HITACHI

Annual Report 2009

Year ended March 31, 2009

Hitachi Construction Machinery Co., Ltd.

As a Major Global Player, Hitachi Construction Machinery is Trusted by Customers Worldwide

The Hitachi Construction Machinery ("HCM") Group traces its roots back to the 1949 development by Hitachi, Ltd. of a mechanical excavator solely utilizing Japan-produced technology. After being spun off from Hitachi, Ltd. in 1970, HCM worked to apply its exceptional technical capabilities to advance state-of-the-art construction machinery, established a network of production and supply facilities in key locations around the world and augmented its global service capabilities to ensure that customer machinery could be maintained in optimal operating condition at all times.

While the global economic recession has progressed, demand for construction machinery, including hydraulic excavators, has rapidly declined after reaching a peak in the fiscal year ended March 2008. Amid this situation, the Group is undertaking concerted efforts in promoting business directed toward realizing an industry-leading profit structure based on the goal "to be trusted by customers worldwide as a major global player."

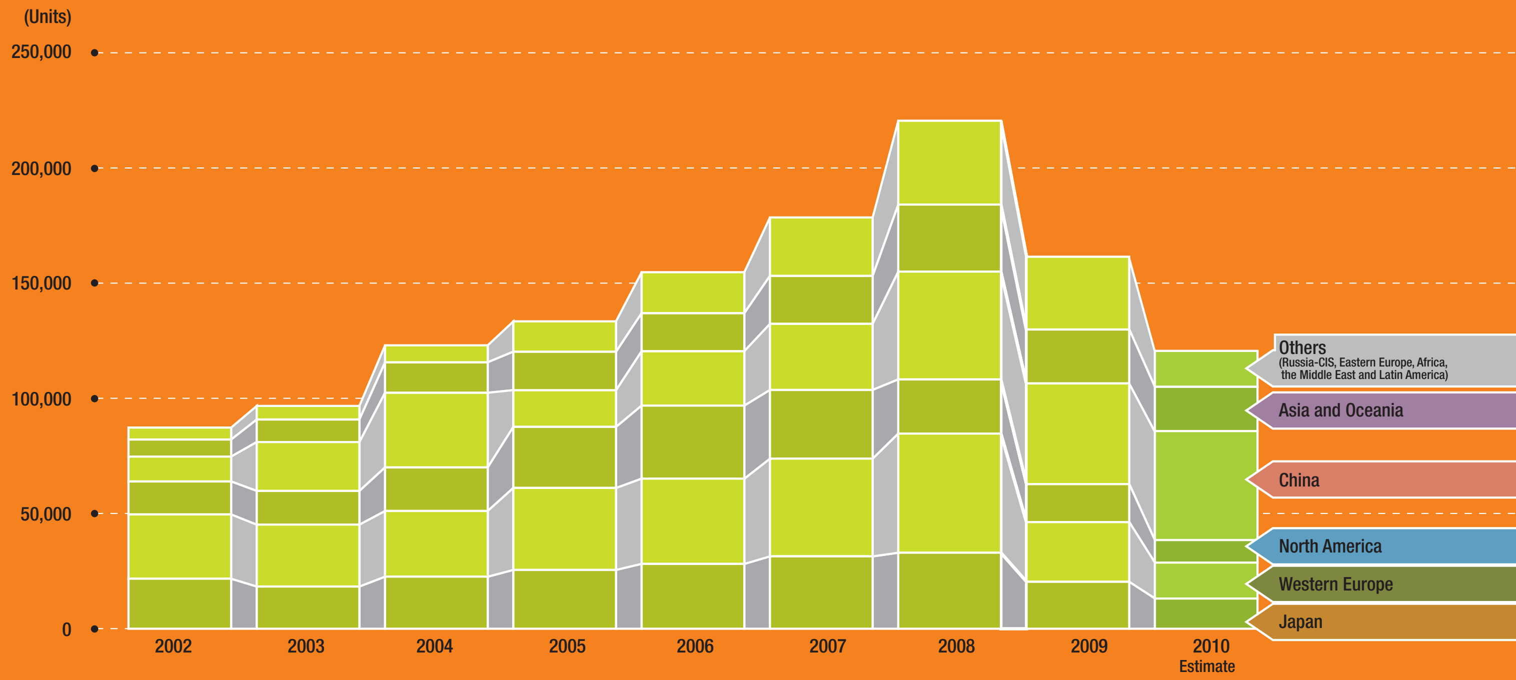
The HCM Group is one of the world's largest construction machinery manufacturers. Ranging from hydraulic excavators, wheel loaders and mini-excavators to dump trucks, crawler cranes and forklifts, our products are used by customers all over the world.

CONTENTS

Worldwide Demand for Hydraulic Excavators

Years ended March 31

Source: HCM



HCM was reprimanded and ordered to improve its business operations by the Ministry of Land, Infrastructure, Transport and Tourism on October 14, 2008 for modifications that were not in compliance with road safety and failure to apply for changes concerning its wheeled excavator. Accordingly, HCM has developed preventative measures that include the establishment of company rules and regulations related to vehicle inspection operations, building an organizational structure and improving its management structure. The Group will undertake greater efforts to strengthen thorough compliance with laws and regulations as well as corporate ethics by constantly being aware of the importance of its corporate social responsibilities.

Notes:
In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors; actual results and achievements may differ from those anticipated in these statements.

In this report, “the Company” refers to Hitachi Construction Machinery Co., Ltd., while “the Group” refers to the Company and its consolidated subsidiaries and equity method affiliates.

Photos in this annual report may show optional equipment. Never leave the front attachment in a raised position. Make sure the front attachment is lowered to the ground before leaving equipment unattended. (Some of the photos in this annual report depict unmanned machines with attachments in operating positions. These were taken for illustrative purposes only and do not suggest normal operating procedure.)

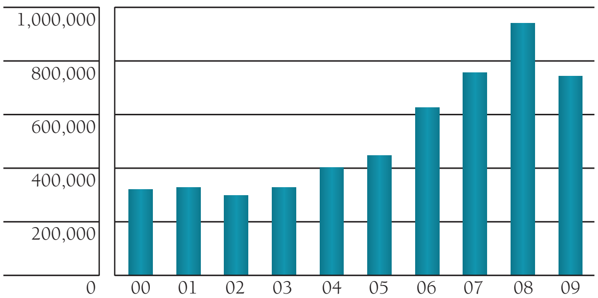
Ten-Year Financial History

Hitachi Construction Machinery and its Consolidated Subsidiaries
Years ended March 31

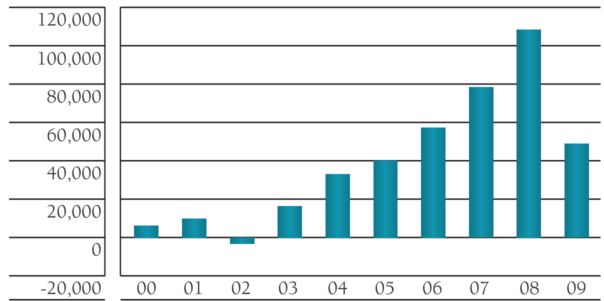
	Millions of yen, except per share data										Thousands of U.S. dollars (Note 3), except per share data
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	**2009**
For the year:											
Net sales	**744,167**	940,537	756,453	626,457	448,043	402,195	328,496	298,766	328,854	320,127	**7,575,761**
Operating income (loss)	**48,836**	108,458	78,352	57,177	40,120	32,858	16,399	(3,295)	9,892	6,056	**497,160**
Income (loss) before income taxes and minority interests	**44,142**	100,564	70,081	46,795	31,862	21,211	6,486	(20,903)	(1,304)	4,016	**449,374**
Net income (loss)	**18,253**	55,985	36,502	24,223	17,325	12,490	3,883	(17,603)	(3,195)	1,530	**185,819**
At year-end:											
Total assets	**841,353**	833,096	655,326	552,341	463,812	407,049	373,755	360,008	372,718	369,678	**8,565,133**
Working capital	**124,398**	155,901	98,891	99,213	96,638	67,201	61,735	38,736	60,599	86,198	**1,266,395**
Shareholders' equity	**311,430**	310,747	184,750	157,173	131,318	91,132	74,321	64,977	80,141	91,282	**3,170,416**
Interst-bearing debt	**300,626**	190,650	165,916	152,935	154,786	152,152	153,003	159,584	141,317	142,529	**3,060,430**
Per share data: (yen)											
Net income (loss)	**85.79**	271.00	187.43	124.37	91.05	72.62	25.90	(122.47)	(22.23)	10.64	**0.87**
Diluted net income	**85.72**	270.23	186.81	124.00	90.88	70.92	24.35	–	–	–	**0.87**
Shareholders' equity	**1,422.54**	1,446.55	987.56	807.17	673.81	520.93	460.98	452.07	557.55	635.13	**14.48**
Cash dividends (declared)	**44.00**	42.00	28.00	18.00	14.00	11.00	7.00	0.00	6.00	6.00	**0.45**
Other indicators:											
Return on net sales	**2.5%**	6.0%	4.8%	3.9%	3.9%	3.1%	1.2%	–	–	0.5%	
Return on equity	**6.1%**	22.3%	20.9%	16.8%	15.6%	15.1%	5.6%	–	–	1.7%	
Equity ratio	**34.9**	37.1%	29.4%	28.5%	28.3%	22.4%	19.9%	18.0%	21.5%	24.7%	
Price/earning ratio (times)	**14.79**	9.21	17.02	24.92	16.24	23.60	22.66	-2.59	-19.30	40.79	

Note:
Previously, 12 consolidated subsidiaries with different settlement dates than that of the parent company were accounted for based on the fiscal year consolidated financial statements for each of these companies because the difference between the settlement dates for these subsidiaries and the consolidated settlement date was within three months. However, with quarterly reporting becoming legally mandatory, beginning in the fiscal year ended March 31, 2008, HCM changed its method of consolidation on the financial statements by making provisional account settlements for the 12 subsidiaries on the consolidated settlement date. This change was made for the purpose of unifying the settlement dates of the parent company and the aforementioned consolidated subsidiaries and for ensuring appropriate disclosure of consolidated financial information.

