards | 9,665 | 12,260 | (4,618) | (9,925) |
| Net intercompany profits on inventories, P.P.E. and others | 35,361 | 27,245 | 2,984 | (145) |
| Deferred revenues | 20,659 | 26,828 | (632) | 1,168 |
| Other | 38,895 | 57,886 | (22,459) | (32,994) |
| Total deferred tax assets | 299,471 | 309,927 | (7,013) | (12,646) |
| Deferred tax liabilities | | | | |
| Deferred profit on sale of properties | (8,837) | (4,457) | (1,126) | (1,618) |
| Investments in securities | (92,258) | (83,680) | 1,735 | 31,425 |
| Tax purpose reserves regulated by Japanese tax laws | (13,468) | (30,367) | 13,579 | 13,680 |
| Intangible assets | (38,494) | (42,028) | 13,405 | 8,871 |
| Other | (17,309) | (34,584) | 8,226 | 13,581 |
| Total deferred tax liabilities | (170,366) | (195,116) | 35,819 | 65,939 |
| Net deferred tax assets | 129,105 | 114,811 | 28,806 | 53,293 |

Net deferred tax assets are included in the following accounts in the consolidated statement of financial position.

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Other non-current assets | 180,781 | 171,612 |
| Other non-current liabilities | (51,676) | (56,801) |
| Total | 129,105 | 114,811 |

Deferred tax liabilities are not recognized for excess amounts over the tax basis of investments in subsidiaries and investments accounted for using the equity method that are considered to be reinvested indefinitely, for such differences will unlikely reverse in the foreseeable future. The temporary differences related to undistributed earnings of subsidiaries for which deferred tax liabilities are not recognized were ¥700,901 million and ¥638,458 million, respectively, as of March 31, 2018 and 2017.

In assessing the realizability of deferred tax assets, the Company 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 become deductible. Although realization is not assured, the Company 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 Company believes it is more likely than not it will realize the benefits of these deductible differences as of March 31, 2018.

Deductible temporary differences and net operating loss carryforwards for unrecognized deferred tax assets are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Deductible temporary differences | 1,191,495 | 1,294,211 |
| Net operating loss carryforwards | 568,783 | 522,881 |
| Total | 1,760,278 | 1,817,092 |

Net operating loss carryforwards for unrecognized deferred tax assets will expire as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Within 5 years | 190,765 | 283,452 |
| After 5 years but not more than 10 years | 133,072 | 90,726 |
| More than 10 years | 244,946 | 148,703 |
| Total | 568,783 | 522,881 |

**(14) Trade Payables**

The components of trade payables are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Accounts payable | 1,267,047 | 1,220,236 |
| Others | 269,936 | 181,997 |
| Total | 1,536,983 | 1,402,233 |

Others include electronically recorded monetary claims and notes payable.

**(15) Provisions**

Changes in the balance and components of provisions for the year ended March 31, 2018 are as follows:

Millions of yen

| | Asset retirement obligations | Provisions related to restructuring (structural reform) | Product warranty provisions | Other provisions |
|---|---|---|---|---|
| March 31, 2017 | 18,054 | 9,859 | 36,580 | 172,607 |
| Additions | 8,518 | 15,728 | 17,336 | 48,067 |
| Utilized | (371) | (16,585) | (16,761) | (17,817) |
| Acquisitions and divestitures | 41 | 11 | 556 | (722) |
| Currency translation effects, and others | (103) | 133 | 452 | 13,163 |
| March 31, 2018 | 26,139 | 9,146 | 38,163 | 215,298 |
| Current | 2,481 | 7,477 | 25,685 | 203,118 |
| Non-current | 23,658 | 1,669 | 12,478 | 12,180 |

Other provisions include provisions made for expenses including competition law and others. As information required by IAS 37 could adversely affect the outcome of litigations and other disputes, the details of these provisions are not disclosed.

**Asset Retirement Obligations**

The Company and its subsidiaries recognize asset retirement obligations principally based on the estimated future expenditures using historical experience when the Company and its subsidiaries have a legal or contractual obligation associated with the retirement of tangible fixed assets used in normal operations, such as lease dilapidations of factory facilities and premises.

**Provisions Related to Restructuring (Structural Reform)**

Provision related to restructuring (structural reform) is recognized when the Company and its subsidiaries have a detailed formal plan for the restructuring of the business or a part of business and have raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected. The provision is recognized based on the estimated amount of direct expenditures attributable to restructuring.

Provisions related to restructuring (structural reform) include special termination benefits for restructuring (structural reform).

**Product Warranty Provisions**

The Company and its subsidiaries provide warranties for certain products and services. Product warranty provisions are recognized by estimating future expenditures based principally on historical experience of warranty claims.

**(16) Employee Benefits**

***(a) Retirement and Severance Benefits***

The Company and certain subsidiaries have defined benefit pension plans and severance lump-sum payment plans, as well as defined contribution pension plans to provide retirement and severance benefits to substantially all employees.

The principal defined benefit pension plan is a corporate pension plan based on the Japanese Defined Benefit Corporate Pension Plan Act (the Act). Additionally, certain corporate pension plans adopt cash balance plans. Benefits under cash balance plans are calculated per each plan participant with a notional account balance, based on the contribution credits per salary level and interest credits based on market interest rate trends.

Pursuant to the Act, the Company has an obligation to make contributions to the Hitachi Corporate Pension Fund (the Fund) that manages the corporate pension plans. 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 Fund 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.

The Fund 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. In case of a tied vote, the chairman has the power to decide, except for exceptionally significant matters.

The actual management of the contributions is conducted by trustees in accordance with rules approved by the Board of Representatives. The Fund is responsible for managing the contributions to safely and efficiently manage the contributions by establishing the basic management policy of the contributions and preparing the management guidance in line with the policy submitted to the trustees.

The Company has future obligations to make contributions as defined by the Fund. The amount of contribution is periodically reviewed to the extent allowed by law.

The severance lump-sum payment plans provide a lump-sum payment at the time of retirement, and the benefit is calculated based on factors such as the salary level at retirement and the years of service. The Company and certain subsidiaries have an obligation to pay benefits directly to beneficiaries.

Defined contribution plans require companies to make contributions over a participation period, and plan participants themselves are responsible for the management of plan assets. Benefits are paid by the trustee, and the Company and certain subsidiaries’ responsibility is limited to making contributions.

Changes in the present value of defined benefit obligations and the fair value of plan assets for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Defined benefit obligations | | |
| At beginning of year | 2,247,924 | 2,416,920 |
| Service cost | 79,410 | 81,431 |
| Interest cost | 13,917 | 12,468 |
| Plan amendments | 449 | 153 |
| Actuarial losses | 25,055 | 5,781 |
| Benefits paid | (121,751) | (117,606) |
| Acquisitions and divestitures | 2,364 | (113,180) |
| Transfer to defined contribution pension plan | (203) | (1,268) |
| Settlements/curtailments | (3,388) | (19,913) |
| Currency translation effect | 3,080 | (16,862) |
| At end of year | 2,246,857 | 2,247,924 |
| Fair value of plan assets | | |
| At beginning of year | 1,643,638 | 1,662,642 |
| Interest income | 12,397 | 9,607 |
| Return on plan assets (excluding interest income) | 53,521 | 52,991 |
| Employers’ contributions | 99,204 | 103,289 |
| Employees’ contributions | 609 | 249 |
| Benefits paid | (96,942) | (88,338) |
| Acquisitions and divestitures | 928 | (70,695) |
| Settlements/curtailments | (4,331) | (18,852) |
| Currency translation effect | 2,052 | (7,255) |
| At end of year | 1,711,076 | 1,643,638 |
| Effect of asset ceiling | 6,762 | 5,815 |
| Net liability amount recognized in the consolidated statement of financial position | 542,543 | 610,101 |

The components of actuarial gain or loss are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Arising from changes in financial assumptions | (11,551) | 10,253 |
| Arising from changes in demographic assumptions | (5,995) | (8,752) |
| Other | (7,509) | (7,282) |

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

Percentage

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Discount rate | 0.6 | 0.6 |

If, at March 31, 2018, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥134,538 million, and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥145,902 million.

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 Fund's plan asset management is based on the safe and efficient management of the contributions, diversified investments and determination of the investment ratio that should be sustained over the long term. The Fund seeks to maintain current value of assets sufficient for future obligations. A target rate of return is established to ensure a stable long term rate of return on assets. A diversified investment strategy is carried out while a target asset allocation is established 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. It is currently approximately 20% in equity, 50% in public and corporate bonds, and 30% in hedge funds, securitization products, life insurance general accounts and other assets. If market values fluctuate exceeding certain levels, the investment ratio is adjusted to the target allocation ratio in order to control risks.

In selecting trustees or asset management companies, the Fund takes into account appropriate quantitative and qualitative evaluations. The Fund also presents its management policies to the trustees or asset management companies, and periodically receives asset management reports.

The fair values of plan assets invested as of March 31, 2018 and 2017 are as follows:

Millions of yen

| | March 31, 2018 | | |
|---|---|---|---|
| | With quoted market price in an active market | With no quoted market price in an active market | Total |
| Equity | 18,748 | 2,613 | 21,361 |
| Government bonds and municipal debt securities | 148,356 | 2,028 | 150,384 |
| Corporate bonds and other debt securities | - | 31,595 | 31,595 |
| Hedge funds | - | 50,350 | 50,350 |
| Securitization products | - | 71,281 | 71,281 |
| Cash and cash equivalents | 55,093 | - | 55,093 |
| Life insurance general accounts | - | 160,733 | 160,733 |
| Commingled funds | - | 1,142,694 | 1,142,694 |
| Other | 2,468 | 25,117 | 27,585 |
| Total | 224,665 | 1,486,411 | 1,711,076 |

Millions of yen

| | March 31, 2017 | | |
|---|---|---|---|
| | With quoted market price in an active market | With no quoted market price in an active market | Total |
| Equity | 26,892 | 730 | 27,622 |
| Government bonds and municipal debt securities | 121,797 | 16,090 | 137,887 |
| Corporate bonds and other debt securities | - | 35,636 | 35,636 |
| Hedge funds | - | 43,623 | 43,623 |
| Securitization products | - | 60,852 | 60,852 |
| Cash and cash equivalents | 37,028 | 247 | 37,275 |
| Life insurance general accounts | - | 145,118 | 145,118 |
| Commingled funds | - | 1,127,172 | 1,127,172 |
| Other | 5,079 | 23,374 | 28,453 |
| Total | 190,796 | 1,452,842 | 1,643,638 |

As of March 31, 2018, investments in equity were allocated to approximately 35% in stocks listed in Japan and 65% in stocks listed in foreign markets. As of March 31, 2017, investments in equity were allocated to approximately 30% in stocks listed in Japan and 70% in stocks listed in foreign markets.

As of March 31, 2018, Japanese government bonds made up approximately 75% of the government bonds and municipal debt securities, the majority of which were Japanese national bonds. As of March 31, 2017, Japanese government bonds made up approximately 70% of the government bonds and municipal debt securities, the majority of which were Japanese national bonds. Foreign public bonds, as of March 31, 2018, took approximately 25%, the majority of which were foreign national bonds, and as of March 31, 2017, foreign public bonds took approximately 30%, the majority of which were foreign national bonds.