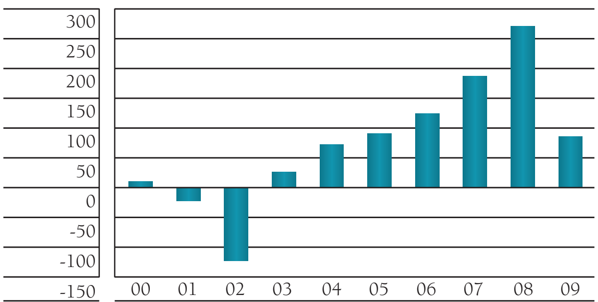
Net sales Millions of yen



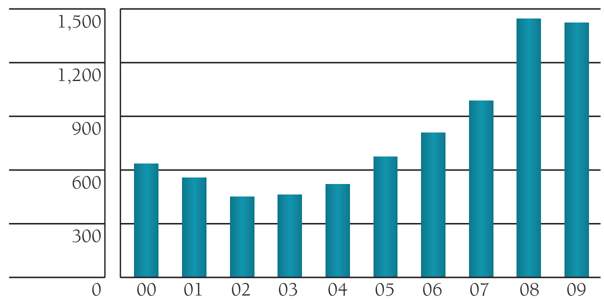
Operating income (loss) Millions of yen



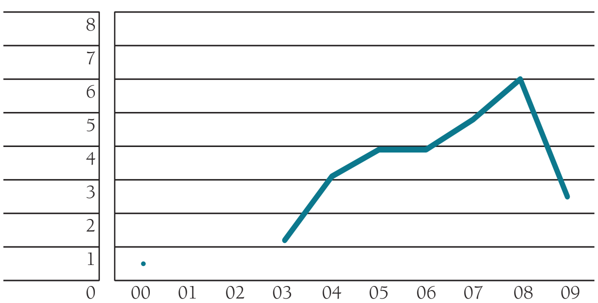
Net income (loss) per share Yen



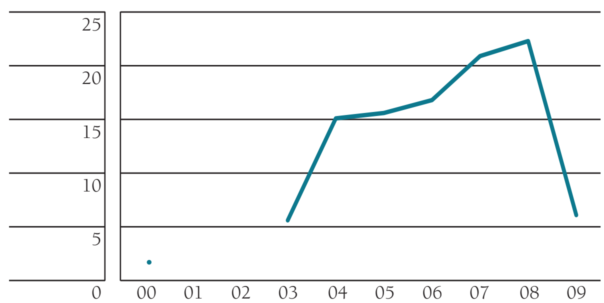
Shareholders' equity per share Yen



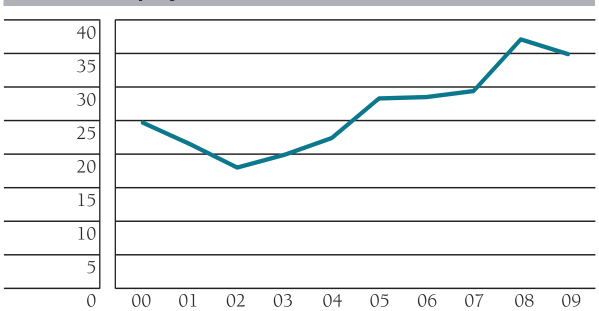
Return on net sales %



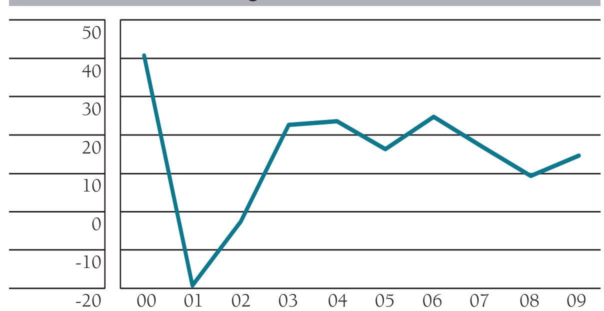
Return on equity %



Equity ratio %



Price/earning ratio Times



Interview with the President

Consolidated business performance for the fiscal year ended March 31, 2009 (period from April 1, 2008 to March 31, 2009) saw lower sales and profits in sharp contrast to the previous fiscal year, when the Group posted its sixth consecutive year of higher sales and profits and its fifth consecutive year of record-high profits. HCM President, Chief Executive Officer and Director Michijiro Kikawa discusses the directions and strategies on which the Group will depend in responding to the rapid and widespread deterioration of the current business environment.

Michijiro Kikawa President, Chief Executive Officer and Director

Confronting the most pressing management challenges with a sense of urgency

Looking back over the last year, what events and developments stand out?

My honest impression is that it has been year of turmoil. Starting in spring and extending into the summer, a surge in the price of materials such as steel and oil along with the appreciation of the yen over most of the major currencies led to a decline in demand for construction machinery, which further plummeted as the recession seized global markets, triggered by the collapse of Lehman Brothers in the United States in September 2008.

Responding to this state of affairs, I declared an emergency situation in December 2008 and undertook a series of measures to improve profitability. The waves of the economic downturn were intense, and the market environment during the second half of the fiscal year in particular was even more challenging than we anticipated. We managed to stay in the black, but performance for the entire fiscal year saw both sales and profits fall compared with the previous fiscal year.

What management challenges face the Group in the immediate future?

I expect economic conditions to deteriorate further. We established a Crisis Breakthrough Promotion Department in February 2009 to focus all the Group's resources and capabilities on further improving profits, a task we approach with a sense of urgency.

In particular, the need to reduce inventories is our most pressing challenge. Our efforts to adjust production have been unable to keep pace with the wide-ranging, abrupt collapse in demand that followed the bankruptcy of Leman Brothers last autumn, with the result that we have been left holding excessive inventory worldwide. The fear is that if our ongoing and broad-based production adjustments persist, the resulting reduction in factory operating efficiency will be insufficient to cover fixed costs and a deterioration in cash flow will put us in a difficult situation in terms of financing. My goal is to quickly restore regular production by clearing inventory and returning our operations to normal by September 2009 at the latest.

I expect the global economic downturn to continue during the fiscal year ending March 31, 2010, and do not expect to see a significant surge in demand. Under the circumstances, we will work to realize appropriate inventory levels by the second half of the fiscal year so that we can expand sales particularly in markets like China where a quick recovery is expected, while carefully monitoring global economic trends.

Even as the economic environment changes, the goals and strategies of the medium-term management plan remain the same.

How do you plan to implement the "SOH 2010 - For the New Stage" medium-term management plan?

Although the rapidly changing economic environment has made it more difficult to achieve our goals by the plan's final fiscal year (fiscal year ending March 31, 2011), I have no intention of modifying the numerical targets. Looking at our current situation, I think it is likely that the realization of those goals will be pushed back two or three years beyond the original plan (to the fiscal year ending March 31, 2013 or 2014), but we will stick to the basic policy set forth in the medium-term management plan, scaling our operations and earning power to generate net sales of ¥1 trillion and ordinary income of ¥100 billion.

We will also adhere to the basic policy set out in the medium-term management plan to guide our strategy for achieving these goals, as we work to expand sales by focusing on the three axes of products, services and regions, and strengthening the weaker aspects of each in a coordinated and well-balanced manner.

In light of the rapid changes in the market environment, where do you see a need for structural reform?

Looking at our management from a short-term perspective, in order to increase profits I see a need to reform those aspects of our business structure that do not suit the current market environment. Examining our business from the standpoint of the region axis, the area most in need of structural reform is our domestic operations. Given the Japanese government's financial position and the country's shrinking population, it is unreasonable to expect growth in domestic demand.

A specific example of domestic structural reform is our development of the new RSS (rental, service, and sales) system. As the first step in that initiative, we combined eight companies to form the rental subsidiary Hitachi Construction Machinery REC Co., Ltd. in April 2008 and established a nationwide network. For the second step, we integrated our sales and service organizations in April 2009 by combining the Company's previously separate Eastern Japan Operation and Western Japan Operation divisions to form the Japan Business Division. The key going forward will be the manner in which we develop the new RSS system, including the sales force at TCM Corporation (TCM), the Group company responsible for the manufacture and sale of wheel loaders and forklifts.

The ultimate theme lies in the adoption of electric drive and the robotization of construction machinery.

Where will the Group focus its technical development resources?

A pressing technical challenge for HCM is the development of a product portfolio that complies in its entirety with Tier IV emissions regulations scheduled to be enacted in 2011. I believe that instead of undertaking this task on our own, the Group needs to pursue an efficient development strategy founded on partnerships with other companies. In the wheel loader business, HCM and TCM have already developed a partnership with Kawasaki Heavy Industries, Ltd., and we have strengthened a joint R&D organization by combining the companies' R&D teams. In this way, we are moving forward with R&D efforts for a full range of wheel loaders that comply with the Tier IV emissions regulations by bringing together our own technological prowess in small- and medium-sized products with Kawasaki Heavy Industries' technological capabilities in large-sized products.

Although I foresee the introduction of hybrid models combining diesel engines with electric motors as a way of increasing the environmental friendliness of our products for the time being, I see this effort as representing a transitional class of "eco construction machinery" to the extent that the models use engines. The ultimate "eco construction machinery" will be electric and will do away with engines entirely, and I am confident that research into electric drive technologies using batteries and commercial power sources will underpin our environmental efforts. HCM will bring to bear strengths not available to other construction machinery manufacturers in the area of electric drive technology by working with our parent company, Hitachi, Ltd., and utilizing the Hitachi Group's extensive store of electronics technologies. I envision electric drive excavators entering into widespread use in the domestic market in another 10 years time.

How will the ways in which construction machinery is used change in the future?

Over the long term, I believe we will see construction machinery evolve in the direction of electric drive, as I mentioned a moment ago, and increasing "robotization." In the world of science fiction, there are three types of robots, namely, robots with artificial intelligence, robots that are operated by remote control and robots that a person rides while controlling. The construction machinery robots I am describing are of the third type.

Construction machinery includes not only earth-moving equipment but also devices designed to increase and enhance human power. Since there are various jobs apart from the construction and civil engineering fields that require machines to move large objects or perform dangerous work in place of people, it will be important in the future for us to approach construction machinery as a type of human-operated robot and consider a variety of possibilities in the course of our product development. The ASTACO, a double-front work machine consisting of a hydraulic excavator that can perform complex and delicate work by means of its two arms, can be considered a pioneering example of such machinery.

The global construction machinery market is undergoing a process of bipolarization.

How will HCM develop its global strategy in individual markets now that the market has shifted from one of demand growth to demand contraction?

Until now, we have developed machinery adapted for use in developed countries as "global models" for sale worldwide, for example by complying with environmental regulations and enhancing functionality. However, needs in emerging nations, which make up 60% of today's overseas market, are not the same as those in developed countries. Rather, we have come to understand that they are looking for tough machinery with a simple design that does not breakdown easily at a reasonable price. Since infrastructure is not yet fully developed in emerging nations, the ability to repair equipment that has broken down quickly and easily is a key consideration.

In light of these facts, I believe the needs of the global construction machinery market will diverge in a process of bipolarization. In the future, we will move to quickly establish mechanisms for ensuring profitability and responding precisely to customer needs even as demand contracts by building a development and production system in which "base machines" with globally compatible design features are developed in Japan and then customized at production bases worldwide to meet the needs of respective markets.

What countries or regions hold promise as the next major market among emerging nations?

The keyword here is "resources." Since countries and regions that are rich in resources like oil, coal and precious metals can attract foreign investment, large-scale development will move forward in those areas, even in the absence of local funds. Specifically, Africa is promising. Resource extraction of one kind or another is likely to be viable throughout practically the entire continent, from South Africa to countries like Angola and Zambia in the south, Ghana and Nigeria in the west and Mozambique in the east. I would like to increase our market

share via combined sales of ultra-large hydraulic excavators, in which we excel, and ultra-large dump trucks.

The issues we must overcome in order for the Group's business to succeed in underdeveloped markets such as Africa revolve around the need to supply products and services that are adapted to suit local circumstances, as I discussed earlier. Since providing services particularly requires hiring local employees, local training will be of key importance.

We will turn adversity into opportunity as we strive to improve the quality of our work.

Amid sluggish demand for new machinery, strengthening the Group's so-called stock business has been proposed as a crucial services initiative. What specific measures do you have in mind?

Demand for new machinery had been strong for many years before plummeting during the second half of the fiscal year ended March 2009, so there are an enormous number of Hitachi machines currently in the market.