As of March 31, 2018 and 2017, investments in corporate bonds and other debt securities were allocated to approximately 5% in Japanese corporate bonds and debt instruments, and 95% in foreign corporate bonds and debt instruments.

Hedge funds primarily consist of investments in relative value strategy funds, event driven funds, equity long or short funds, and macroeconomic and Commodity Trading Advisor (CTA) funds.

Securitization products primarily consist of investments in equity of Japanese real estate funds, and debt and equity of collateralized loan obligations (CLO).

Commingled funds represent pooled institutional investments. As of March 31, 2018 and 2017, commingled funds were allocated to 30% in listed stocks, 45% in government bonds, 5% in corporate bonds and other debt securities, 10% in cash and cash equivalents and 10% in other assets.

Funding by the Fund 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 Fund require recalculation of the contribution amounts at the end of fiscal year every five years. Basic assumptions (expected interest rates, mortality rates, withdrawal rate, etc.) are reviewed to recalculate the appropriate level of contribution.

The amount of contributions expected to be paid by the Company and its subsidiaries to the plan assets for the year ending March 31, 2019 is ¥86,733 million.

The weighted average duration (expected average maturity) of defined benefit obligations as of March 31, 2018 and 2017 was 12.7 years.

Contributions made to defined contribution plans and expensed in profit or loss in the years ended March 31, 2018 and 2017 were ¥28,212 million and ¥29,033 million, respectively.

***(b) Employee Benefit Expenses***

The aggregated amounts of employee benefit expenses including salary recognized in the consolidated statement of profit or loss for the years ended March 31, 2018 and 2017 were ¥2,323,429 million and ¥2,363,880 million, respectively.

**(17) Equity**

***(a) Common Stock***

Number of shares

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Total number of authorized shares | 10,000,000,000 | 10,000,000,000 |

| | Issued shares outstanding (Number of shares) | Capital amount (Millions of yen) |
|---|---|---|
| March 31, 2016 | 4,833,463,387 | 458,790 |
| March 31, 2017 | 4,833,463,387 | 458,790 |
| March 31, 2018 | 4,833,463,387 | 458,790 |

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock. The changes in treasury stock for the years ended March 31, 2018 and 2017 are as follows:

| | Treasury stock | |
|---|---|---|
| | (Number of shares) | (Millions of yen) |
| March 31, 2016 | 5,247,929 | 3,806 |
| Acquisition of treasury stock | 271,523 | 153 |
| Sales of treasury stock | (58,880) | (43) |
| March 31, 2017 | 5,460,572 | 3,916 |
| Acquisition of treasury stock | 375,918 | 292 |
| Sales of treasury stock | (100,543) | (71) |
| March 31, 2018 | 5,735,947 | 4,137 |

The number of shares of the Company held by the Company's associates as of March 31, 2018 and 2017 were 167,000 shares, respectively.

***(b) Surplus***

**(i) Capital Surplus**

The Companies Act of Japan 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.

The changes in capital surplus include the effect of changes in the Company's ownership interest in its consolidated subsidiaries. For the year ended March 31, 2017, the changes in capital surplus were due mainly to the granting of a written put option on FIAMM Energy Technology S.p.A. (FET) stock to the owner of the non-controlling interests of FET in acquiring FET by Hitachi Chemical Company, Ltd.

**(ii) Retained Earnings**

The Companies Act of Japan requires that ten percent of retained earnings appropriated for dividends be retained until the total amount of earned reserves included in capital reserve and retained earnings reaches a quarter of the nominal value of common stock. Earned reserves may be available for dividends by resolution at the shareholders' meeting.

**(18) Accumulated Other Comprehensive Income (AOCI) and Other Comprehensive Income (OCI)**

Components of AOCI, net of related tax effects, presented in the consolidated statement of changes in equity, and changes in each component for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Foreign currency translation adjustments | | |
| Balance at beginning of year | 78,987 | 118,635 |
| OCI, net of reclassification | (18,032) | (39,526) |
| Net transfer of non-controlling interests | (148) | (122) |
| Balance at end of year | 60,807 | 78,987 |
| Remeasurements of defined benefit plans | | |
| Balance at beginning of year | (847) | (42,337) |
| OCI | 22,059 | 36,815 |
| Net transfer of non-controlling interests | - | - |
| Reclassified into retained earnings | 1,463 | 4,675 |
| Balance at end of year | 22,675 | (847) |
| Net changes in financial assets measured at FVTOCI | | |
| Balance at beginning of year | 192,110 | 147,852 |
| OCI | 369 | 59,422 |
| Net transfer of non-controlling interests | - | (3) |
| Reclassified into retained earnings | (17,891) | (15,161) |
| Balance at end of year | 174,588 | 192,110 |
| Net changes in cash flow hedges | | |
| Balance at beginning of year | (129,182) | (140,607) |
| OCI, net of reclassification | 14,957 | 11,425 |
| Net transfer of non-controlling interests | - | - |
| Others | (1,678) | - |
| Balance at end of year | (115,903) | (129,182) |
| Total AOCI | | |
| Balance at beginning of year | 141,068 | 83,543 |
| OCI, net of reclassification | 19,353 | 68,136 |
| Net transfer of non-controlling interests | (148) | (125) |
| Reclassified into retained earnings | (16,428) | (10,486) |
| Others | (1,678) | - |
| Balance at end of year | 142,167 | 141,068 |

## Notes to Consolidated Financial Statements

The following shows a reconciliation of OCI, including non-controlling interests, to profit or loss items and deferred income tax effect per components of OCI during the years ended March 31, 2018 and 2017.

Millions of yen

| | 2018 | | |
|---|---|---|---|
| | Before tax | Tax effect | After tax |
| OCI arising during the year: | | | |
| Foreign currency translation adjustments | (5,671) | - | (5,671) |
| Remeasurements of defined benefit plans | 27,519 | (4,766) | 22,753 |
| Net changes in financial assets measured at FVTOCI | 1,898 | (368) | 1,530 |
| Net changes in cash flow hedges | 14,530 | (3,686) | 10,844 |
| Share of OCI of investments accounted for using the equity method | 6,922 | (3,632) | 3,290 |
| Total | 45,198 | (12,452) | 32,746 |
| Reconciliation of OCI to profit or loss: | | | |
| Foreign currency translation adjustments | (2,371) | - | (2,371) |
| Net changes in cash flow hedges | (7,605) | 2,464 | (5,141) |
| Share of OCI of investments accounted for using the equity method | (33) | - | (33) |
| Total | (10,009) | 2,464 | (7,545) |
| OCI, net of reclassification adjustments: | | | |
| Foreign currency translation adjustments | (8,042) | - | (8,042) |
| Remeasurements of defined benefit plans | 27,519 | (4,766) | 22,753 |
| Net changes in financial assets measured at FVTOCI | 1,898 | (368) | 1,530 |
| Net changes in cash flow hedges | 6,925 | (1,222) | 5,703 |
| Share of OCI of investments accounted for using the equity method | 6,889 | (3,632) | 3,257 |
| Total | 35,189 | (9,988) | 25,201 |
| OCI, net of reclassification adjustments, attributable to non-controlling interests: | | | |
| Foreign currency translation adjustments | | | 435 |
| Remeasurements of defined benefit plans | | | 2,819 |
| Net changes in financial assets measured at FVTOCI | | | 2,338 |
| Net changes in cash flow hedges | | | 256 |
| Total | | | 5,848 |
| OCI, net of reclassification adjustments, attributable to Hitachi, Ltd. stockholders: | | | |
| Foreign currency translation adjustments | | | (8,477) |
| Remeasurements of defined benefit plans | | | 19,934 |
| Net changes in financial assets measured at FVTOCI | | | (808) |
| Net changes in cash flow hedges | | | 5,447 |
| Share of OCI of investments accounted for using the equity method | | | 3,257 |
| Total | | | 19,353 |

Millions of yen

| | 2017 | | |
|---|---|---|---|
| | Before tax | Tax effect | After tax |
| OCI arising during the year: | | | |
| Foreign currency translation adjustments | (78,898) | 340 | (78,558) |
| Remeasurements of defined benefit plans | 48,046 | (1,960) | 46,086 |
| Net changes in financial assets measured at FVTOCI | 90,619 | (30,685) | 59,934 |
| Net changes in cash flow hedges | 1,700 | 488 | 2,188 |
| Share of OCI of investments accounted for using the equity method | (2,835) | 401 | (2,434) |
| Total | 58,632 | (31,416) | 27,216 |
| Reconciliation of OCI to profit or loss: | | | |
| Foreign currency translation adjustments | 13,773 | 24 | 13,797 |
| Net changes in cash flow hedges | 26,156 | (7,041) | 19,115 |
| Share of OCI of investments accounted for using the equity method | 1,713 | - | 1,713 |
| Total | 41,642 | (7,017) | 34,625 |
| OCI, net of reclassification adjustments: | | | |
| Foreign currency translation adjustments | (65,125) | 364 | (64,761) |
| Remeasurements of defined benefit plans | 48,046 | (1,960) | 46,086 |
| Net changes in financial assets measured at FVTOCI | 90,619 | (30,685) | 59,934 |
| Net changes in cash flow hedges | 27,856 | (6,553) | 21,303 |
| Share of OCI of investments accounted for using the equity method | (1,122) | 401 | (721) |
| Total | 100,274 | (38,433) | 61,841 |
| OCI, net of reclassification adjustments, attributable to non-controlling interests: | | | |
| Foreign currency translation adjustments | | | (14,950) |
| Remeasurements of defined benefit plans | | | 7,100 |
| Net changes in financial assets measured at FVTOCI | | | 796 |
| Net changes in cash flow hedges | | | 759 |
| Total | | | (6,295) |
| OCI, net of reclassification adjustments, attributable to Hitachi, Ltd. stockholders: | | | |
| Foreign currency translation adjustments | | | (49,811) |
| Remeasurements of defined benefit plans | | | 38,986 |
| Net changes in financial assets measured at FVTOCI | | | 59,138 |
| Net changes in cash flow hedges | | | 20,544 |
| Share of OCI of investments accounted for using the equity method | | | (721) |
| Total | | | 68,136 |

**(19) Dividends**

Dividends paid on the Company’s common stock for the years ended March 31, 2018 and 2017 are as follows:

| Decision | Cash dividends (millions of yen) | Appropriation from | Cash dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| The Board of Directors on October 26, 2017 | 33,795 | Retained earnings | 7.0 | September 30, 2017 | November 28, 2017 |
| The Board of Directors on May 12, 2017 | 33,796 | Retained earnings | 7.0 | March 31, 2017 | May 29, 2017 |
| The Board of Directors on October 28, 2016 | 28,968 | Retained earnings | 6.0 | September 30, 2016 | November 28, 2016 |
| The Board of Directors on May 13, 2016 | 28,969 | Retained earnings | 6.0 | March 31, 2016 | May 30, 2016 |

The dividend on the Company’s common stock whose record date falls in the year ended March 31, 2018 and the effective date falls in the next fiscal year is as follows:

| Decision | Cash dividends (millions of yen) | Appropriation from | Cash dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| The Board of Directors on May 10, 2018 | 38,621 | Retained earnings | 8.0 | March 31, 2018 | May 29, 2018 |

**(20) Stock-based Compensation**

The Company introduced a stock option plan as stock-based compensation. Under the Company's stock option plan, Executive Officers and Corporate Officers are granted the right to purchase shares of common stock of the Company (stock acquisition rights).

Details of the Company's stock option plan for the year ended March 31, 2018 are as follows.

| Fiscal Year of Issueance and Name | Grant Date | Exercise period |
|---|---|---|
| Year ended March 31, 2018 | | |
| The Second Stock Acquisition Rights of Hitachi, Ltd. | April 6, 2017 | From April 27, 2017 to April 26, 2047 |
| Year ended March 31, 2017 | | |
| The First Stock Acquisition Rights of Hitachi, Ltd. | June 29, 2016 | From July 15, 2016 to July 14, 2046 |

Conditions for the exercise of stock acquisition rights

(1) During the above exercise period, a holder of stock acquisition rights may exercise all the stock acquisition rights determined in accordance with the provisions of paragraph (2) or (3) below in a lump sum only within ten days (in case the last day is not a business day, the following business day) from the day immediately following the date on which he/she ceases to be an Executive Officer, a Director or a Corporate Officer of the Company.

(2) The number of stock acquisition rights that a holder of stock acquisition rights may exercise, shall be determined based on the ratio of (i) the total shareholder return (TSR) for shares of the Company for three years from the beginning of the fiscal year in which the date of allotment of the stock acquisition rights falls (Waiting Period) to (ii) the growth rate of TOPIX (Tokyo Stock Price Index) for the same period (TSR/TOPIX Growth Rate Ratio): market condition.

(3) The number of stock acquisition rights, that a holder of stock acquisition rights who has left his/her position in the Company before the end of the Waiting Period (Resignee) may exercise, shall be determined by reducing the number of stock acquisition rights allotted to him/her in proportion to the term of office of the Resignee in the Waiting Period, and applying the TSR/TOPIX Growth Rate Ratio for the period from the beginning of the fiscal year in which the date of allotment of the stock acquisition rights falls to the time of resignation in accordance with the provision of paragraph (2) above.

Stock-based compensation expenses recognized for the years ended March 31, 2018 and 2017 were ¥625 million and ¥401 million, respectively.

A summary of stock option activity for the year ended March 31, 2018 and 2017 is as follows. The number of stock options is translated into their equivalent number of shares (100 shares per stock option).

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of shares (shares) | Weighted average exercise price (yen) | Number of shares (shares) | Weighted average exercise price (yen) |
| Outstanding at beginning of year | 2,421,900 | 1 | - | - |
| Granted | 2,290,600 | 1 | 2,421,900 | 1 |
| Forfeited (a) | (184,500) | 1 | - | - |
| Exercised | (79,100) | 1 | - | - |
| Expired | - | - | - | - |
| Outstanding at end of year | 4,448,900 | 1 | 2,421,900 | 1 |
| Exercisable at end of year | - | - | - | - |

(a) Including the stock acquisition rights which became non-exercisable because of the market condition.

The weighted average share price at the date of exercise for the year ended March 31, 2018 was ¥633.2.

The range of exercise price as of March 31, 2018 and 2017 was ¥1. The weighted average remaining contractual lives of stock options outstanding as of March 31, 2018 and 2017 were 28.7 years and 29.3 years, respectively.

The weighted average fair values (per share) at the measurement date of stock options issued under the Company's stock option plan for the years ended March 31, 2018 and 2017 were ¥367.6 and ¥268.0, respectively.

Fair value of stock options is estimated using Monte Carlo simulation based on the following assumptions.

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Exercise price | 1 yen | 1 yen |
| Expected life (a) | 3.2 years | 3.3 years |
| Stock price at the measurement date (b) | 618.5 yen | 449.3 yen |
| Expected volatility (c) | 31.528% | 33.444% |
| Expected dividends (d) | 12 yen | 12 yen |
| Risk-free rate (e) | (0.184%) | (0.355%) |
| Average value of the normal distribution of TSR/TOPIX Growth Rate Ratio (f) | 104.1% | 105.6% |
| Standard deviation of the normal distribution of TSR/TOPIX Growth Rate Ratio (f) | 39.5% | 38.1% |

(a) Based on the expected term of office of each grantee.
(b) Based on the closing prices of the Company's stocks on the Tokyo Stock Exchange at the measurement date.
(c) Based on historical volatility of weekly stock price fluctuations during a directly preceding period that is equal to the expected life of the stock options.
(d) Based on actual annual dividends in the fiscal year preceding that of the measurement date.
(e) Calculated based on the yield of a Japanese government bond with a term to maturity that is equal to the expected life of the stock options.
(f) Calculated based on historical data in fiscal years preceding that of the measurement date.

### (21) Other Income and Expenses

The main components of other income and expenses for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Net gain (loss) on sales and disposals of fixed assets | (2,535) | 15,094 |
| Impairment losses | (48,656) | (68,587) |
| Net gain on business reorganization and others | 9,774 | 81,369 |
| Special termination benefits | (15,728) | (24,665) |
| Expenses related to competition law and others | (14,280) | (6,730) |

Impairment losses are mainly recognized on property, plant and equipment, investment properties and intangible assets. Net gain on business reorganization and others include gains and losses related to obtaining and losing control of investees and gains and losses related to obtaining and losing significant influence over investees.
Restructuring charges (structural reform expenses) included in other expenses for the years ended March 31, 2018 and 2017 were ¥64,384 million and ¥96,289 million, respectively. Restructuring charges (structural reform expenses) mainly include impairment losses and special termination benefits.

**(22) Financial Income and Expenses**

The main components of financial income and expenses for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Dividends received | 6,227 | 6,919 |
| Exchange loss | (10,587) | (25,238) |

Dividends received for the years ended March 31, 2018 and 2017 are from FVTOCI financial assets.

**(23) Discontinued Operations**

In the Social Infrastructure & Industrial Systems segment, the Company classified the part of thermal power generation systems business which was not transferred to Mitsubishi Hitachi Power Systems, Ltd. for business integration in the thermal power generation systems business with Mitsubishi Heavy Industries, Ltd. but was operated by the Company and certain subsidiaries as discontinued operations in the consolidated statement of profit or loss since the projects were completed in the year ended March 31, 2015.

Profit or loss and cash flows from the discontinued operations for the years ended March 31, 2018 and 2017 are as follows:

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Profit or loss from discontinued operations | | |
| Revenues | 1,077 | 1,358 |
| Cost of sales and expenses | (17,146) | (8,381) |
| Loss from discontinued operations, before income taxes | (16,069) | (7,023) |
| Income taxes | 49 | 1,073 |
| Loss from discontinued operations | (16,020) | (5,950) |

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Cash flows from discontinued operations | | |
| Cash flows from operating activities | 2,000 | (9,097) |
| Cash flows from investing activities | (5) | - |
| Cash flows from financing activities | (1,299) | 8,294 |

**(24) Earnings Per Share (EPS) Information**

The computations of net income attributable to Hitachi, Ltd. stockholders used to derive basic and diluted EPS are as follows:

Number of shares

| | 2018 | 2017 |
|---|---|---|
| Weighted average number of shares on which basic EPS is calculated | 4,827,874,323 | 4,828,127,659 |
| Effect of dilutive securities | | |
| Stock options | 4,288,188 | 1,530,325 |
| Number of shares on which diluted EPS is calculated | 4,832,162,511 | 4,829,657,984 |

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Net income from continuing operations, attributable to Hitachi, Ltd. stockholders | | |
| Basic | 379,008 | 237,211 |
| Effect of dilutive securities | | |
| Other | - | (0) |
| Diluted | 379,008 | 237,211 |
| Net loss from discontinued operations, attributable to Hitachi, Ltd. stockholders | | |
| Basic | (16,020) | (5,950) |
| Effect of dilutive securities | | |
| Other | - | - |
| Diluted | (16,020) | (5,950) |
| Net income attributable to Hitachi, Ltd. stockholders | | |
| Basic | 362,988 | 231,261 |
| Effect of dilutive securities | | |
| Other | - | (0) |
| Diluted | 362,988 | 231,261 |

Yen

| | 2018 | 2017 |
|---|---|---|
| EPS from continuing operations, attributable to Hitachi, Ltd. stockholders | | |
| Basic | 78.50 | 49.13 |
| Diluted | 78.43 | 49.12 |
| EPS from discontinued operations, attributable to Hitachi, Ltd. stockholders | | |
| Basic | (3.32) | (1.23) |
| Diluted | (3.32) | (1.23) |
| EPS attributable to Hitachi, Ltd. stockholders | | |
| Basic | 75.19 | 47.90 |
| Diluted | 75.12 | 47.88 |

**(25) Supplementary Cash Flow Information**

Non-cash investing and financing activities for the years ended March 31, 2017 are as follows:

Millions of yen

| | 2017 |
|---|---|
| Finance lease assets acquired and obligations incurred | 4,464 |

Changes in liabilities from financing activities for the year ended March 31, 2018 are as follows:

Millions of yen

| | Short-term debt | Bonds | Long-term borrowings | Lease payables | Total |
|---|---|---|---|---|---|
| March 31, 2017 | 196,357 | 159,820 | 770,723 | 49,703 | 1,176,603 |
| Cash flows | (104,819) | (9,649) | (89,957) | (13,984) | (218,409) |
| Non-cash changes | | | | | |
| Finance lease payables incurred | - | - | - | 13,469 | 13,469 |
| Acquisitions and divestitures | 13,297 | - | 59,779 | 1,787 | 74,863 |
| Currency translation effect and others | 16,604 | (334) | (11,005) | (1,497) | 3,768 |
| March 31, 2018 | 121,439 | 149,837 | 729,540 | 49,478 | 1,050,294 |

## (26) Financial Instruments and Related Disclosures

### *(a) Capital Management*

The Company manages its capital under the policy of maintaining appropriate level of assets, liabilities and capital for current and future business operations, as well as optimizing the efficiency of capital utilization throughout the business operations.

The Company uses the total Hitachi, Ltd. stockholders' equity ratio as an important indicator in capital management. The target is set in the mid-term management plan and is regularly monitored. The total Hitachi, Ltd. stockholders' equity ratio as of March 31, 2018 and 2017 were 32.4% and 30.7%, respectively.

The Company is not subject to any capital requirements except for the general rules such as the Japanese Company Law.

### *(b) Financial Risks*

The Company is engaged in business activities world-wide, and constantly exposed to various risks such as market risks (mainly currency exchange risk and interest rate risk), credit risk and liquidity risk. The Company implements risk management policies to avoid or mitigate these financial risks.

#### (i) Currency Exchange Risk

The Company and its subsidiaries hold assets and liabilities exposed to currency exchange risk. In order to hedge this risk, the management uses forward exchange contracts or cross currency swaps.

For trade receivables and payables denominated in foreign currencies, the Company and its subsidiaries measure the net future cash flows per currency on a monthly basis, and enter into forward exchange contracts using a constant ratio with the purpose of fixing the future cash flows arising from receivables and payables and forecasted transactions denominated in foreign currencies. The terms of forward exchange contracts are largely within one year. If necessary, the Company and its subsidiaries establish a risk control policy and a risk management approach specific to each transaction by reviewing the business characteristics, the structure of income and expenditure, and conditions of the contract. The Company and its subsidiaries hedge the risk exposure arising from specific transactions based on the risk control policy and the risk management approach.

To fix cash flows from long-term debt denominated in foreign currencies, the Company and its subsidiaries enter into cross currency swap agreements with the same maturities as the underlying debt. The hedging relationship between the forward exchange contracts or cross currency swaps and the underling hedged items is highly effective in offsetting the impact from changes in foreign currency exchange rates.