To address the market for stock, HCM is aggressively developing parts and maintenance services, including the recycling of used machinery, by using a system known as Global e-Service. This system can be used to search for data such as operating information, load information and product history, as well as to collect information for use in breakdown diagnosis and preventive maintenance, making it a major asset as we develop our stock business.

On the other hand, in order to increase our sales of new machinery, we must strengthen our Used Machinery Business including purchase and resale of used machinery. Although the export of machinery from Japan to overseas locations has dominated distribution routes in the used machinery market until now, going forward it will be necessary to broaden the scope of the Used Machinery Business by considering distribution in more comprehensive terms, including transactions between other countries, particularly in new markets such as China.

The Group is also involved in finance as part of its service business, but these operations are limited to helping customers making purchases. This involvement primarily takes the form of establishing our own finance companies to address the absence of risk takers such as leasing companies in emerging nations. We are not interested in entering the finance business in a major way.

The Group is currently working to deepen its supply chain management (SCM). What are the key considerations in that initiative?

The idea originated in analysis of how the Group had become saddled with excessive inventory during the fiscal year ended March 2009. In short, our management system did not have an adequate visualization component. Since there was no way to visualize the intermediate stages of our operations from the time products are shipped from the factory until they are delivered to end users, production plants and sales companies were in the habit of changing quantities at their own discretion.

To address this shortcoming, we are working to increase the precision of inventory management throughout the entire supply chain by building a management system that takes advantage of the information technologies we have incorporated into our operations over many years, thus enabling us to better visualize all aspects of the business. We are also setting optimal inventory levels for each stage of operations.

I feel that the time has come for the Group to increase the quality of its work, starting with a deepening of SCM. Precisely because there was a large amount of waste during our long run of increasing production driven by strong demand, we are able to reexamine ways to improve productivity in many aspects of our business now that we find our forward progress slowed by tough times. I am confident that we can increase profitability through our current stance, for example, through increasing marginal profit per person worldwide by having each Group member improve the quality of his or her work.

Broadening corporate culture within a global organization

The existence of the "Kenkijin Spirit" as a message for employees seems to be the key to developing the Group's business on the global stage.

In 2008 we introduced the "*Kenkijin* (HCM person) Spirit," a compilation of the wisdom of all Group employees that took one and a half years to put together. Its message is expressed in the first person so that all Group employees can apply the corporate philosophy to their own actions and behavior. Since HCM's businesses have grown rapidly worldwide over the last several years, the extent to which all employees share in our corporate identity has not always been adequate. We have a very diverse workforce, so we published a handbook in eight languages to ensure our employees' ability to share the same outlook, transcending country and region, ethnicity and generation.

Of course, spreading our corporate culture throughout the organization is not something we can accomplish in a day. As a member of management, I am fully determined to spread the *Kenkijin* Spirit by creating as many opportunities as possible to meet directly with Group employees worldwide.

In closing, do you have a message for shareholders?

I do not expect to see the business environment turn around during the fiscal year ending March 31, 2010, and it may be difficult to generate performance on a par with shareholders' expectations. However, the Group has currently focused all of its energy and resources on carrying out a far-reaching series of reforms designed to transform and endow the Company with a sound constitution capable of generating profit through increased productivity. By doing so, we aim to accelerate the timeline for achieving ordinary income of ¥100 billion as set out in the "*SOH* 2010 - For the Next Stage" medium-term management plan, ahead of attaining net sales of ¥1 trillion.

Regarding the distribution of profits to shareholders, we have set the annual dividends per share at ¥44.00 (US$0.45). This payment, equivalent to a dividend payout ratio of 51.3%, is a profit distribution in return for the capital increase undertaken during the fiscal year ended March 2008. In the future, we will change the our targeted payout ratio from "15% to 20% of consolidated net income" to "at least 20% of consolidated net income."

The renewed support of our shareholders and investors is truly appreciated as we redouble our efforts to achieve our goals.

Medium-term Management Plan

"*SOH* 2010 – For the New Stage"

In April 2007, the Group embarked upon "*SOH* 2010 - For the New Stage," a medium-term management plan running through to the fiscal year ending March 31, 2011. The keywords for growth are "technology creation" and "demand creation," two challenges that have long been undertaken within HCM's operations. Based on this consistent approach, HCM is promoting various plans to build a solid market position as one of the world's leading comprehensive manufacturers of construction machinery in moving forward as a 21st century global company.

Basic Management Policies

Targets

- HCM will be trusted by customers worldwide as a major global player
- Realizing an industry-leading profit structure

Market Position

- To establish an unshakeable position as a comprehensive manufacturer among the world's top three construction machinery manufacturers

Management Indicator Targets

- Net sales: Exceeding ¥1 trillion
- Ordinary income: Exceeding ¥100 billion (Profit margin exceeding 10%)

Key Points

Products

We will enhance strong products such as hydraulic excavators and ultra-large hydraulic excavators, which are core products, while taking advantage of our advanced technological capabilities to strengthen the competitiveness of our next-generation core products including wheel loaders, dump trucks, mini-excavators and cranes.

Services

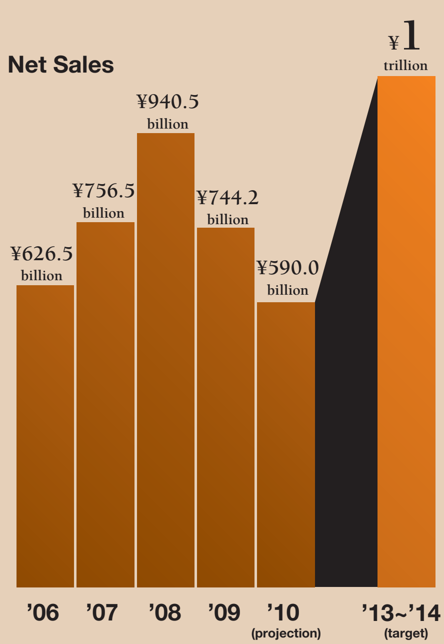
Although demand for new machinery is expected to remain sluggish, the cumulative number of machines in operation in the market increases annually, driving up demand for parts, service, and sales of used machinery and remanufactured parts. In addition to steadily meeting demand in these areas, we will seek to grow sales and profits by expanding and strengthening our value chain.

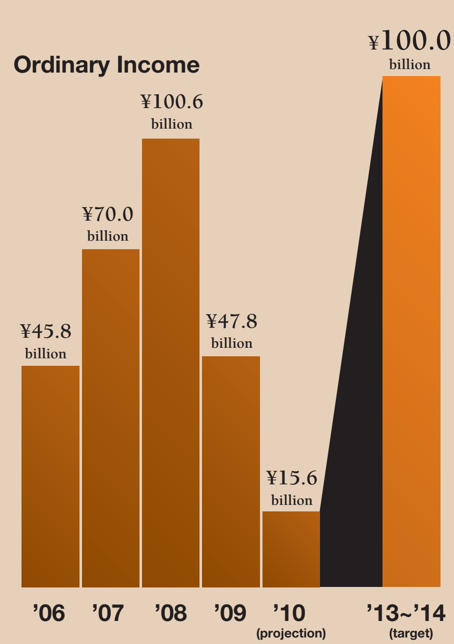
Regions

In addition to working to further expand our presence in traditional markets, primarily developed countries, and increasing market share in emerging nations such as the BRIC countries, we will actively develop new businesses in untapped regions.

Management Foundation

Pursuing the aforementioned three key points as the axes of our management foundation, we will undertake initiatives such as bolstering production capacity on a worldwide scale, implementing human resources development programs and strengthening our financial structure.





Feature–1

Broadening the Potential of Construction Machinery: Strengthening Our Next-Generation Core Products

The Group has expanded its business over many years by working to develop technologies for and increase sales of hydraulic excavators, its flagship product, and by bolstering its line of ultra-large hydraulic excavators that meet the needs of fields such as mining. Even as we enhance these already strong mainstay product lines, we are working to strengthen the competitiveness of next-generation core products, including wheel loaders, dump trucks, mini-excavators, cranes, and forklifts, in order to further expand the foundation of our business. This feature introduces initiatives designed to strengthen the next generation of core products.

Wheel Loaders

Striving to develop a new core product following hydraulic excavators

Worldwide demand for wheel loaders, which are combined with attachments for performing a range of tasks and used in a variety of fields including raising livestock, gardening, civil engineering and farming, is second only to hydraulic excavators. HCM has been involved in the wheel loader business for nearly 20 years, and we have been working to increase sales by enhancing the ZW Series of global models since welcoming TCM Corporation (TCM) into the Group as a consolidated subsidiary in 2005.

Partnership with Kawasaki Heavy Industries

HCM and TCM have joined Kawasaki Heavy Industries, Ltd. in agreeing to a partnership in the wheel loader business. The new alliance lays out a framework for the pursuit of joint R&D, and for the spin-off of Kawasaki Heavy Industries' wheel loader and other operations into a subsidiary in which HCM will acquire a stake.

All three partners have positioned wheel loaders as core products in their construction machinery businesses and are looking to further develop and expand those offerings. By pooling our respective technologies and conducting joint research and development into new wheel loaders in anticipation of the Tier IV emissions regulations scheduled to be enacted in 2011, we will be able to increase the competitiveness of our wheel loader businesses.

This business partnership has been formulated to foster the development of mutually complementary, win-win cooperative relationships, and to drive increased competitiveness in areas such as technical development and products. Specifically, Kawasaki Heavy

ZW250 wheel loader

Industries spun off its wheel loader business in April 2009 to create a 100% owned subsidiary. HCM expects to take an equity stake (34%) in the new company by means of a third-party allocation of shares during the fiscal year ending March 31, 2010, with an option for acquiring a controlling share that can be exercised after a period of three years.

The three partners will work together in an efficient and aggressive manner to develop extremely competitive wheel loaders that comply with upcoming emissions regulations by sharing sophisticated technologies and building strong, cooperative relationships through capital alliances. Following up on this agreement on joint research and development and capital alliances, the companies plan to hold discussions about building broad partnerships in areas such as joint material procurement and production sharing (mutual OEM).

Wheel loaders win Good Design Award

The ZW30, ZW40, and ZW50 mini-wheel loader models in the ZW Series received 2008 Good Design Awards by the Japan Industrial Design Promotion Organization.

The Good Design Award is a comprehensive design evaluation and commendation system under which winning products are selected by a panel consisting of experts such as leading designers, architects and journalists. Winning products are chosen not simply on the basis of beauty, but rather for overall excellence in functionality, quality, safety and environmental friendliness. The award is highly and broadly recognized in Japan.

Thanks to an aggressive effort to achieve an advanced level of basic performance in terms of ease of operation and operator comfort, a high level of safety, simple maintenance and environmental responsibility, the ZW Series boasts a silhouette that abounds with functional beauty, or "beautility."

Good Design Award winner ZW Mini Series

Dump Trucks

Meeting the world's mining needs

For the ultra-large machinery used in applications such as iron ore extraction, the Group will leverage its strengths in the core product category of ultra-large hydraulic excavators while working to enhance its line of ultra-large dump trucks, as it meets the world's mining needs with combined sales of these innovative products.