The sensitivity analysis for currency exchange rates shown below indicates the impact on income from continuing operations, before income taxes, in the Company's consolidated statement of profit or loss, if the Japanese yen depreciated by 1% on the foreign-currency denominated financial instruments held by the Company and its subsidiaries as of March 31, 2018 and 2017, while all other variables are held constant.

Millions of yen

| | Currency | 2018 | 2017 |
|---|---|---|---|
| Impact on income from continuing operations, before income taxes | US Dollar | 696 | 515 |
| | Euro | 139 | 194 |
| | British Pound | 340 | 63 |

**(ii) Interest Rate Risk**

The Company and its subsidiaries are exposed to interest rate risk related principally to long-term debt obligations. In order to minimize this risk, the Company and its subsidiaries enter into interest rate swap agreements to control fluctuation risk of cash flows. The interest rate swaps entered into are mainly receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company and its subsidiaries receive variable interest rate payments on long-term debt and make fixed interest rate payments, thereby creating fixed interest rate long-term debt.

Certain financing subsidiaries raise funds by issuing long-term debt with a fixed interest rate and lending it at variable interest rates, creating interest rate risk. In order to minimize this risk, interest rate swaps are used to convert, in effect, the fixed rate to a variable rate to manage fluctuations in fair value resulting from interest rate risk. The hedging relationship between the interest rate swaps and the underlying hedged items is highly effective in offsetting the impact from changes in cash flows and fair value resulting from interest rate risk.

The sensitivity analysis for interest rate shown below indicates the impact on income from continuing operations, before income taxes, in the consolidated statement of profit or loss, if interest rates increased by 1% on the financial instruments (floating-interest financial assets and liabilities measured at amortized cost, FVTPL financial assets and liabilities and derivatives) held by the Company and its subsidiaries as of March 31, 2018 and 2017, while all other variables are held constant.

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Impact on income from continuing operations, before income taxes | (684) | (1,082) |

**(iii) Credit Risk**

Trade receivables and other receivables resulting from operating activities of the Company and its subsidiaries are exposed to credit risk of the customers. Investments in debt securities held for managing cash surplus and equity instruments held for strategic purposes are exposed to credit risk of the issuers. Derivative transactions entered into in order to lower market risks are exposed to credit risk of the counter-party financial institutions.

For credit risk of customers, the Company conducts periodic credit checks as appropriate for the products sold and the customers' financial conditions and credit ratings. A credit limit is set according to the credit risk. For cash surplus, investment is restricted to low risk debt securities, and derivative transactions are entered into with financial institutions with high credit rating only.

No significant concentration of credit risk is present in a particular region or a customer, as the Company and its subsidiaries are engaged in diverse industries worldwide.

The maximum exposure to the credit risk equals the financial assets' carrying amount after impairment in the consolidated statement of financial position, if collateral held is not included. The maximum exposure to the credit risk from guarantee obligations is disclosed in note 30.

The Company considers that trade receivables and other receivables neither past due nor impaired as of the end of each fiscal year are all collectible.

The following table presents the aging of trade receivables and other receivables past due but not impaired as of March 31, 2018 and 2017.

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Past due within 30 days | 39,386 | 39,856 |
| Past due between 31 and 90 days | 31,165 | 33,616 |
| Past due between 91 days and 1 year | 23,214 | 29,859 |
| Past due over 1 year | 10,847 | 33,057 |
| Total | 104,612 | 136,388 |

When trade receivables and other receivables are impaired, the Company reduces the receivable balance through the use of an allowance account, instead of directly reducing the carrying amount. The changes in the balance of allowance for doubtful receivables are as follows:

Millions of yen

| | Trade receivables | Other receivables | Total |
|---|---|---|---|
| March 31, 2016 | 40,969 | 10,280 | 51,249 |
| Impairment loss provision or reversals | 401 | (431) | (30) |
| Amounts written off | (2,629) | (961) | (3,590) |
| Other | (9,518) | (5,422) | (14,940) |
| March 31, 2017 | 29,223 | 3,466 | 32,689 |
| Impairment loss provision or reversals | (873) | (178) | (1,051) |
| Amounts written off | (1,489) | (357) | (1,846) |
| Other | 779 | 107 | 886 |
| March 31, 2018 | 27,640 | 3,038 | 30,678 |

Other includes the impact from business acquisitions and divestitures and currency translation effect. Decreases of ¥8,843 million out of ¥9,518 million in trade receivables and ¥5,354 million out of ¥5,422 million in other receivables during the fiscal year ended March 31, 2017 were attributable to changes in the scope of consolidation including Hitachi Capital Corporation.

As of March 31, 2018 and 2017, the total balances of trade receivables and other receivables individually determined to be impaired were ¥71,321 million and ¥75,210 million, respectively, and the allowance for doubtful receivables corresponding to such receivables was recorded in the amounts of ¥18,951 million and ¥23,697 million, respectively.

**(iv) Liquidity Risk**

Trade payables and financial liabilities, such as long-term debts, held by the Company and its subsidiaries are exposed to liquidity risk. With respect to this risk, the Company and its subsidiaries try to optimize capital efficiency through efficient management of working capital, and maintain cash control through a centralized cash management system. They are also able to raise funds, as necessary, from capital markets through the issuance of debt and equity securities, and from commercial banks through borrowings and commitment lines. The total unused commitment lines as of March 31, 2018 are disclosed in note 30.

The following tables present the maturities of non-derivative financial liabilities. Trade payables are not included in the tables since the carrying amounts agree with the contractual cash flows and they all mature in less than one year.

Millions of yen

| | March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Within 1 year | After 1 year but not more than 5 years | More than 5 years |
| Short-term debt | 121,439 | 122,436 | 122,436 | - | - |
| Long-term debt | | | | | |
| Lease payables | 49,478 | 55,059 | 16,988 | 33,817 | 4,254 |
| Bonds | 149,837 | 156,168 | 20,979 | 62,951 | 72,238 |
| Long-term borrowings | 729,540 | 746,161 | 95,227 | 436,967 | 213,967 |

Millions of yen

| | March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Within 1 year | After 1 year but not more than 5 years | More than 5 years |
| Short-term debt | 196,357 | 197,828 | 197,828 | - | - |
| Long-term debt | | | | | |
| Lease payables | 49,703 | 54,695 | 16,447 | 34,241 | 4,007 |
| Bonds | 159,820 | 166,474 | 41,158 | 72,910 | 52,406 |
| Long-term borrowings | 770,723 | 792,830 | 146,060 | 424,487 | 222,283 |

The weighted average interest rate for short-term debt is 1.6%, and the weighted average interest rate for long-term borrowings is 0.9% with maturities ranging from 2018 to 2031.

The details on each bond issued are provided below.

Millions of yen

| Issuer | Name of bond | Issued | March 31, 2018 | March 31, 2017 | Security | Interest rates (%) | Mature in |
|---|---|---|---|---|---|---|---|
| The Company | Unsecured debenture #15 | 2013 | 10,000 | 10,000 | Unsecured | 0.3 | 2018 |
| The Company | Unsecured debenture #16 | 2013 | 30,000 | 30,000 | Unsecured | 0.8 | 2023 |
| The Company | Unsecured debenture #17 | 2013 | 20,000 | 20,000 | Unsecured | 1.4 | 2028 |
| Subsidiaries | Unsecured debentures | 2011 - 2017 | 89,837 | 99,820 | Unsecured | 0.2 - 1.2 | 2018 - 2027 |
| Total | | | 149,837 | 159,820 | | | |

The following table shows the maturities of the main types of derivatives, expressed in gross amounts, even though they are net settlement derivatives.

Millions of yen

| | | March 31, 2018 | | | |
|---|---|---|---|---|---|
| | | Within 1 year | After 1 year but not more than 5 years | More than 5 years | Total |
| Forward exchange contracts | In | 11,891 | 9,421 | - | 21,312 |
| | Out | 19,868 | 7,489 | - | 27,357 |
| Cross currency swaps | In | 164 | 30 | 4,648 | 4,842 |
| | Out | 98 | 5,234 | 746 | 6,078 |
| Interest rate swaps | In | 13 | 1,403 | - | 1,416 |
| | Out | 86 | 2,091 | 1 | 2,178 |
| Option contracts | In | 75 | 7,760 | - | 7,835 |
| | Out | 10 | - | - | 10 |

Millions of yen

| | | March 31, 2017 | | | |
|---|---|---|---|---|---|
| | | Within 1 year | After 1 year but not more than 5 years | More than 5 years | Total |
| Forward exchange contracts | In | 13,020 | 18,137 | - | 31,157 |
| | Out | 25,703 | 24,070 | - | 49,773 |
| Cross currency swaps | In | 296 | 318 | 8,300 | 8,914 |
| | Out | 797 | 3,994 | 269 | 5,060 |
| Interest rate swaps | In | 18 | 501 | - | 519 |
| | Out | 60 | 2,159 | 637 | 2,856 |
| Option contracts | In | 122 | 6,061 | - | 6,183 |
| | Out | - | - | - | - |

***(c) 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 liabilities.

**Cash and cash equivalents, Trade receivables, Short-term loans receivable, Other receivables, Short-term debt, Other payables and Trade payables**

The carrying amount approximates the fair value because of the short maturity of these instruments.

**Investments in securities and other financial assets**

The fair value of lease receivables is based on the present value of lease payments receivable calculated for each group of years to maturity using discount rates that reflect the time to maturity and credit risk.

Investment securities with quoted market prices are estimated using the quoted share prices. In the absence of an active market for investment securities, quoted prices for similar investment securities, quoted prices associated with transactions that are not distressed for identical or similar investment securities or other relevant information including market interest rate curves, referenced credit spreads or default rates, are used to determine fair value. If significant inputs of fair value measurement are unobservable, the Company uses price information provided by financial institutions to evaluate such investments. The information provided is corroborated by the income approach using its own valuation model, or the market approach using comparisons with prices of similar securities.

The fair value of long-term loans receivable is estimated based on the present value of future cash flows using the interest rate applicable to an additional loan of the same type.

Derivative assets are measured at fair value based on quoted prices associated with transactions that are not distressed, prices in inactive markets, or based on models using interest rate curves and forward and spot prices for currencies and commodities. If significant inputs are unobservable, the Company mainly uses the income approach or the market approach to corroborate relevant information provided by financial institutions and other available information.

**Long-term debt**

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using the market interest rates applicable to the same contractual terms.

**Other financial liabilities**

Derivative liabilities are measured at fair value based on quoted prices associated with transactions that are not distressed, prices in inactive markets, or based on models using interest rate curves and forward and spot prices for currencies and commodities. If significant inputs are unobservable, the Company uses mainly the income approach or the market approach to corroborate relevant information provided by financial institutions and other available information.

**(ii) Financial Instruments Measured at Amortized Cost**

The carrying amounts and estimated fair values of the financial instruments measured at amortized cost as of March 31, 2018 and 2017 are as follows.

The fair value estimated for financial assets and liabilities measured at amortized cost is classified in Level 2 of the fair value hierarchy.

Millions of yen

| | March 31, 2018 | | March 31, 2017 | |
|---|---|---|---|---|
| | Carrying amounts | Estimated fair values | Carrying amounts | Estimated fair values |
| Assets | | | | |
| Investments in securities and other financial assets | | | | |
| Lease receivables | 92,198 | 93,165 | 81,011 | 82,007 |
| Debt securities | 120,915 | 120,920 | 155,745 | 155,751 |
| Long-term loans receivable | 95,373 | 96,859 | 102,384 | 103,257 |
| Liabilities | | | | |
| Long-term debt [1] | | | | |
| Lease obligations | 49,478 | 49,723 | 49,703 | 50,027 |
| Bonds | 149,837 | 153,614 | 159,820 | 164,037 |
| Long-term borrowings | 729,540 | 734,912 | 770,723 | 777,341 |

[1] Long-term debt is included in Current portion of long-term debt and Long-term debt in the consolidated statement of financial position.

**(iii) Financial Instruments Measured at Fair Value**

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 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 that is significant 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 as of March 31, 2018 and 2017.

March 31, 2018 Millions of yen

| Class of financial instruments | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| FVTPL financial assets: | | | | |
| Investments in securities and other financial assets | | | | |
| Equity securities | - | - | 1,114 | 1,114 |
| Debt securities | 10,749 | 6,535 | 9,590 | 26,874 |
| Derivatives | - | 27,669 | 7,760 | 35,429 |
| FVTOCI financial assets: | | | | |
| Investments in securities and other financial assets | | | | |
| Equity securities | 298,307 | 669 | 113,620 | 412,596 |
| Total financial assets at fair value | 309,056 | 34,873 | 132,084 | 476,013 |
| FVTPL financial liabilities: | | | | |
| Other financial liabilities | | | | |
| Derivatives | - | 35,791 | - | 35,791 |
| Total financial liabilities at fair value | - | 35,791 | - | 35,791 |

March 31, 2017 Millions of yen

| Class of financial instruments | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| FVTPL financial assets: | | | | |
| Investments in securities and other financial assets | | | | |
| Equity securities | - | - | 704 | 704 |
| Debt securities | 11,593 | 6,814 | 8,991 | 27,398 |
| Derivatives | - | 40,724 | 6,061 | 46,785 |
| FVTOCI financial assets: | | | | |
| Investments in securities and other financial assets | | | | |
| Equity securities | 355,310 | 104 | 109,766 | 465,180 |
| Total financial assets at fair value | 366,903 | 47,642 | 125,522 | 540,067 |
| FVTPL financial liabilities: | | | | |
| Other financial liabilities | | | | |
| Derivatives | - | 57,763 | - | 57,763 |
| Total financial liabilities at fair value | - | 57,763 | - | 57,763 |

The following tables present the changes in Level 3 instruments measured on a recurring basis for the years ended March 31, 2018 and 2017.

2018 Millions of yen

| Level 3 financial assets | Equity securities | Debt securities | Derivatives | Total |
|---|---|---|---|---|
| Balance at beginning of year | 110,470 | 8,991 | 6,061 | 125,522 |
| Gain (loss) in profit or loss [1] | 66 | (62) | (7) | (3) |
| Gain in OCI [2] | 5,329 | - | - | 5,329 |
| Purchases | 3,876 | 1,350 | 1,706 | 6,932 |
| Sales and redemption | (5,349) | (652) | - | (6,001) |
| Acquisitions and divestitures | 254 | (190) | - | 64 |
| Other | 88 | 153 | - | 241 |
| Balance at end of year | 114,734 | 9,590 | 7,760 | 132,084 |
| Unrealized gain (loss) relating to financial assets held at end of year [4] | 66 | 5 | (7) | 64 |

2017 Millions of yen

| Level 3 financial assets | Equity securities | Debt securities | Derivatives | Total |
|---|---|---|---|---|
| Balance at beginning of year | 117,317 | 38,025 | 6,061 | 161,403 |
| Gain (loss) in profit or loss [1] | 16 | (192) | - | (176) |
| Loss in OCI [2] | (1,386) | - | - | (1,386) |
| Purchases | 2,471 | 2,535 | - | 5,006 |
| Sales and redemption | (3,949) | (11,365) | - | (15,314) |
| Acquisitions and divestitures | (4,532) | (19,548) | - | (24,080) |
| Transfer from Level 3 [3] | (168) | - | - | (168) |
| Other | 701 | (464) | - | 237 |
| Balance at end of year | 110,470 | 8,991 | 6,061 | 125,522 |
| Unrealized gain (loss) relating to financial assets held at end of year [4] | 40 | (197) | - | (157) |

[1] Gain (loss) in profit or loss related to FVTPL financial assets is included in Financial income and Financial expenses in the consolidated statement of profit or loss.

[2] Gain (loss) in OCI related to FVTOCI financial assets is included in Net changes in financial assets measured at fair value through OCI in the consolidated statement of comprehensive income.

[3] Transfer from Level 3 is mainly the result of an investee being listed on the stock market.

[4] Unrealized gain (loss) relating to FVTPL financial assets held at the end of year is included in Financial income and Financial expenses in the consolidated statement of profit or loss.

Written put options on non-controlling interests of subsidiaries are not included in the above table. Such put options are classified as Level 3 financial liabilities measured on a recurring basis, and changes in fair value are recognized in Capital surplus. The fair value of the put options above as of March 31, 2018 and 2017 were ¥17,098 million and ¥14,495 million, respectively, included in Other financial liabilities in the consolidated statement of financial position.

Fair values are measured by the finance departments in accordance with the Company’s policies and procedures. Valuation models are determined so that they reflect each financial instrument’s nature, characteristics and risks most appropriately. The finance departments continually examine changes in important inputs that could affect the fair value. In case the fair value of a financial instrument was significantly impaired, administrators review and approve the impairment loss.

Equity instruments 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 equity instruments designated as FVTOCI and their fair values.

March 31, 2018 Millions of yen

| Principal FVTOCI financial assets | Fair value |
|---|---|
| Renesas Electronics Corporation | 99,007 |
| Western Digital Corporation | 61,267 |
| JECC Corporation | 20,139 |
| Central Japan Railway Company | 18,117 |
| Yungtay Engineering Co., Ltd. | 9,823 |
| World Trade Center Building, Inc. | 9,214 |
| East Japan Railway Company | 8,011 |
| Honda Motor Co., Ltd. | 7,468 |
| Shin-Etsu Chemical Co., Ltd. | 7,265 |
| Nippon Steel Kowa Real Estate Co., Ltd. | 7,214 |

March 31, 2017 Millions of yen

| Principal FVTOCI financial assets | Fair value |
|---|---|
| Renesas Electronics Corporation | 149,055 |
| Western Digital Corporation | 57,869 |
| JECC Corporation | 19,298 |
| Central Japan Railway Company | 16,326 |
| Hitachi Maxell, Ltd. | 15,835 |
| Yungtay Engineering Co., Ltd. | 9,252 |
| World Trade Center Building, Inc. | 9,214 |
| Nippon Steel Kowa Real Estate Co., Ltd. | 8,693 |
| East Japan Railway Company | 7,875 |
| Honda Motor Co., Ltd. | 6,830 |

See note 22 for dividends received from investment securities classified as FVTOCI financial assets.

Accumulated gains and losses on valuation of FVTOCI financial assets are reclassified into retained earnings when derecognized during the fiscal year. The net gains reclassified, net of taxes, for the years ended March 31, 2018 and 2017 were ¥17,891 million and ¥15,161 million, respectively. These financial assets were derecognized upon disposal of shares after reviewing particular business relations, or acquisitions and divestitures.

The information on FVTOCI financial assets that were derecognized for the years ended March 31, 2018 and 2017 is as follows:

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Fair value at the time of derecognition | 60,044 | 42,482 |
| Accumulated gains at the time of derecognition | 23,449 | 21,802 |

***(d) 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. Derivatives designated as a fair value hedge include forward exchange contracts associated with operating transactions, cross currency swaps agreements and interest rate 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 transactions are recognized in OCI. AOCI is subsequently reclassified into profit or loss when the hedged items affect profit or loss for the period.

**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 debt are recognized in OCI. AOCI is subsequently reclassified to interest charges 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 between April 2018 and March 2025.

The fair values of the main types of derivatives designated as hedging instruments are as follows:

Millions of yen

| | March 31, 2018 | | March 31, 2017 | |
|---|---|---|---|---|
| | Asset | Liability | Asset | Liability |
| Fair value hedge | | | | |
| Forward exchange contracts | 3,610 | 1,175 | 1,450 | 3,527 |
| Cross currency swaps | 4,119 | 4,671 | 8,774 | 4,339 |
| Interest rate swaps | 798 | 42 | 352 | 69 |
| Total | 8,527 | 5,888 | 10,576 | 7,935 |
| Cash flow hedge | | | | |
| Forward exchange contracts | 16,046 | 13,755 | 28,651 | 27,666 |
| Cross currency swaps | 718 | 602 | - | 721 |
| Interest rate swaps | 618 | 2,136 | 167 | 2,787 |
| Total | 17,382 | 16,493 | 28,818 | 31,174 |

The fair values of derivative assets and liabilities for which hedge accounting was not applied as of March 31, 2018 and 2017 were ¥9,507 million and ¥7,383 million for derivative assets, and ¥13,245 million and ¥18,626 million for derivative liabilities, respectively.

The contract amounts and notional amounts of the main types of derivatives are as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Forward exchange contracts | | |
| To sell foreign currencies | 716,035 | 717,979 |
| To buy foreign currencies | 188,085 | 168,406 |
| Cross currency swaps | | |
| To sell foreign currencies | 17,786 | 13,187 |
| To buy foreign currencies | 108,760 | 129,875 |
| Interest rate swaps | 274,490 | 324,772 |

The following table, "Effective portion of derivatives designated as hedging instruments and related hedged items" shows the effects of derivative instruments for fair value hedges in the consolidated statement of profit or loss for the year ended March 31, 2018.

**Effective Portion of Derivatives Designated as Hedging Instruments and Related Hedged Items**

Hedging instruments — Millions of yen

| Derivatives | Recognized in profit or loss | Amount recognized |
|---|---|---|
| Forward exchange contracts | Financial expenses | (13,136) |
| Cross currency swaps | Financial expenses | (5,515) |
| Total | | (18,651) |

Hedged items — Millions of yen

| Recognized in statement of financial position | Recognized in profit or loss | Amount recognized |
|---|---|---|
| Trade receivables, other current assets and Short-term debt | Financial expenses | 12,493 |
| Long-term debt | Financial expenses | 5,580 |
| Total | | 18,073 |

The amounts recognized in the consolidated statement of profit or loss and consolidated statement of comprehensive income for the year ended March 31, 2018, related to cash flow hedges are detailed in the following tables:
"Gain (loss) recognized in OCI, Effective portion of derivatives designated as hedging instruments,"
"Gain (loss) reclassified from OCI into profit or loss, Effective portion of derivatives designated as hedging instruments," and
"Gain (loss) on derivatives designated as cash flow hedging instruments, ineffective portion."