HCM launches one of the largest AC-drive dump trucks produced in Japan

In September 2008, HCM launched the EH3500AC II rigid dump truck, a 190-ton payload class model that is one of the largest AC drive dump trucks produced in Japan. The EH3500AC II features Hitachi Ltd.'s latest Insulated Gate Bipolar Transistor (IGBT), which is based on inverter technology used in the Shinkansen (bullet train) and other railroad trains. To ensure compliance with environmental regulations worldwide, it uses an engine that complies with the U.S. Environmental Protection Agency's Tier II emissions regulations.

AC drive dump trucks have an engine that powers an electric generator. This in turn generates electricity that is controlled by inverters and other control devices, to power an AC motor that drives the wheels.

By eliminating the need for mechanical components such as the transmission and associated lubricants, the AC drive system lowers maintenance costs compared to conventional mechanical-drive dump trucks. With lower repair costs by using brushless travel motors and stronger, more controllable electric braking power realized by IGBT, the EH3500AC II has advantages over traditional DC-powered dump trucks and is fast gaining acceptance in mines worldwide.

EH3500ACII rigid dump truck at work in South Africa

Feature–2

Contributing to the Environment and Society through Construction Machinery: CSR Initiatives

As a comprehensive manufacturer of construction machinery operating worldwide, the Group seeks to contribute to the environment and society on a global scale through construction machinery by such means as providing products that contribute to environmental conservation and demining equipment. We also strive to obtain understanding for these activities by actively communicating with stakeholders including customers, shareholders and investors, business partners, employees and local communities. This feature introduces these corporate social responsibility (CSR) activities.

CSR activities throughout the Group's business

HCM Group supplies recycling systems as social infrastructure

In addition to numerous environmental and recycling products designed to allow recycling instead of disposal of the various waste products generated daily at construction and civil engineering work sites, the Group provides the Hitachi On-site Screening & Solution (Hi-OSS) system, which offers an effective combination of these products.

We offer this recycling system, which delivers the most efficient and environment-friendly solutions in response to customer desires and requirements, both in Japan and Australia.

SR2000G track-mounted soil recycler (left) at work in Australia

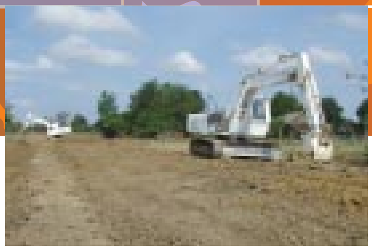
HCM introduces the construction industry's first carbon offset project

HCM launched a carbon offset initiative in October 2008. We were the first company in the construction machinery industry to start a carbon offset project, which seeks to offset CO_2 emissions from the production of construction machinery with the benefits of CO_2 reduction programs such as forestry management.

Machinery targeted by the offset program includes forestry-specification machines (ZX130L, ZX135USL) sold by the Company, as well as high-performance forestry machinery (harvesters, processors, swing yarders and feller bunchers). In April 2009, the ZR125HC and ZR260HC wood chippers for forestry use were added to this lineup.

Under the project, HCM acquires one ton of CO_2 emission rights, an equivalent of the amount generated when manufacturing one forestry machine, and reports the transaction to the Japanese government. This arrangement allows customers purchasing forestry machinery to participate in CO_2 reduction activities. The CO_2 emission rights reported by HCM to the Japanese government also count toward Japan's greenhouse gas reduction target of 6% under the Kyoto Protocol.

In addition to landmine removal, the Group participates in voluntary assistance activities for local residents



Demining equipment in the field

Ceremony commemorating the completion of projects and their transfer to Surappan village in March 2009

The Group has worked to remove landmines in strife-torn areas around the world by developing, manufacturing, deploying and operating demining equipment based on its hydraulic excavators. As of March 2009, there were 68 demining units operating in 6 countries, including Cambodia, Vietnam and Afghanistan.

As part of its efforts to contribute to the global community, the Group has provided comprehensive support for the non-profit organization Yutaka Na Daichi – Good Earth Japan (GEJ) in connection with its demining activities. GEJ supports the self-reliance of people living on demined land in Surappan village in Battambang Province, Cambodia. Recently, a ceremony was held to commemorate the completion of a bridge and footpath for use by children commuting to school and of a flood-prevention culvert for an approximately 50-hectare paddy, and the new facilities were turned over to the village. The completed projects are expected to significantly contribute to the quality of daily life in the village.

Stakeholder support and communication

HCM holds factory tour for individual shareholders

President Kikawa responds to questions during a factory tour.

In February 2009, HCM held its first factory tour of the Tsuchiura Works and the Kasumigaura Works for individual shareholders, in which a total of 49 visitors participated.

After learning about the company from President Michijiro Kikawa, watching a company video and posing for a commemorative photograph in front of the first excavator produced by HCM, visitors took the opportunity to observe hydraulic excavator and parts manufacturing processes. During an animated Q&A session after the tour, President Kikawa responded to questions from shareholders, who also offered a number of constructive opinions. HCM plans to actively hold such events to foster shareholder understanding of the Company and its operations.

HCM supports female athletes in clay target shooting

Yukie Nakayama, a member of HCM's Clay Target Shooting Club, competed in the Beijing Olympics in August 2008, setting a record for a Japanese woman with her fourth-place finish. Nakayama had retired after the Sydney Olympics in 2000 but returned to active competition in 2003 after taking time off to care for her young children. Her accomplishment at the Beijing Olympics is all the more remarkable for the numerous veteran athletes against whom she competed. HCM's support of Nakayama's competitive shooting career is emblematic of its broad support for working women.

Principal competitions in which Nakayama has participated

March 2000	Won first place at World Cup Sydney (Australia) (a first for a Japanese athlete).
September 2000	Competed in the Sydney Olympics.
September 2006	Won first place in the All-Japan Women's Championship.
April 2007	Won first place at the World Cup Championship (South Korea), earning the right to compete in the Beijing Olympics as part of the Japanese national team.
August 2008	Posted the best-ever finish for a Japanese woman in her sport at the Beijing Olympics (fourth place).

HCM selected for inclusion in socially responsible investing (SRI) index

HCM was selected to be included in the FTSE4Good Index Series, a global SRI index evaluating companies worldwide. It was HCM's first time to be honored with this distinction, which evaluates environmental and social initiatives against the international standards of corporate responsibility. Selected by the FTSE Group (a co-parent company owned by the United Kingdom's Financial Times and the London Stock Exchange), the FTSE4Good Index Series is an important index of companies worldwide that is used as an SRI benchmark.

FTSE4Good

Review of Operations

Overview by Regional Segment

Japan

Prolonged curtailments in public works and a decline in housing construction, coupled with lower capital investments due to worsening corporate earnings, led to a sharp decline in demand for construction machinery compared with the same period of the previous fiscal year.

Amid this business environment, we have strived to secure sales by strengthening our industry-specific sales in civil engineering and construction fields as well as in environmental, resources, forestry and other sectors. In the forestry industry, we worked to expand sales of high-performance forestry machines by emphasizing greater efficiency in tree thinning and other forestry management activities through the use of such machines. Moreover, we started our carbon offset project in October 2008, in which for each machine used in forestry, we transfer CO_2 emissions rights equivalent to 1 ton to the Japanese government free of charge.

In the rental business, we integrated the eight REC companies and established Hitachi Construction Machinery REC Co., Ltd. in April 2008. Under the new structure, we further strengthened the business by optimal management of rental assets and cost reductions based on economy of scale.

Despite such efforts, net sales fell 14% from the previous fiscal year to ¥213,703 million (US$2,176 million).

Note:
Overseas sales are sales in countries and areas where the Company and its consolidated subsidiaries are located except for Japan.

The Americas

Despite relatively robust investment in public works and commercial facilities, demand for construction machinery declined sharply compared with the previous fiscal year due to such factors as decreases in housing investment and corporate capital investment as a result of the credit crunch. Responding to this decline in demand, Deer-Hitachi Construction Machinery Corporation has carried out significant production adjustments and worked to maintain appropriate inventory levels since the previous fiscal year.

On a positive note, market share of hydraulic excavators and mini-excavators increased.

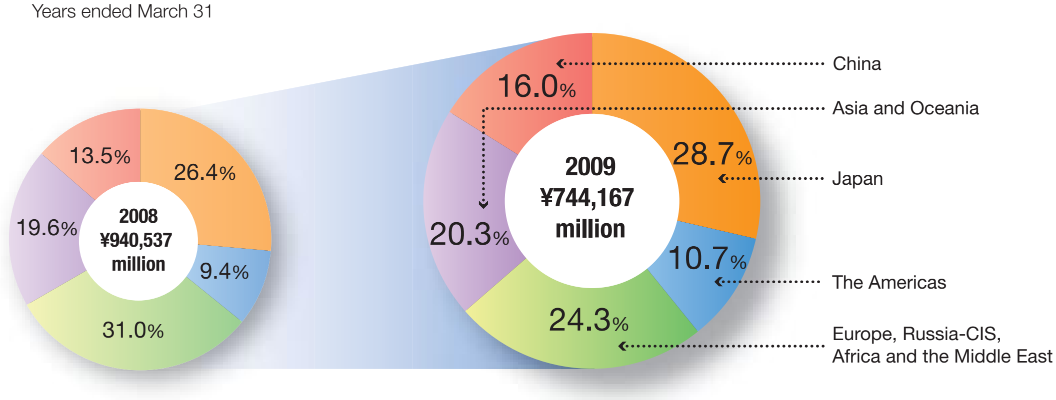
As a result of the above factors, net sales fell 11% to ¥79,178 million (US$806 million).

Europe, Russia-CIS, Africa and the Middle East

Demand for construction machinery fell sharply, reflecting such factors as a tightening of credit and a decrease in housing investment in all regions of Europe. As a result, unit sales in the Group decreased dramatically and machine inventory significantly exceeded plan.

In response, we strengthened the sales capabilities of our

Proportion of Consolidated Net Sales by Region
Years ended March 31



dealers in large markets such as France and Germany and formulated various measures to expand sales in each region, thereby increasing market share for hydraulic excavators. In addition, we upgraded HCM's product lineup with the new ZW Series wheel loader and ZX U-3 Series mini-excavator models to expand sales. Nevertheless, net sales in Europe declined 40% from the fiscal previous year to ¥99,738 million (US$1,015 million).

Demand for construction machinery in Russia-CIS fell sharply from the second half of the fiscal year onward due primarily to plummeting crude oil prices and the credit crunch. Consequently, inventory at local dealers exceeded plan, necessitating the suspension of shipments of machines from October 2008.

In Africa, demand increased in such areas as Zambia and Angola, and total demand in the African market was higher compared with the previous fiscal year. Of particular note, since demand for large-sized mining machinery continued to be steady and is expected to expand further in the future, we opened new bases in Zambia to enhance the service support system. A new dealer was also established in Angola to expand our sales network.

Turning to the Middle East, demand for construction machinery in Turkey, which has the highest demand in the Middle East, declined due to the effects of revisions to the tax system. We were able to compensate for this decline with solid demand from Gulf nations during the first half of the fiscal year; however, from the beginning of the second half onward, growth in demand for construction machinery slowed sharply throughout the Middle East. This was attributable to the postponement of infrastructure projects and credit tightening arising from plunging crude oil prices. As a result, total demand in the Middle East decreased slightly from the previous fiscal year.

Total net sales of Russia-CIS, Africa and the Middle East regions fell 35% to ¥81,105 million (US$826 million).

Asia and Oceania

Orders received and sales of large-sized mining machinery remained robust in Australia and Indonesia during the first half of the fiscal year; however, orders received fell abruptly from the second half of the term.

In Indonesia and Malaysia, while demand for construction machinery for use in forestry and palm oil plantations was favorable during the first half, demand for construction machinery fell abruptly from the beginning of the second half of the term, underscoring the effects of credit tightening and the economic slowdown.

In India, previously robust demand for construction machinery used for infrastructure development trended

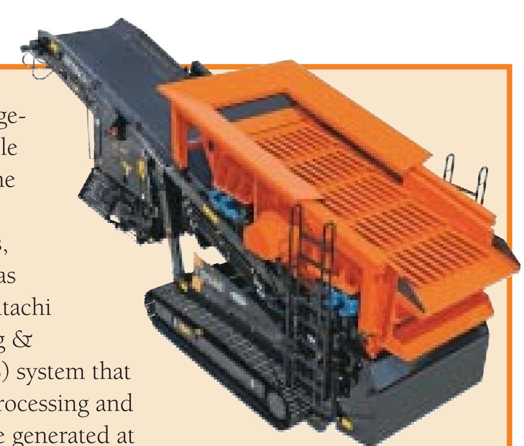
TOPICS

Launch of Self-Propelled Screens That Respond to the New Standard of Exhaust Emissions Regulations

In May 2009, HCM launched new self-propelled screen models equipped with engines adapted to comply with Tier III emissions regulations to be used in separation work of milled materials, sediment, waste and other materials.

Together with the two models introduced at this time, three models are now available in the screen series, including the medium-sized VR512 (operating weight: 19,000kg, screen dimension: 1,520×3,660mm); small-sized VR408-2 (operating weight: 9,000kg, screen dimension: 1,200×2,400mm); and the large VR516FS (operating weight: 27,500kg, screen dimension: 1,520×4,880mm), which was launched in April 2008.

By meeting Tier III emissions regulations in all small-, medium- and large-sized screens while also expanding the lineup of self-propelled screens, which will serve as the core of the Hitachi On-site Screening & Solution (Hi-OSS) system that enables on-site processing and recycling of waste generated at construction and civil engineering work sites, HCM plans to further promote initiatives based on the "emission neutral" concept with the aim of contributing to environmental conservation through products.



VR512

Overview by Business Segment

downward from the second half of the term and dropped below the level recorded in the previous fiscal year. This decrease was due to the postponement of purchases by small- and medium-sized customers and delays in infrastructure projects due to the credit crunch.

As a result, net sales in Asia and Oceania declined 18% to ¥151,148 million (US$1,539 million).

The Group is currently promoting initiatives to upgrade our lineup of application products and attachments with the aim of cultivating new demand as we work to expand sales in Indonesia and Malaysia. In tandem, we are working to further expand sales in India by introducing new model hydraulic excavators and other products while maintaining our high market share.

China

In China, although we had unexpected orders as a result of the Sichuan Earthquake, demand for hydraulic excavators declined compared with the previous fiscal year due to decreases in housing and real estate investments triggered by the huge economic downturn in the export industry, particularly in coastal regions, in the second half of the fiscal year. Moreover, demand for mining machinery also decreased because of excess stockpile materials such as coal and iron ore, together with the prolonged cessation of drilling accompanying mine safety inspections implemented in response to an accident.

Consolidated net sales in China declined 6% from the previous fiscal year to ¥119,295 million (US$1,214 million). The economic stimulus package drawn up by the Chinese government in November 2008 was recognized at The National People's Congress in March 2009, and details of the measures and policies are taking shape. As evidenced by the building of infrastructure such as railway construction in internal regions, demand in China could return to a growth path in the near future.

Construction Machinery Business

Consolidated net sales in the construction machinery business decreased 23% over the previous fiscal year to ¥660,397 million (US$6,723 million).

Regarding construction-related products, in addition to further expanding sales of new ZAXIS-3 Series hydraulic excavator and ZW Series wheel loader models, we upgraded our lineup by launching sales of the ZX U-3 mini-excavator with a short tail swing and a new tired roller model.

With the aim of further expanding and developing our business for wheel loaders, which we have positioned as a next-generation core product, HCM, TCM Corporation and Kawasaki Heavy Industries, Ltd. agreed to form an alliance in October 2008.

In resource development-related products, we made efforts to expand sales of such new products as the EX-6 Series of ultra-large hydraulic excavators equipped with an environmentally friendly engine, as well as the electric drive series of ultra-large hydraulic excavators with an external electric supply and dump trucks that realize high driving performance using an AC electric drive system. The start of full-scale operations at the Hitachinaka-Rinko Works in August 2008, also contributed to enhancing production capacity.

Industrial Vehicle Business

Consolidated net sales in the Industrial Vehicles Business decreased 1% year on year to ¥82,832 million (US$843 million).

In industrial vehicles, we expanded overseas sales for the first half of the fiscal year, especially in Europe, the Middle East and Asia, along with working to introduce new types of

Note:
Business categories are based on internal segments used within HCM. The products included in each category are as follows.

Construction Machinery Business:	Hydraulic excavators, mini-excavators, wheel loaders and crawler cranes
Industrial Vehicles Business:	Forklifts, transfer cranes and container carriers
Semiconductor Production Equipment Business:	Ultrasonic inspection video equipment and atomic force microscope equipment

vehicles such as electric drive forklifts in Japan. Since the beginning of the second half of the term, however, demand for these vehicles decreased sharply due to the financial crisis and other factors, forcing HCM to reduce production volume and make inventory adjustments.

Semiconductor Production Equipment Business

Consolidated net sales in the Semiconductor Production Equipment Business decreased 49% year on year to ¥938 million (US$10 million).

We have worked to promote net sales of ultrasonic imaging devices used for inspections to manufacturers of in-vehicle semiconductors and electronic component makers, as well as to expand sales of atomic force microscopes to semiconductor manufacturers.

Hitachi Kenki FineTech Co., Ltd. was merged into the operations of HCM on October 1, 2008, with the aim of consolidating all the leading-edge technologies cultivated by that company in electric and electronic fields along with further advancing the level of the Group's products and strengthening its development capabilities.

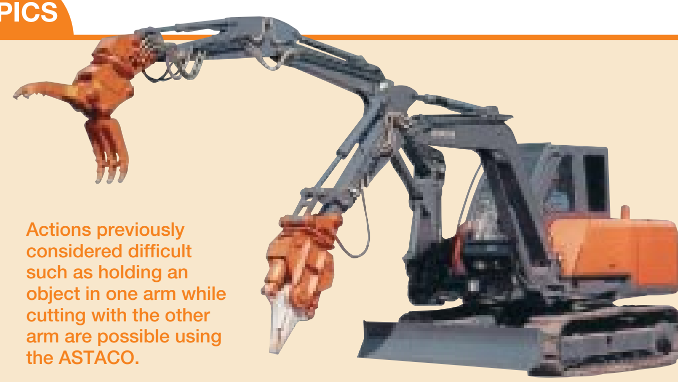
TOPICS

Double-Front Work Machine ASTACO Expands New Horizons for Construction Machinery

The use of hydraulic excavators is expanding at various locations besides construction and civil engineering work sites, and as such, these machines are needed to excavate earth by loading a bucket as well as perform holding and cutting functions using attachments.

The ASTACO (Advanced System with Twin Arm for Complex Operation), developed by HCM in 2005, is a double-front work machine that responds to such diverse application requirements. In addition to carrying out complex actions such as cutting an object while holding it, pulling an object while holding other items and bending long objects, the twin arm is also capable of delicate actions such as holding soft and fragile objects. This feature allows the ASTACO to operate in various fields, including recycling, handling dangerous articles and rescuing people at disaster sites.

HCM will promote robotization of construction machinery beginning with the ASTACO.



Actions previously considered difficult such as holding an object in one arm while cutting with the other arm are possible using the ASTACO.

In June 2008, HCM was awarded the Director General Prize for its outstanding performance in "research, development and application of fire/disaster fighting robots and sophisticated materials and machinery" by the Fire and Disaster Management Agency.

Directors and Executive Officers

As of June 22, 2009

Shungo Dazai (1)
Chairman of the Board and Director

Michijiro Kikawa (1) (3)
President, Chief Executive Officer and Director

Yasuhiko Nakaura
Executive Vice President, Representative Executive Officer and Director

Katsutoshi Arita
Executive Vice President, Representative Executive Officer and Director

Nobuhiko Kuwahara
Senior Vice President, Executive Officer and Director

Shuichi Ichiyama (2)
Director

Yoshio Kubo (1) (2)
Outside Director

Takeo Ueno (1) (2) (3)
Outside Director

Kazuo Takano (1) (2) (3)
Outside Director

Notes
1: Numbers in parentheses beside names show committee membership: (1) Nominating Committee, (2) Audit Committee and (3) Compensation Committee.
2: Note: Yoshio Kubo, Takeo Ueno and Kazuo Takano satisfy the qualifications of Outside Directors as provided in Article 2, Item 15 of the Japanese Corporate Law.

Directors

Chairman of the Board	**Shungo Dazai**
Director	**Michijiro Kikawa**
Director	**Yasuhiko Nakaura**
Director	**Katsutoshi Arita**
Director	**Nobuhiko Kuwahara**
Director	**Shuichi Ichiyama**
Outside Director	**Yoshio Kubo**
Outside Director	**Takeo Ueno**
Outside Director	**Kazuo Takano**

Executive Officers

President and Chief Executive Officer	**Michijiro Kikawa**
Executive Vice President and Representative Executive Officer	**Yasuhiko Nakaura**
Executive Vice President and Representative Executive Officer	**Katsutoshi Arita**
Executive Vice President	**Mitsuji Yamada**
Senior Vice President and Executive Officer	**Nobuhiko Kuwahara**
Senior Vice President and Executive Officer	**Toru Sakai**
Senior Vice President and Executive Officer	**Shinichi Mihara**
Vice President and Executive Officer	**Kiichi Uchibayashi**
Vice President and Executive Officer	**Takayoshi Honma**
Vice President and Executive Officer	**Tsutomu Mizutani**
Vice President and Executive Officer	**Makoto Sato**
Executive Officer	**Hiroshi Tokushige**
Executive Officer	**Yukio Arima**
Executive Officer	**Kiyomitsu Yamanaka**
Executive Officer	**Mitsuhiro Tabei**
Executive Officer	**Yuichi Tsujimoto**
Executive Officer	**Masaki Kanahara**
Executive Officer	**Shigeru Murasugi**

Corporate Governance

HCM considers the goal of corporate governance to be the improvement of company performance in combination with the maintenance of a deep understanding of the corporation as a member of society and a commitment to the fair and transparent conduct of the Company's activities. We believe the natural result of this approach is increased corporate and shareholder value.

In addition to creating an executive officer structure capable of implementing management strategies quickly and boldly, the Company has adopted a committee-based organization as defined by the Japanese Corporate Law as a means of strengthening corporate governance. By segregating the oversight and executive functions of the Company's leadership, this approach ensures corporate management excels in terms of fairness and transparency.