**Gain (Loss) Recognized in OCI, Effective Portion of Derivatives Designated as Hedging Instruments**

| Derivatives | Millions of yen |
|---|---|
| Forward exchange contracts | (6,464) |
| Cross currency swaps | 837 |
| Interest rate swaps | 2,184 |
| Total | (3,443) |

**Gain (Loss) Reclassified from OCI into Profit or Loss, Effective Portion of Derivatives Designated as Hedging Instruments**

| Derivatives | Recognized in profit or loss | Millions of yen |
|---|---|---|
| Forward exchange contracts | Cost of sales and Financial expenses | 9,429 |
| Interest rate swaps | Cost of sales and Interest charges | (1,075) |
| Total | | 8,354 |

**Gain (Loss) on Derivatives Designated as Cash Flow Hedging Instruments, Ineffective Portion**

| Derivatives | Recognized in profit or loss | Millions of yen |
|---|---|---|
| Forward exchange contracts | Financial expenses | 4,085 |
| Total | | 4,085 |

The following table, "Effective portion of derivatives designated as hedging instruments and related hedged items" shows the effects of derivative instruments for fair value hedges in the consolidated statement of profit or loss for the year ended March 31, 2017.

**Effective Portion of Derivatives Designated as Hedging Instruments and Related Hedged Items**

Hedging instruments — Millions of yen

| Derivatives | Recognized in profit or loss | Amount recognized |
|---|---|---|
| Forward exchange contracts | Financial expenses | 18,495 |
| Cross currency swaps | Financial expenses | 12,973 |
| Total | | 31,468 |

Hedged items — Millions of yen

| Recognized in statement of financial position | Recognized in profit or loss | Amount recognized |
|---|---|---|
| Trade receivables, other current assets and trade payables | Financial expenses | (19,246) |
| Long-term debt | Financial expenses | (13,242) |
| Total | | (32,488) |

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

**Gain (Loss) Recognized in OCI, Effective Portion of Derivatives Designated as Hedging Instruments**

| Derivatives | Millions of yen |
|---|---|
| Forward exchange contracts | 34,558 |
| Cross currency swaps | 24,354 |
| Interest rate swaps | 7,754 |
| Total | 66,666 |

**Gain (Loss) Reclassified from OCI into Profit or Loss, Effective Portion of Derivatives Designated as Hedging Instruments**

| Derivatives | Recognized in profit or loss | Millions of yen |
|---|---|---|
| Forward exchange contracts | Cost of sales and Financial expenses | 1,512 |
| Cross currency swaps | Financial expenses | (11,353) |
| Interest rate swaps | Cost of sales and Interest charges | (2,364) |
| Total | | (12,205) |

**Gain (Loss) on Derivatives Designated as Cash Flow Hedging Instruments, Ineffective Portion**

| Derivatives | Recognized in profit or loss | Millions of yen |
|---|---|---|
| Forward exchange contracts | Financial expenses | (6,569) |
| Total | | (6,569) |

***(e) Securitization of Financial Assets***

For the purpose of providing diversified and stable financing, the Company and certain subsidiaries securitize certain financial assets, and transfer trade and lease receivables through certain third-party financial institutions or structured entities formed by these financial institutions. The Company does not consolidate such structured entities used for securitization purposes since it has been determined that they are not controlled by the Company.

These unconsolidated structured entities used for securitization purposes are operated in the ordinary course of business of the financial institutions, and they procure funds by issuing commercial paper and other borrowings. Basically, investors in these structured entities only have recourse to the assets owned by the entity itself, but not to any other assets held by the Company or its subsidiaries. The amount of assets transferred by the Company and certain subsidiaries is considerably small compared to the total assets of the structured entities sponsored by the financial institutions that purchase a large amount of assets from entities other than the Company and certain subsidiaries. The Company and certain subsidiaries have only limited exposure to the risks borne by these structured entities. The majority of the involvement with these structured entities used for securitization purposes by the Company and certain subsidiaries concerns the servicing of assets. The Company and certain subsidiaries do not provide any non-contractual support to the structured entities and have not made any implicit support arrangements with them.

For the securitizations of financial assets by the Company and certain subsidiaries, which resulted in derecognizing the financial assets in their entirety, the Company and certain subsidiaries retain no significant continuing involvement. For other securitizations of financial assets, the Company and certain subsidiaries do not derecognize the financial assets in their entirety when they retain substantially all credit risks and economic value related to the transferred financial assets through holding subordinated interests, and the carrying amounts of these financial assets are not material.

**(27) Pledged Assets**

As a general contractual term for long-term and short-term debt, banks may demand collateral and guarantees for present and future obligations, and retain rights to offset the liabilities with bank deposits when repayment is overdue or any breach of contract occurs.

Per trustee agreements of secured bonds and particular secured or unsecured loan agreements, trustees or lenders generally have the right to pre-approve profit distributions including dividend payments and new stock issues, as well as the right to demand additional collateral or mortgage.

The Company and its subsidiaries pledged a portion of their assets as collateral primarily for bank loans as follows:

Millions of yen

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Trade receivables | 9,349 | 6,013 |
| Inventories | 10,292 | 13,528 |
| Other current assets | 37 | 575 |
| Investments in securities and other financial assets | 890 | 882 |
| Land | 185 | 639 |
| Buildings and structures | 1,592 | 8,802 |
| Machinery and other property, plant and equipment | 37,161 | 38,443 |
| Total | 59,506 | 68,882 |

**(28) Principal Subsidiaries**

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

| Reporting segment | Name of subsidiary | Business location | Ownership percentage of voting rights (%) |
|---|---|---|---|
| Information & Telecommunication Systems | Hitachi Information & Telecommunication Engineering, Ltd. | Yokohama, Kanagawa | 100.0 |
| Information & Telecommunication Systems | Hitachi-Omron Terminal Solutions, Corp. | Shinagawa-ku, Tokyo | 55.0 |
| Information & Telecommunication Systems | Hitachi Solutions, Ltd. | Shinagawa-ku, Tokyo | 100.0 |
| Information & Telecommunication Systems | Hitachi Systems, Ltd. | Shinagawa-ku, Tokyo | 100.0 |
| Information & Telecommunication Systems | Hitachi Computer Products (America), Inc. | Oklahoma, U.S.A. | 100.0 |
| Information & Telecommunication Systems | Hitachi Consulting Corporation | Texas, U.S.A. | 100.0 |
| Information & Telecommunication Systems | Hitachi Financial Equipment System (Shen Zhen) Co., Ltd. | Shenzhen, China | 100.0 |
| Information & Telecommunication Systems | Hitachi Information & Telecommunication Systems Global Holding Corporation | California, U.S.A. | 100.0 |
| Information & Telecommunication Systems | Hitachi Payment Services Private Limited | Chennai, India | 100.0 |
| Information & Telecommunication Systems | Hitachi Vantara Corporation | California, U.S.A. | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi Building Systems Co., Ltd. | Chiyoda-ku, Tokyo | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi-GE Nuclear Energy, Ltd. | Hitachi, Ibaraki | 80.0 |
| Social Infrastructure & Industrial Systems | Hitachi Industrial Equipment Systems Co., Ltd. | Chiyoda-ku, Tokyo | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi Industry & Control Solutions, Ltd. | Hitachi, Ibaraki | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi Plant Construction, Ltd. | Toshima-ku, Tokyo | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi Plant Services Co., Ltd. | Toshima-ku, Tokyo | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi Power Solutions Co., Ltd. | Hitachi, Ibaraki | 100.0 |
| Social Infrastructure & Industrial Systems | Hitachi Elevator (China) Co., Ltd. | Guangzhou, China | 70.0 |
| Social Infrastructure & Industrial Systems | Hitachi Rail Europe Ltd. | London, U.K. | 100.0 |
| Social Infrastructure & Industrial Systems | Horizon Nuclear Power Limited | Gloucester, U.K. | 100.0 |
| Social Infrastructure & Industrial Systems | Sullair US Purchaser, Inc. | Indiana, U.S.A. | 100.0 |
| Electronic Systems & Equipment | Hitachi High-Technologies Corporation | Minato-ku, Tokyo | 51.8 |

| Reporting segment | Name of subsidiary | Business location | Ownership percentage of voting rights (%) |
|---|---|---|---|
| Electronic Systems & Equipment | Hitachi Kokusai Electric Inc. | Minato-ku, Tokyo | 75.0 |
| Construction Machinery | Hitachi Construction Machinery Co., Ltd. | Taito-ku, Tokyo | 51.5 |
| High Functional Materials & Components | Hitachi Chemical Company, Ltd. | Chiyoda-ku, Tokyo | 51.4 |
| High Functional Materials & Components | Hitachi Metals, Ltd. | Minato-ku, Tokyo | 53.5 |
| Automotive Systems | Clarion, Co., Ltd. | Saitama, Saitama | 64.0 |
| Automotive Systems | Hitachi Automotive Systems, Ltd. | Hitachinaka, Ibaraki | 100.0 |
| Automotive Systems | Hitachi Automotive Systems Americas, Inc. | Kentucky, U.S.A. | 100.0 |
| Smart Life & Ecofriendly Systems | Hitachi Appliances, Inc. | Minato-ku, Tokyo | 100.0 |
| Smart Life & Ecofriendly Systems | Hitachi Consumer Marketing, Inc. | Minato-ku, Tokyo | 100.0 |
| Smart Life & Ecofriendly Systems | Hitachi Consumer Products (Thailand), Ltd. | Prachinburi, Thailand | 80.1 |
| Others | Hitachi-LG Data Storage, Inc. | Minato-ku, Tokyo | 51.0 |
| Others | Hitachi Life, Ltd. | Hitachi, Ibaraki | 100.0 |
| Others | Hitachi Urban Investment, Ltd. | Chiyoda-ku, Tokyo | 100.0 |
| Others | Hitachi America, Ltd. | California, U.S.A. | 100.0 |
| Others | Hitachi Asia Ltd. | Singapore | 100.0 |
| Others | Hitachi (China), Ltd. | Beijing, China | 100.0 |
| Others | Hitachi Europe Ltd. | Maidenhead, U.K. | 100.0 |
| Others | Hitachi India Pvt. Ltd. | New Delhi, India | 100.0 |
| - | Other 839 companies | - | - |

## (29) Related Party Transactions

### *(a) Related Party Transactions*

The Company's and its subsidiaries' receivable and payable balances with associates and joint ventures are as follows:

Millions of yen

| With associates | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Trade receivables | 121,759 | 115,583 |
| Short-term loans receivable [1] | 10,015 | 6,983 |
| Long-term loans receivable [2] | 73,951 | 83,502 |
| Trade payables | 103,553 | 118,666 |
| Other payables [3] | 12,563 | 18,369 |
| Lease obligations [4] | 17,592 | 18,230 |

Millions of yen

| With joint ventures | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Trade receivables | 101,388 | 184,491 |
| Long-term loans receivable [2] | 18,079 | 16,036 |
| Trade payables | 14,341 | 4,358 |

[1] Included in Investments in securities and other financial assets in the consolidated statement of financial position.
[2] Included in Investments in securities and other financial assets in the consolidated statement of financial position.
[3] Included in Other financial liabilities in the consolidated statement of financial position.
[4] Included in Current portion of long-term debt and Long-term debt in the consolidated statement of financial position.