The basic corporate governance policies of the Hitachi Group to which the Company belongs require the Company's corporate code of conduct, which is based on the corporate code of conduct of Hitachi, Ltd., to serve as the foundation upon which the HITACHI brand and the Company's CSR activities rest. Those policies are designed to engender a value system consistent with that of the larger Hitachi Group as well as a shared understanding of the social responsibilities with which corporations are charged.

Executive, Oversight and Auditing Functions

Under HCM's corporate governance system, the Board of Directors entrusts executive officers led by a Chief Executive Officer with decision-making and operational responsibility related to the conduct of the Company's business in accordance with the basic management policies adopted by the Board.

The Board of Directors is responsible for determining the division of duties among the executive officers, issuing directives and other matters associated with the interrelationships of the executive officers.

An Executive Committee comprised of principal executive officers (meeting as a rule twice monthly) advises the President and Chief Executive Officer in the disposition of important matters related to the conduct of the Company's business.

In addition, an Executive Officer Committee (meeting as a rule once a month) serves to streamline operations by providing a venue for individual executive officers to report on the execution of their duties and for the presentation of reports on important matters that need to be communicated throughout the Company.

Operational oversight and auditing are performed in accordance with Board of Directors regulations, Audit Committee regulations and the Company's internal audit regulations.

Relationship with Parent Company and Rationale regarding Securing Uniform Autonomy from the Parent Company

While autonomous in our business operations, as a member of a group associated with the parent company, Hitachi, Ltd., HCM shares in Hitachi Group's basic philosophy and brand, and is committed to unifying its basic business policies with those of the greater group.

In light of this special relationship as a member of the Hitachi Group, HCM is able to effectively utilize the R&D capabilities, brand strengths and other management resources possessed by Hitachi and the Hitachi Group, thus contributing to raising the corporate value of HCM and the Group.

One of HCM's three outside directors and one internal director come to the Company from Hitachi, Ltd. where they serve concurrently as a director, creating a situation where determination of HCM's business policies and other issues are thus influenced by the expression of those directors' opinions to the Board of Directors. We, however, believe that HCM is able to execute autonomous business decisions as the HCM Board of Directors, which is comprised of a total of nine directors, including five internal directors and one outside director who have no relationship with Hitachi, Ltd. or the companies of the Hitachi Group. Furthermore, the conditions of transactions with Hitachi, Ltd. and Hitachi Group companies are decided upon rationally and based upon mutual deliberations that consider market value and other factors.

Matters Relating to Listed Subsidiaries

Among HCM subsidiary companies, TCM Corporation (TCM) is listed on securities exchanges in Japan. To bolster our wheel loader business, HCM works to maintain and strengthen a close and collaborative relationship with this listed subsidiary, and from this perspective, there is some influence on business activities. However, TCM is a listed company with committees, and with regard to management, its autonomy is respected. Excluding matters to be taken up at the General Meeting of Shareholders, the parent company's involvement in TCM is limited, with TCM making management decisions based upon its own decision-making procedures, thus ensuring its ability to operate as an independent entity.

Internal Control System

The Hitachi Construction Machinery Code of Conduct serves as the basic model for conduct throughout the Group, and other important regulations, basic structures and frameworks share its core concepts.

The structures and other measures to ensure that Company business is carried out in an appropriate manner have been resolved at a meeting of HCM's Board of Directors and are now being implemented in accordance with the Japanese Corporate Law.

Matters Relating to Defense Against Acquisition

As a company with publicly listed stock, along with maintaining business operations in accordance with the stock market and procuring capital for necessary business expansion, HCM is evaluated by shareholders, investors and the stock market. We are cognizant of the expectations directed at HCM and the Group given recent assessments, and we understand that implementing management with a sense of urgency will make a significant contribution to raising our corporate value.

Although HCM conducts business operations independently, as a member of the group associated with its parent company, Hitachi, Ltd., HCM shares the Hitachi Group's basic philosophy and brand and is committed to unifying its basic business policies with those of the greater group. Furthermore, HCM is able to effectively utilize the R&D capabilities, brand strengths and other management resources possessed by Hitachi and the Hitachi Group, thus contributing to raising the corporate value of HCM and the Group.

HCM works to establish and promote its management plans and the building of a governance structure based upon these basic policies, and strives to raise corporate value and maximize the value offered to its entire spectrum of shareholders.

Management's Discussion and Analysis

Performance

During the consolidated fiscal year under review, as the financial crisis originating in the United States rippled across the world, global economic conditions continued to decline significantly. Even though prices of some raw materials began trending downward in the second half of the fiscal year, raw material prices generally remained high throughout the fiscal year, while the yen appreciated to levels exceeding expectations. Affected by these factors, the business conditions surrounding the Group rapidly and severely deteriorated.

Besides declining demand in the United States, Europe and Japan, there was also a sharp slowing of the economies of Russia, India and the Middle East, in which brisk infrastructure investments were made in tandem with an expansion of economic activities. Owing to these factors, global demand for construction machinery, including hydraulic excavators, fell steeply compared with the previous fiscal year.

Amid this business environment, the Group has undertaken various measures in the second year of its medium-term management plan "*SOH* 2010 - For the New Stage" to realize an industry-leading profit structure directed toward achieving its goal "to be trusted by customers worldwide as a major global player."

With respect to production, the Hitachinaka-Rinko Works was completed for the production of large and ultra-large machinery for mining.

In terms of sales in the domestic market, with the integration of the eight REC companies, we built a new rental business structure under the newly established Hitachi Construction Machinery REC Co., Ltd. The integration of the rental business operations throughout Japan will improve business efficiency and establish a system to enable a prompt response to customer needs. Overseas, a finance leasing company that we newly established in China officially started operations with a range of financial services that meet the needs of customers and further bolsters market competitiveness.

To respond to this sudden and drastic contraction in the market, from the second half of the fiscal year the Group focused on maintaining appropriate inventory levels and curbing and reducing materials costs in accordance with the downtrend in prices for some raw materials. Urgent and drastic measures, such as carefully selecting and reviewing the priorities of capital investment projects along with significantly reducing fixed costs, were implemented throughout the Group.

From January 29, 2009 to March 6, 2009, the Company acquired 7,539,500 of its own shares from the market, which is equivalent to 3.5% of its outstanding shares, for the purpose of implementing flexible capital policies to adapt to changing business environments.

Despite these measures, in terms of consolidated results for the fiscal year under review, we were adversely affected by the dramatic decrease in global demand and sharp appreciation of the yen. As a result, consolidated net sales in the fiscal year under review were down 20.9% over the previous fiscal year to ¥744,167 million (US$7,576 million), and consolidated net income decreased 67.4% to ¥18,253 million (US$186 million). This marked a drastic change from the previous fiscal year, in which the Company posted an increase in sales and profits for the six consecutive year and record-high profits for the fifth consecutive year.

Financial Position

Current assets at the end of the fiscal year amounted to ¥538,773 million (US$5,485 million), a decrease of 3.4% from the previous fiscal year-end. This was due mainly to respective decreases of ¥13,155 million (US$134 million) in cash and bank deposits and ¥62,997 million (US$641 million) in notes and accounts receivable. Fixed assets rose 10.0% from the end of the previous fiscal year to ¥302,580 million (US$3,080 million). As a result, total assets increased 1.0% from the previous fiscal year-end to ¥841,353 million (US$8,565 million).

Current liabilities at the end of the fiscal year amounted to ¥414,375 million (US$4,218 million), an increase of 3.1% from the previous fiscal year-end. This was due mainly to an increase of ¥109,701 million (US$1,117 million) in short-term loans and commercial paper. Long-term liabilities increased 13.7% from the previous fiscal year-end to ¥95,963 million (US$977 million). As a result, total liabilities increased 4.9% from the previous fiscal year-end to ¥510,338 million (US$5,195 million).

Net assets, including minority interests, decreased 4.5% from the previous fiscal year-end to ¥331,015 million (US$3,370 million). This was due mainly to a decrease of ¥14,647 million (US$149 million) in foreign currency translation adjustments to negative ¥17,731 million (US$181 million), as well as a decline in net income of ¥37,732 million (US$384 million) over the previous fiscal year to ¥18,253 million (US$186 million). As a result of the above, the equity ratio declined to 34.9% versus 37.1% at the previous fiscal year-end.

Cash Flow Analysis

Cash and cash equivalents at end of year totaled ¥40,104 million (US$408 million), a decrease of ¥28,622 million (US$291 million) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Net cash used in operating activities totaled ¥54,825 million (US$558 million), a difference of ¥45,261 million (US$461 million) from ¥9,564 million (US$97 million) in cash flows used in operating activities in the previous fiscal year. Factors that increased cash included ¥35,117 million (US$357 million) in depreciation and amortization accompanying capital investment for bolstering production made prior to and during the first half of the fiscal year under review, an increase of ¥4,955 million (US$50 million) from the previous fiscal year. Factors that increased cash also include a decrease in notes and accounts receivable of ¥48,303 million (US$492 million), a difference of ¥117,934 million (US$1,201 million) compared with an increase of ¥69,631 million (US$709 million) in the previous fiscal year, resulting from a sudden decline in sales worldwide following the bankruptcy of Lehman Brothers in September 2008.

Conversely, factors that reduced cash included ¥44,142 million (US$449 million) in income before income taxes and minority interests, a decrease of ¥56,422 million (US$574 million) compared with ¥100,564 million (US$1,024 million) in the previous fiscal year. Other factors included an increase of ¥86,884 million (US$884 million) in inventories, a difference of ¥43,631 million (US$444 million) compared with the previous fiscal year, and a decrease of ¥48,228 million (US$491 million) in notes and accounts payable, a difference of ¥72,770 million (US$741 million) compared with an increase of ¥24,542 million (US$250 million) in the previous fiscal year, resulting from major production adjustments in response to the sudden decline in demand.

Net cash used in investing activities was ¥61,624 million (US$627 million), an increase of ¥10,313 million (US$105 million) compared with ¥51,311 million (US$522 million) in the previous fiscal year. Key factors underlying this rise included an increase of ¥3,895 million (US$40 million) to ¥53,119 million (US$541 million) in acquisitions of property, plant and equipment, which consisted mainly of capital investment to respond to increased production at various manufacturing bases made prior to and during the first half of the fiscal year under review. Other factors included ¥9,928 million (US$101 million) in purchase of intangible assets resulting from software investment accompanying internal information infrastructure improvements throughout the Group and ¥4,225 million (US$43 million) in purchase of investments in securities for further strengthening relationships with business partners.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, amounted to an outflow of ¥116,449 million (US$1,185 million).

Net cash provided by financing activities totaled ¥90,037 million (US$917 million). This is mainly attributable to a net increase in short-term loans totaling ¥100,048 million (US$1,019 million) and proceeds from long-term loans amounting to ¥49,685 million (US$506 million) for the purpose of covering negative free cash flow, repayments of long-term loans amounting to ¥14,853 million (US$151 million),repayments of bonds amounting to ¥13,000 million (US$132 million). Other key factors included interest paid, dividends paid to shareholders and dividends paid to minority shareholders by subsidiaries amounting to ¥21,165 million (US$215 million) and purchase of treasury stock amounting to ¥8,241 million (US$84 million).

Business and Other Risks

The Group carries out its operations in regions throughout the world and executes its business in a variety of fields such as manufacture, sales and finance, etc. Accordingly, the Group's business activities are subject to the effects of a wide range of risks. The Group has identified the following primary risks based on currently available information.

1. Market Conditions

Under the Group's business activities, demand is heavily dependent on public investment such as infrastructure development and private investment including the development of natural resources and real estate, among others. The Group's business generally is affected by cyclical changes in the world economy and other rapidly changing factors, which may lead to much lower demand. A decrease in product prices due to the competitive environment or a decrease in productivity at factories due to declining demand may affect the sales and profits of the Group.

2. Foreign Currency Exchange Rate Fluctuations

The sales that the Group derived from outside Japan accounted for 73.6% in the previous fiscal year and 71.3% in the fiscal year under review, in which a substantial portion of its overseas sales were affected by foreign currency exchange rate fluctuations. In general, the appreciation of the Japanese yen against another currency such as the U.S. dollar or Euro, which are our main settlement currencies, would adversely affect the Group's operational results. The Group strives to minimize the effect of such foreign currency exchange rate fluctuations, for example, by hedging activities, enlarging the portion of local production and the promotion of parts imports via international purchasing. Despite our efforts, if exchange rates fluctuate beyond our projected range, our operational results may be adversely affected.

3. Fluctuations in Financial Markets

While the Group is currently working on improving the efficiency of its assets to reduce its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥300 billion (US$305 billion) as of March 31, 2009. Although the Group has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase the interest expenses with respect to its interest-bearing debt subject to floating interest rates, thereby adversely affecting the Group's operational results. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of the Group's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect the Group's operational results and financial condition.

4. Procurement and Production

The Group's procurement of parts and materials for its products account for a large portion of its manufacturing costs, and its procurement is exposed to the fluctuations in commodity prices. Price increases in commodities such as metals may increase the costs of materials as well as manufacturing costs. In addition, the shortage of product parts and materials may make it difficult for the Group to engage in the timely procurement of parts and materials, thereby lowering its production efficiency. The Group will respond to the increase of materials costs by reducing costs via Value Engineering for Customers (VEC) activities as well as by raising product prices in line with the introduction of new models with additional functions and enhanced performance compared with existing models. The Group plans to minimize the effects of a shortage in product parts or materials by promoting closer collaboration among all of its related business divisions and suppliers and maintain timely procurement and production. However, if the increases in commodity prices were to exceed the Group's expectations or a prolonged shortage of materials and parts were to occur, the Group's operational results may be adversely affected.

5. Credit Management

The Group's main products comprising construction machinery are sold via sales financing, such as installment payment and finance leasing, among others. Accordingly, we set up a department to engage in credit management of the overall Group. Many different customers utilize our sales financing, and thus there is no excessive credit concentrations by only a few customers. However, if bad-debt situations occur due to the degradation of the customers' financial conditions, it may adversely affect the Group's operational results and financial results.

6. Public Laws and Tax Practices

The Group's business operations are required to comply with increasingly stringent political measures, official restrictions, tax practices and laws and regulations, among others. For example, in the numerous countries in which the Group operates, we are required to comply with restrictions or regulations such as authorizations for business operations and investments as well as limitations and rules regarding imports and exports, along with adhering to the laws and ordinances on legal prohibition of monopolies, patents, intellectual properties, consumers, the environment and recycling, conditions of employment and taxation, among others.

If such existing laws or regulations were to be amended or tightened, the Group may be required to incur increased costs and additional taxes to comply with such new standards. Such additional compliance costs may adversely affect the Group's operational results.

7. Product Liability

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

8. Alliances and Collaborative Relationships

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

9. Information Security, Intellectual Property and Other Matters

The Group may obtain confidential information concerning its customers and individuals in the normal course of its business. The Group also possesses confidential business and technological information, and accordingly, handles such confidential information with the utmost care.

To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, losses and other damage, the Group employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. If a leak of confidential information concerning customers and individuals were to occur, the reputation of the Group may become damaged and customers may lose confidence in the Group. In addition, the Group's intellectual property may be infringed upon by a third party, or a third party may claim that the Group is liable for infringing on such third party's intellectual property rights.

10. Natural Disasters

The Group conducts its business operations on a global scale and operates and maintains development, production, sales and other business facilities in many countries.

Natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, or interference by third parties in regions in which the Group operates may cause sudden and extensive damage to one or more of its facilities and disrupt operations, the procurement of materials and parts or the production and sales of its products and other services. Such delays or disruptions may adversely affect the Group's operational results.

Consolidated Balance Sheets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2009**	2008	**2009**
Current assets			
Cash and bank deposits	¥ 40,109	¥ 53,264	$ 408,317
Notes and accounts receivable (Notes 8 and 22)	175,854	238,851	1,790,227
Lease receivables and investment assets	22,786	902	231,966
Merchandise and manufactured goods	193,686	148,293	1,971,760
Work in process	50,512	35,348	514,222
Materials and supplies	24,114	23,331	245,485
Short-term loans receivable	889	737	9,050
Deferred tax assets (Note 17)	12,367	22,336	125,898
Others	25,577	42,619	260,379
Less: Allowance for doubtful accounts	(7,121)	(7,710)	(72,493)
Total current assets	538,773	557,971	5,484,811
Fixed assets			
Property, plant and equipment			
Property held for lease (Notes 10 and 13)	92,807	73,562	944,793
Land (Note 10)	56,212	54,919	572,249
Buildings and structures (Note 10)	120,332	97,648	1,225,003
Machinery, equipment and vehicles (Notes 10 and 13)	172,984	155,231	1,761,010
Construction in progress	8,206	21,377	83,539
	450,541	402,737	4,586,593
Less: Accumulated depreciation	(223,579)	(198,150)	(2,276,077)
Net property, plant and equipment	226,962	204,587	2,310,516
Intangible assets			
Software	18,969	10,725	193,108
Goodwill	5,373	6,998	–
Others	1,886	1,589	19,200
Total intangible assets	26,228	19,312	267,006
Investments and other assets			
Investments in securities (Note 14)	21,504	26,736	218,915
Long-term loans receivable	329	170	3,349
Deferred tax assets (Note 17)	3,336	3,023	33,961
Others (Note 16)	26,219	22,422	266,914
Less: Allowance for doubtful accounts	(1,998)	(1,125)	(20,340)
Total investments and other assets	49,390	51,226	502,800
Total fixed assets	302,580	275,125	3,080,322
Total assets	¥ 841,353	¥ 833,096	$ 8,565,133

	Millions of yen		Thousands of U.S. dollars (Note 3)
LIABILITIES AND NET ASSETS	**2009**	2008	**2009**
Current liabilities			
Notes and accounts payable (Note 22)	¥ 100,372	¥ 166,517	$ 1,021,806
Short-term loans (Notes 18 and 22)	229,885	125,184	2,340,273
Commercial paper (Note 18)	5,000	0	50,901
Current portion of bonds (Note 18)	500	13,000	5,090
Income taxes payable	5,970	21,038	60,776
Others (Note 22)	72,648	76,331	739,570
Total current liabilities	414,375	402,070	4,218,416
Long-term liabilities			
Bonds (Note 18)	1,820	2,000	18,528
Long-term loans (Notes 10 and 18)	63,421	50,466	645,638
Deferred tax liabilities (Note 17)	9,494	9,398	96,651
Retirement and severance benefits (Note 16)	11,698	12,085	119,088
Others	9,530	10,459	97,017
Total long-term liabilities	95,963	84,408	976,923
Total liabilities	510,338	486,478	5,195,337
Net assets (Note 7)			
Shareholders' equity			
Common stock	81,577	81,577	830,469
Authorized — 700,000,000 shares			
Issued: 215,115,038 shares in 2009 and 2008			
Capital surplus	81,084	81,084	825,450
Retained earnings	159,726	150,942	1,626,041
Less: treasury stock, at cost: 8,831,203 shares in 2009 and 1,254,982 shares in 2008	(10,957)	(2,856)	(111,544)
Total shareholders' equity	311,430	310,747	3,170,416
Valuation and translation adjustments			
Net unrealized gain (loss) on securities (Note 14)	(124)	722	(1,262)
Deferred gain (loss) on hedging instruments	(129)	974	(1,313)
Foreign currency translation adjustments	(17,731)	(3,084)	(180,505)
Total valuation and translation adjustments	(17,984)	(1,388)	(183,081)
Stock purchase warrant	747	415	7,605
Minority interests	36,822	36,844	374,855
Total net assets	331,015	346,618	3,369,794
Total liabilities and net assets	¥ 841,353	¥ 833,096	$ 8,565,133

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
Net sales (Note 22)	¥ 744,167	¥ 940,537	$ 7,575,761
Cost of sales	552,095	675,191	5,620,432
Gross profit	192,072	265,346	1,955,329
Selling, general and administrative expenses	143,236	156,888	1,458,170
Operating income	48,836	108,458	497,160
Other income (expenses):			
Interest and dividend income	4,871	6,495	49,588
Equity in earnings of affiliated companies	147	3,337	1,496
Interest expenses	(7,888)	(6,238)	(80,301)
Foreign exchange gain (losses), net	2,276	(4,832)	23,170
Losses on valuation of securities	(3,521)	–	(35,844)
Losses on disposal of inventories	–	(953)	–
Losses on valuation of inventories	(142)	(3,540)	(1,446)
Others, net	(437)	(2,163)	(4,449)
	(4,694)	(7,894)	(47,786)
Income before income taxes and minority interests	44,142	100,564	449,374
Income taxes:			
current	12,579	35,291	128,057
prior year, net (Note 23)	(3,225)	0	(32,831)
deferred	10,930	(1,664)	111,269
Minority interests	5,605	10,952	57,060
Net income	18,253	55,985	185,819