Revenue and purchase transactions of the Company and its subsidiaries with associates and joint ventures are as follows:

Millions of yen

| With associates | 2018 | 2017 |
|---|---|---|
| Revenues | 409,826 | 298,387 |
| Purchases | 364,490 | 191,408 |

Millions of yen

| With joint ventures | 2018 | 2017 |
|---|---|---|
| Revenues | 150,675 | 137,077 |
| Purchases | 15,684 | 28,989 |

### *(b) Compensation for Directors and Executive Officers of the Company*

Millions of yen

| | 2018 | 2017 |
|---|---|---|
| Basic remuneration, year-end allowance and performance-linked compensation | 3,054 | 2,437 |
| Medium and long-term incentive compensation (Stock options as stock-based compensation, etc.) | 490 | 300 |
| Total | 3,544 | 2,737 |

**(30) Commitments and Contingencies**

***(a) Loan Commitments***

**(i) Loan Commitments to Associates and Others**

The Company provides loan commitments to associates and others. The outstanding balance of loan commitments as of March 31, 2018 is as follows:

Millions of yen

| | March 31, 2018 |
|---|---|
| Total commitments available | 73,002 |
| Less amount utilized | 71,040 |
| Balance available | 1,962 |

Since some loan commitments require credit approval before execution, the amount of total commitments available may not be necessarily utilized in full.

**(ii) Commitments with Financial Institutions**

The Company and certain subsidiaries have line of credit arrangements with banks in order to secure efficient financing for business operations. The total unused line of credit as of March 31, 2018 amounted to ¥503,280 million, primarily belonging to the Company. The Company has commitment line agreements with a number of banks and pays commitment fees as consideration. These commitment agreements generally provide a one year term with renewal at the end of the term. The unused line of credit under these arrangements as of March 31, 2018 amounted to ¥200,000 million. The Company also maintains other commitment line agreements with several financial institutions, with terms of three years ending in July 2019. The unused line of credit under these arrangements as of March 31, 2018 amounted to ¥200,000 million.

***(b) Commitments for Acquisition of Assets***

As of March 31, 2018, outstanding commitments made to purchase property, plant and equipment were ¥98,978 million.

***(c) Guarantee Obligations***

The Company and certain subsidiaries provide debt guarantees to their associates, joint ventures and third parties. As of March 31, 2018, the balance of the guarantee obligations was ¥76,097 million. It consisted of guarantees to associates of ¥29,779 million, to joint ventures of ¥28,791 million and to third parties of ¥17,527 million.

***(d) Litigation***

In June 2009, a subsidiary in Japan received a grand jury subpoena in connection with the investigation conducted by the Antitrust Division of the U.S. Department of Justice and received requests for information from the European Commission in respect of alleged antitrust violations relating to optical disk drives. In November 2011, the subsidiary in Japan paid a fine in relation to the investigation from the Antitrust Division of the U.S. Department of Justice. In July 2012, the subsidiary in Japan received a statement of objections from the European Commission in respect of alleged antitrust violations. In October 2015, the European Commission announced the amount of the fine for the subsidiary in Japan in respect of alleged antitrust violations, and in June 2016, two subsidiaries in Japan and Korea paid the fines.

In July 2011, a subsidiary in the U.S.A. received a grand jury subpoena from the Antitrust Division of the U.S. Department of Justice, the Company and a subsidiary in Europe received requests for information from the European Commission, and a subsidiary in Canada received requests for information from the Canadian Competition Bureau, all in respect of alleged antitrust violations relating to automotive equipment. In November 2013, a subsidiary in Japan, which had been also primarily responsible for responding to the investigation from the Antitrust Division of the U.S. Department of Justice, paid fines. In January 2016, the Company and the subsidiary in Japan which had been also primarily responsible for responding to the investigation from the European Commission reached a settlement with the European Commission, and paid fines in April 2016.

In April 2014, a subsidiary in the U.S.A. received a grand jury subpoena in connection with the investigation conducted by the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to automotive equipment. In August 2016, a subsidiary in Japan, which had been also primarily responsible for responding to the investigation, concluded an agreement in which the subsidiary will pay fines, and paid fines in March 2017.

In June 2014, a subsidiary in Japan was investigated by the Japan Fair Trade Commission in respect of alleged antitrust violations relating to capacitors. In March 2016, the subsidiary received a notice that the investigation was over from the Japan Fair Trade Commission. The subsidiary in Japan and subsidiaries in Europe, the U.S.A., and others are being investigated by competition authorities in each country or region, all in respect of alleged antitrust violations relating to capacitors. In April 2016, the subsidiary in Japan concluded an agreement in which the subsidiary will pay fines, and in June 2016, the subsidiary in Japan paid the fines. In March 2018, the subsidiary in Japan, which had been also primarily responsible for responding to the investigation from the European Commission, got the decision that the subsidiary was charged fines, and paid fines in June 2018.

In addition to the above, the Company, its subsidiaries and associates have cooperated with the competent authorities. Depending upon the outcome of these matters, fines or surcharge payments, the amount of which is uncertain, may be imposed on them. Also, in connection with pending and settled antitrust violations, civil disputes, including class action lawsuits, involving the Company and some of these companies have arisen in a number of countries, including in the U.S.A. and Canada. An amount, which was considered to be a reasonable estimate in respect of these claims, was accrued for the potential losses in relation to certain of these civil disputes.

In August 2012, a subsidiary in Europe received a complaint filed by a customer in Europe seeking compensation for consequential losses of EUR 1,058 million (¥138,167 million), additional costs and interest allegedly incurred by the delay in the construction process of a power plant against, jointly and severally, the Company, the subsidiary in Europe, a consortium including the Company and the subsidiary in Europe, and two other companies. In addition, in October 2013 and February 2016, the subsidiary in Europe received additional complains requesting compensation for consequential losses of EUR 239 million (¥31,258 million) and EUR 105 million (¥13,657 million), respectively. In June 2016, the Company was informed that the customer added an associate in Europe as one of the defendants. Although the Company, the subsidiary and the associate in Europe and the consortium will vigorously defend themselves against this lawsuit, there can be no assurance that they will not be held liable for any amounts claimed.

In December 2013, the Company, a subsidiary in Europe and a consortium consisting of the Company and the subsidiary in Europe, jointly and severally received a request from a customer in Europe to refer a dispute to arbitration demanding EUR 637 million (¥83,163 million) in compensation for consequential losses allegedly incurred by the delay in the construction process of a power plant. In November 2016, an arbitral award was issued by an arbitral tribunal and the award was paid in February 2017. In addition, a settlement regarding a part of unsettled matters was paid in July 2017. The customer, the Company, the subsidiary in Europe and the consortium consisting of the Company and the subsidiary in Europe continue their negotiations to achieve a final settlement regarding other unsettled matters.
In addition, in December 2015, these companies, jointly and severally received a request for arbitration from the customer demanding EUR 161 million (¥21,056 million) in compensation primarily for performance related deficiencies of a power plant. As of March 31, 2018, the amount of compensation claimed by the customer was changed to EUR 101 million (¥13,299 million). Although, the Company, the subsidiary in Europe and the consortium consisting of the Company and the subsidiary in Europe will vigorously defend themselves against this lawsuit, there can be no assurance that they will not be held liable for any amounts claimed.

In January 2016, a subsidiary in Europe notified its customer in Europe that the subsidiary had commenced arbitration proceedings to resolve a disagreement about construction of a power plant, and then the arbitration was going. Although a counterclaim was filed by the customer, the subsidiary concluded a settlement in April 2018. Thus, the subsidiary and the customer settled their claims in May 2018.

In November 2017, a subsidiary in Japan received a complaint that was filed against three companies, namely a construction company of a condominium complex, the subsidiary and a secondary subcontractor, by a contractee in Japan seeking approximately ¥45.9 billion in compensation for expenses allegedly incurred arising from concerns over partial deficiencies of piling work during the construction phases of the condominium complex, which the subsidiary contracted as the primary subcontractor.
In relation to the aforementioned lawsuit, the subsidiary in Japan received a complaint that was filed against the subsidiary and the secondary subcontractor, by the construction company of the condominium complex seeking approximately ¥49.6 billion in compensation for expenses allegedly incurred arising from the aforementioned lawsuit. Although the subsidiary in

Japan will address these claims and explain its position, there can be no assurance that it will not be held liable for any amounts claimed.

In December 2017, a subsidiary and an associate in Europe received a complaint filed by a customer in Europe seeking compensation for consequential losses of EUR 263 million (¥34,333 million) and interest allegedly incurred by performance defects of a power plant. Although the subsidiary and the associate in Europe will vigorously defend themselves against this lawsuit, there can be no assurance that they will not be held liable for any amounts claimed.

The Company and its subsidiaries execute a number of business reorganizations, including mergers, acquisitions and divestitures. Contracts for these reorganizations include clauses for transaction price adjustments subsequent to the reorganizations. There is a possibility products or services provided by the Company and its subsidiaries contain defects. As the result of price adjustments, or in compensation for defects in products or services etc. there is a possibility that the Company pays for any amounts.

Depending upon the outcome of the above legal proceedings, there may be an adverse effect on the consolidated financial position or results of operations. Currently, the Company is unable to estimate the adverse effect, if any, of many of these proceedings. The actual amount of fines, surcharge payments or any other payments resulting from these legal proceedings may be different from the accrued amounts.

In addition to the above, the Company and its subsidiaries are subject to legal proceedings and claims which have arisen in the ordinary course of business and have not been finally adjudicated. These actions when ultimately concluded and determined will not, in the opinion of management, have a material adverse effect on the consolidated financial statements of the Company and subsidiaries.

***(e) Other***

On February 1, 2014 (hereinafter the “effective date of company split”), the Company and Mitsubishi Heavy Industries, Ltd. (hereinafter “MHI”) integrated their thermal power generation systems businesses into MHI’s consolidated subsidiary, MITSUBISHI HITACHI POWER SYSTEMS, LTD. (hereinafter “MHPS”), through a spin-off in the form of an absorption-type company-split. As part of this business integration, assets and liabilities associated with boiler construction projects for Medupi and Kusile Power Stations for which the Company’s consolidated subsidiaries in the Republic of South Africa, Hitachi Power Africa Proprietary Limited (hereinafter “HPA”) and other companies received orders in 2007, as well as their contractual status in relation to customers, and rights and obligations thereof were transferred from HPA to MHI’s consolidated subsidiary, Mitsubishi Hitachi Power Systems Africa Proprietary Limited (hereinafter “MHPS Africa”) (hereinafter, the “Transfer of South African Business”).

Under the agreement executed between the Company and MHI regarding the Transfer of South African Business, the Company and HPA shall be liable for contingent liabilities resulting from events that occurred before the effective date of company split as well as claims that had already been made as of the said date, while MHPS and MHPS Africa shall be held responsible for the execution of business on and after the effective date of company split. Given these conditions, it has been agreed upon to determine the final transfer price upon agreement on future construction schedule as of the effective date of company split and confirmation of estimated project cash flows based on such schedule between the parties, and settle the difference with the provisional price.

On March 31, 2016, MHI requested the Company to pay ZAR 48,200 million (approximately ¥379.0 billion when ZAR 1 = ¥7.87) to MHPS Africa as a portion of transfer price adjustment, etc. The Company replied to MHI on April 6, 2016 that the details of the demand letter lacked legal grounds under any agreement and thus the Company cannot accept it.

On January 31, 2017, MHI extended the amount above and requested the Company to pay ZAR 89,700 million (approximately ¥763.4 billion when ZAR 1 = ¥8.51). The Company again replied to MHI that the Company cannot accept the request since it lacks legal grounds under any agreement as does the request of March 2016. On August 21, 2017, the Company received a notice from the Japan Commercial Arbitration Association (hereinafter, the “JCAA”) stating that MHI had filed a request for arbitration with the JCAA on July 31, 2017 in order to claim for payment of ZAR 90,779 million (approximately ¥774.3 billion when ZAR 1 = ¥8.53) as the said transfer price adjustment, etc. against the Company. The Company will address this claim and explain its position in the arbitration proceedings.

The Company has recorded provisions based on reasonable estimates for the aforementioned agreement related to the South African Business. The amount of the said transfer price adjustment, etc. to be determined under the agreement may be different from the accrued amount.

In June 2018, Hitachi Chemical Company, Ltd. (hereinafter “Hitachi Chemical”), a consolidated subsidiary of the Company, found that, for certain products of the industrial-use lead-acid batteries business, pre-shipment testing to measure battery capacity was performed in a different manner from that which had been originally agreed upon with customers, and inspection reports containing different data from measurement results were provided to customers. Hitachi Chemical plans to set up a special investigation committee in order to investigate related facts and causes as well as to notify customers, etc. The outcome of the investigation by the committee or discussions with customers may adversely affect the consolidated financial position or results of operations in the future. As it is not possible to reasonably estimate the impact on the consolidated financial statements at this time, no amount has been reflected in the consolidated financial statements for the fiscal year ended March 31, 2018.

**(31) Subsequent Events**

The Company announced that the Board of Directors held on April 27, 2018, resolved to partially amend the Company's Articles of Incorporation to change the number of shares per one unit, and to propose a share consolidation to the 149th Annual General Meeting of Shareholders of the Company held on June 20, 2018. The proposals were approved at the Annual General Meeting of Shareholders.

***(a) Change in the number of shares per one unit***

**(i) Reasons for change**

Based on the “Action Plan for Consolidating Trading Units,” Japanese stock exchanges promote the standardization of trading units for common shares issued by all listed domestic companies at 100 shares, in order to improve convenience for investors and other market participants and has set the deadline for the transition to the 100-share trading unit on October 1, 2018.

Following this decision, the Company decided to change the number of shares per one unit from 1,000 shares to 100 shares.

**(ii) Details of change**

The number of shares per one unit stipulated in the Company’s Articles of Incorporation will be changed from 1,000 shares to 100 shares.

***(b) Share consolidation***

**(i) Reasons for consolidation**

The Company decided to consolidate every five Hitachi shares into one share (hereinafter the “share consolidation”) in order to adjust the investment unit (price of shares per one unit) following the change in the number of shares per one unit from 1,000 shares to 100 shares.

**(ii) Details of consolidation**

(a) Class of shares to be consolidated: Common stock

(b) Consolidation ratio: On October 1, 2018, shares owned by shareholders recorded in the latest register of shareholders as of September 30, 2018, will be consolidated at the ratio of five (5) shares to one (1) share.

**(iii) Number of shares reduced through consolidation**

| | |
|---|---|
| Total number of outstanding shares before share consolidation (as of March 31, 2018) | 4,833,463,387 shares |
| Number of shares reduced through share consolidation | 3,866,770,710 shares |
| Total number of outstanding shares after share consolidation | 966,692,677 shares |

Note: "Number of shares reduced through share consolidation" and "Total number of outstanding shares after share consolidation" are theoretically calculated based on "Total number of outstanding shares before share consolidation (as of March 31, 2018)" and the consolidation ratio of share consolidation, which may differ from the actual figures.

**(iv) Treatment of fractional shares less than one share**

If any fractional shares less than one share arise as a result of the share consolidation, in accordance with the provisions of the Companies Act of Japan, the Company will sell all such fractional shares and distribute the proceeds to the shareholders holding such fractional shares on a pro rata basis.

**(v) Change in total shares authorized to be issued**

Total shares authorized to be issued will be changed from 10,000,000,000 shares to 2,000,000,000 shares on October 1, 2018.

***(c) Effects on per share information***

Assuming that the share consolidation was effective at the beginning of the fiscal year ended March 31, 2017, per share information for the fiscal year ended March 31, 2018 and 2017 are as follows.

Yen

| | 2018 | 2017 |
|---|---|---|
| EPS from continuing operations, attributable to Hitachi, Ltd. stockholders | | |
| Basic | 392.52 | 245.66 |
| Diluted | 392.17 | 245.58 |
| EPS from discontinued operations, attributable to Hitachi, Ltd. stockholders | | |
| Basic | (16.59) | (6.16) |
| Diluted | (16.58) | (6.16) |
| EPS attributable to Hitachi, Ltd. stockholders | | |
| Basic | 375.93 | 239.49 |
| Diluted | 375.60 | 239.42 |

**(32) Approval of Consolidated Financial Statements**

The consolidated financial statements were approved on June 29, 2018 by Toshiaki Higashihara, President and CEO of the Company.

# Independent Auditor's Report

To the Stockholders and Board of Directors of
Hitachi, Ltd.

We have audited the accompanying consolidated financial statements of Hitachi, Ltd. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended and notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi, Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

/s/ Ernst & Young ShinNihon LLC

June 29, 2018
Tokyo, Japan

(Translation)

Following is an English translation of the Internal Control Report filed under the Financial Instruments and Exchange Act of Japan. We have made the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

[Cover]

| | |
|---|---|
| [Document Filed] | Internal Control Report |
| [Applicable Law] | Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| [Filed with] | Director, Kanto Local Finance Bureau |
| [Filing Date] | June 29, 2018 |
| [Company Name] | Kabushiki Kaisha Hitachi Seisakusho |
| [Company Name in English] | Hitachi, Ltd. |
| [Title and Name of Representative] | Toshiaki Higashihara, President & CEO |
| [Name and title of CFO] | Mitsuaki Nishiyama, Senior Vice President and Executive Officer |
| [Address of Head Office] | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo |
| [Place Where Available for Public Inspection] | Tokyo Stock Exchange, Inc.<br>(2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)<br>Nagoya Stock Exchange, Inc.<br>(8-20, Sakae 3-chome, Naka-ku, Nagoya) |

1. Matters Related to Basic Framework of Internal Control over Financial Reporting

Mr. Toshiaki Higashihara, President & CEO, and Mr. Mitsuaki Nishiyama, Senior Vice President and Executive Officer, are responsible for establishing and maintaining internal control over financial reporting of Hitachi, Ltd. (the "Company") and have established and maintained internal control over financial reporting in accordance with the basic framework for internal control set forth in the "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

The internal control over financial reporting is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that internal control over financial reporting may not completely prevent or detect misstatements.

2. Matters Related to Scope of Assessment, Record Date, and Assessment Procedure

We assessed the effectiveness of our internal control over financial reporting on the record date as of March 31, 2018. We made this assessment in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In making this assessment, we evaluated internal control which may have a material effect on the entire financial reporting on a consolidated basis ("company-level controls") and based on the result of this assessment, we appropriately selected business processes to be evaluated, analyzed these selected business processes, identified key controls that may have a material impact on the reliability of our financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of our internal controls.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries, equity-method associates and joint ventures, from the perspective of the materiality that may affect the reliability of our financial reporting. The materiality that may affect the reliability of our financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. We confirmed that we had reasonably determined the scope of assessment of internal controls over business processes in light of the results of assessment of company-level controls conducted for the Company, its consolidated subsidiaries, equity-method associates and joint ventures. We did not include a part of consolidated subsidiaries, equity-method associates and joint ventures which do not have any quantitatively or qualitatively material impact on the consolidated financial statements in the scope of assessment of company-level controls.

Regarding the scope of assessment of internal control over business processes, we accumulated business units in descending order of total revenues (after elimination of intercompany transactions) for the previous fiscal year, and those business units whose combined amount of revenues reaches approximately 80% of total revenues on a consolidated basis were selected as "significant business units." In addition, some of our equity-method associates and joint ventures which have a significant effect to our consolidated financial statements were selected as "significant business units." At the selected significant business units, we included, in the scope of assessment, those business processes leading to revenues, accounts receivables and inventories and those business processes relating to greater likelihood of material misstatements and significant account involving estimates or forecasts as significant accounts that may have a material impact on our business objectives. Further, not only at selected significant business units, but also at other business units, we added to the scope of assessment, as business processes having greater materiality considering their impact on the financial reporting, those business processes relating to businesses or operations dealing with high-risk transactions.

3. Matters Related to Results of Assessment

As a result of the assessment above, we concluded that our internal control over financial reporting was effective as of March 31, 2018.

4. Supplementary Matters

None.

5. Special Notes

None.

# TRANSLATION

Following is an English translation of the Independent Auditors' Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

There are differences between an audit of internal control over financial reporting under the Financial Instruments and Exchange Act and an audit of internal control over financial reporting conducted under the attestation standards established by the American Institute of Certified Public Accountants.
In an audit of internal control over financial reporting under the Financial Instruments and Exchange Act, the auditors express an opinion on management's report on internal control over financial reporting, and do not express an opinion on the Company's internal control over financial reporting taken as a whole.

## Independent Auditors' Report
## (filed under the Financial Instruments and Exchange Act of Japan)

June 29, 2018

Mr. Toshiaki Higashihara, President & CEO
Hitachi, Ltd.

**Ernst & Young ShinNihon LLC**

| | |
|---|---|
| Designated and Engagement Partner, Certified Public Accountant: | Takashi Ouchida |
| Designated and Engagement Partner, Certified Public Accountant: | Takuya Tanaka |
| Designated and Engagement Partner, Certified Public Accountant: | Ken Sudo |

**[Audit of Financial Statements]**

Pursuant to the Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated statement of financial position as at March 31, 2018 of Hitachi, Ltd. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, including notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards pursuant to the provision of Article 93 of the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Audit Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as at March 31, 2018, and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards.

**[Audit of Internal Control]**

Pursuant to the Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of the Company and its consolidated subsidiaries as of March 31, 2018.

**Management's Responsibility for the Report on Internal Control**

The Company's management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in conformity with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

**Auditors' Responsibility**

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit as independent position. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditors' judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the consolidated financial statements of the Company and its consolidated subsidiaries as of March 31, 2018 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

**Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

(The above represents a translation, for convenience only, of the original report issued in the Japanese language.)

(Translation)

Following is an English translation of the Confirmation Letter filed under the Financial Instruments and Exchange Act of Japan.

[Cover]

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|---|---|
| [Document Filed] | Confirmation Letter |
| [Applicable Law] | Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| [Filed with] | Director, Kanto Local Finance Bureau |
| [Filing Date] | June 29, 2018 |
| [Company Name] | Kabushiki Kaisha Hitachi Seisakusho |
| [Company Name in English] | Hitachi, Ltd. |
| [Title and Name of Representative] | Toshiaki Higashihara, President & CEO |
| [Name and title of CFO] | Mitsuaki Nishiyama, Senior Vice President and Executive Officer |
| [Address of Head Office] | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo |
| [Place Where Available for Public Inspection] | Tokyo Stock Exchange, Inc.<br>(2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)<br>Nagoya Stock Exchange, Inc.<br>(8-20, Sakae 3-chome, Naka-ku, Nagoya) |

1. Matters Related to Adequacy of Statements Contained in the Annual Securities Report

Mr. Toshiaki Higashihara, President & CEO, and Mr. Mitsuaki Nishiyama, Senior Vice President and Executive Officer, confirmed that statements contained in the Annual Securities Report for the 149th fiscal year (from April 1, 2017 to March 31, 2018) were adequate under the Financial Instruments and Exchange Act.

2. Special Notes

None.