Per share data	Yen		U.S. dollars (Note 3)
Net income	¥ 85.79	¥ 271.00	$ 0.87
Diluted net income	85.72	270.23	0.87
Cash dividends (declared)	44.00	42.00	0.45
Weighted average number of shares (thousands)	212,755	206,588	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Net Assets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
Shareholders' equity			
Common stock			
Balance at beginning of year	¥ 81,577	¥ 42,636	$ 830,469
Changes during term in review			
Stock issuance	0	38,941	0
Total changes during term in review	0	38,941	0
Balance at end of year	81,577	81,577	830,469
Capital surplus			
Balance at beginning of year	81,084	42,143	825,450
Changes during term in review			
Stock issuance	0	38,941	0
Total changes during term in review	0	38,941	0
Balance at end of year	81,084	81,084	825,450
Retained earnings			
Balance at beginning of year	150,942	102,124	1,536,618
Changes during term in review			
Cash dividends	(9,411)	(7,009)	(95,806)
Decrease by inclusion of consolidated subsidiaries	0	(121)	0
Increase by exclusion of affiliated companies	0	121	0
Net income	18,253	55,985	185,819
Disposal of treasury stock	(58)	(158)	(590)
Total changes during term in review	8,784	48,818	89,423
Balance at end of year	159,726	150,942	1,626,041
Treasury stock			
Balance at beginning of year	(2,856)	(2,153)	(29,075)
Changes during term in review			
Purchase of treasury stock	(8,241)	(1,368)	(83,895)
Disposal of treasury stock	140	665	1,426
Total changes during term in review	(8,101)	(703)	(82,469)
Balance at end of year	(10,957)	(2,856)	(111,545)
Total shareholders' equity			
Balance at beginning of year	310,747	184,750	3,163,463
Changes during term in review			
Stock issuance	0	77,882	0
Cash dividends	(9,411)	(7,009)	(95,806)
Decrease by inclusion of consolidated subsidiaries	0	(121)	0
Increase by exclusion of affiliated companies	0	121	0
Net income	18,253	55,985	185,819
Purchase of treasury stock	(8,241)	(1,368)	(83,895)
Disposal of treasury stock	82	507	835
Total changes during term in review	683	125,997	6,953
Balance at end of year	311,430	310,747	3,170,416
Valuation and Translation adjustments			
Net unrealized gain (loss) on securities			
Balance at beginning of year	722	2,299	7,350
Changes during term in review			
Change in unrealized gain (loss) on securities	(846)	(1,577)	(8,612)
Total changes during term in review	(846)	(1,577)	(8,612)
Balance at end of year	(124)	722	(1,262)
Deferred gain on hedging instruments			
Balance at beginning of year	974	120	9,916
Changes during term in review			
Change in deferred gain (loss) on hedging instruments	(1,103)	854	(11,229)
Total changes during term in review	(1,103)	854	(11,229)
Balance at end of year	(129)	974	(1,313)
Foreign currency translation adjustments			
Balance at beginning of year	(3,084)	5,224	(31,396)
Changes during term in review			
Change in foreign currency translation adjustments	(14,647)	(8,308)	(149,109)
Total changes during term in review	(14,647)	(8,308)	(149,109)
Balance at end of year	(17,731)	(3,084)	(180,505)
Total Valuation and Translation adjustments			
Balance at beginning of year	(1,388)	7,643	(14,130)
Changes during term in review			
Changes in amounts during term in review excluding shareholders' equity (net)	(16,596)	(9,031)	(168,950)
Total changes during term in review	(16,596)	(9,031)	(168,950)
Balance at end of year	(17,984)	(1,388)	(183,081)
Stock purchase warrant			
Balance at beginning of year	415	122	4,225
Changes during term in review			
Change in stock purchase warrant	332	293	3,380
Total changes during term in review	332	293	3,380
Balance at end of year	747	415	7,605
Minority interests			
Balance at beginning of year	36,844	29,894	375,079
Changes during term in review			
Change in minority interests	(22)	6,950	(224)
Total changes during term in review	(22)	6,950	(224)
Balance at end of year	36,822	36,844	374,855
Total net assets			
Balance at beginning of year	346,618	222,409	3,528,637
Changes during term in review			
Stock issuance	0	77,882	0
Cash dividends	(9,411)	(7,009)	(95,806)
Decrease by inclusion of consolidated subsidiaries	0	(121)	0
Increase by exclusion of affiliated companies	0	121	0
Net income	18,253	55,985	185,819
Purchase of treasury stock	(8,241)	(1,368)	(83,895)
Disposal of treasury stock	82	507	835
Changes in amounts during the period excluding shareholders' equity (net)	(16,286)	(1,788)	(165,795)
Total changes during term in review	(15,603)	124,209	(158,843)
Balance at end of year	331,015	346,618	3,369,795

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2008	2009
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 44,142	¥ 100,564	$ 449,374
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	35,117	30,162	357,498
Increase in allowance for doubtful accounts	697	723	7,096
Interest and dividend income	(4,352)	(5,741)	(44,304)
Interest expenses	7,888	6,238	80,301
Increase in lease receivables and investment assets	(143)	(3,323)	(1,456)
(Increase) decrease in notes and accounts receivable	48,303	(69,631)	491,734
Increase in lease receivable	(22,491)	–	(228,963)
Increase in inventories	(86,884)	(43,253)	(884,496)
Purchase of property held for lease	(14,082)	(19,791)	(143,357)
Sale of property held for lease	3,841	3,405	39,102
Increase (decrease) in notes and accounts payable	(48,228)	24,542	(490,970)
Gains on sales of property, plant and equipment	(3,285)	(2,623)	(33,442)
Losses on valuation of investments in securities	3,837	109	39,061
Gains on sales of investments in securities	(120)	(22)	(1,222)
Other, net	13,187	(6,241)	134,246
Subtotal	(22,573)	15,118	(229,798)
Income taxes paid	(32,252)	(24,682)	(328,331)
Net cash used in operating activities	(54,825)	(9,564)	(558,129)
Cash flows from investing activities			
Proceeds from time deposits	0	5	0
Acquisitions of property, plant and equipment	(53,119)	(49,224)	(540,761)
Proceeds from sale of property, plant and equipment	650	885	6,617
Purchase of intangible assets	(9,928)	(7,083)	(101,069)
Purchase of investments in securities	(4,225)	(1,999)	(43,011)
Decrease in purchase of investments in subsidiaries	0	(1,893)	0
Increase in purchase of investments in subsidiaries	209	–	2,128
Proceeds from sale of investments in securities	337	1,151	3,431
Interest and dividends received	4,223	5,738	42,991
Interest and dividends received from affiliated companies	892	644	9,081
Other, net	(663)	465	(6,749)
Net cash used in investing activities	(61,624)	(51,311)	(627,344)
Cash flows from financing activities			
Net increase in short-term loans	100,048	41,013	1,018,508
Proceeds from long-term loans	49,685	18,220	505,803
Repayments of long-term loans	(14,853)	(18,898)	(151,206)
Repayments of lease obligation	(2,590)	–	(26,367)
Repayments of bonds	(13,000)	(10,600)	(132,342)
Interest paid	(8,216)	(6,482)	(83,640)
Dividends paid to shareholders	(9,411)	(7,009)	(95,806)
Dividends paid to minority shareholders by subsidiaries	(3,538)	(2,510)	(36,018)
Proceeds from issuance of common stocks	0	77,475	0
Proceeds from issuance of common stocks to minority shareholders by subsidiaries	71	1,344	723
Proceeds from disposal of treasury stock	82	507	835
Purchase of treasury stock	(8,241)	(1,368)	(83,895)
Net cash provided by financing activities	90,037	91,692	916,595
Effect of exchange rate changes on cash and cash equivalents	(2,210)	(3,202)	(22,498)
Net increase (decrease) in cash and cash equivalents	(28,622)	27,615	(291,377)
Cash and cash equivalents at beginning of year	68,726	41,074	699,644
Effect of merger of subsidiaries	0	37	0
Cash and cash equivalents at end of year (Note 12)	¥ 40,104	¥ 68,726	$ 408,266

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hitachi Construction Machinery Co., Ltd., and its Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 7, the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements (ASBJ Practical Issues Task Force No.18)" issued by the ASBJ on May 17, 2006. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Hitachi Construction Machinery Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Financial Services Agency as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. Consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. All significant intercompany accounts and transactions have been eliminated in consolidation.

Most of the investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in earnings. The investments in affiliated companies which do not materially affect earnings and equity are stated at cost.

The cost in excess of net assets, based on the fair value, acquired by the Company is being amortized on a straight-line basis over a period of five years.

3. U.S. dollar amounts

The accompanying consolidated financial statements are expressed in yen and solely for the convenience of readers have been translated into U.S. dollars at the rate of ¥98.23 = US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2009. This translation should not be construed as a representation that any amount shown could be converted into U.S. dollars.

4. Summary of significant accounting policies

(a) Investments in securities

The Company and certain subsidiaries classify their securities into one of the following two categories and account for these securities as follows:

① Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.

② Securities other than held-to-maturity securities are classified as other securities.

Unrealized holding gains and losses of other securities with fair values are reported in a net amount as a separate component of shareholders' equity until realized. Other securities without fair values are carried at cost.

In computing realized gain or loss, cost of other securities sold is principally determined by the moving-average method.

(b) Inventories

Inventories held by the Company and consolidated subsidiaries for normal sales purposes.

Inventories are stated at the cost method, principally determined by the moving-average method or individual method. The amounts shown on the Consolidated Balance Sheets are stated at net selling value considering a decline in profitability.

(c) Depreciation and amortization methods

Tangible assets, except for leased assets

Property held for lease	mainly the straight-line method
Other tangible assets	mainly the declining-balance method

Intangible assets, except for leased assets

Software	mainly the straight-line method over 5 years
Other intangible assets	mainly the straight-line method

Leased assets

Depreciation of leased assets from finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee is computed using the straight-line method without residual value over the leasing period.

(d) Allowance for doubtful accounts

General provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. When considered necessary, specific reserves are provided based on the assessment of individual receivables.

(e) Retirement and severance benefits

Allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

Prior service benefits and costs are recognized as income or expense on a straight-line basis over the expected average remaining employment period of the employees active at the date of the amendment. Actuarial gains and losses are recognized as income or expense on a straight-line basis from the next year of the occurrence over the expected average remaining employment period of the employee's participating in the plans.

(f) Income on installment sales

The Company and some subsidiaries have installment sales. Income on long-term installment sales is recognized when the related installment receivables become due. Accordingly, the unrealized profit on installment sales applicable to the portion that is not due at each balance sheet date is reflected in the accompanying consolidated balance sheets as "unrealized profit on installment sales and interest."

Interest from installment sales is included in interest and dividend income.

(g) Standards for translating major foreign currency-denominated assets or liabilities

At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to earnings as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the exchange rates in effect at the balance sheet date; shareholders' equity accounts are translated at historical rates; income and expenses are translated at an average of the exchange rates in effect during the year; and a comprehensive adjustment resulting from the translation of assets, liabilities and shareholders' equity is included in minority interests and, as "Foreign currency translation adjustments," a separate component of net assets.

(h) Accounting for leases

Finance lease assets that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value. Regarding leases which existed at the end of March 31, 2008 and do not transfer ownership of the leased property to the lessee, the Company and most subsidiaries are accounted for as operating leases.

(i) Derivatives

In principle, net assets or liabilities arising from derivative financial instruments are measured at fair value, with unrealized gain or loss included in earnings. Hedging transactions that meet the criteria of hedge accounting as regulated in "Accounting Standard for Financial Instruments," are accounted for by using the deferral hedge accounting, which requires the unrealized gain or loss to be deferred until gain or loss relating to the hedge object is recognized.

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts, currency option contracts and interest rate swap agreements in order solely to hedge associated risks of adverse fluctuations in foreign currency exchange rates and interest rates. The Company and consolidated subsidiaries do not enter into such financial instruments for trading or speculative purposes.

(j) Per share data

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then participate in the earnings of the entity.

(k) Treasury stock

Effective from the year ended March 31, 2007, the Company applied the revised "Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (ASBJ Statement No.1, final revision on August 11, 2006) and "Implementation Guidance on Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (ASBJ Guidance No.2, final revision on August 11, 2006).

(l) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets. The Company and consolidated subsidiaries identify groups of assets by their business units as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(m) Other

① Consumption tax

Consumption tax is excluded from presentation of sales, cost of sales, income and expenses.

② Income taxes

Deferred income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured by using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

5. Cash and cash equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of change in value, which have maturities of generally three months or less when purchased, to be cash equivalents.

6. Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements in order to conform to the current year presentations.

7. Change of accounting policies

Changes in standard and method for valuing important assets inventories

Previously, inventories held by the Company and consolidated subsidiaries for normal sales purposes were valued at lower of cost or market, principally determined by the moving-average method or individual method. Effective April 1, 2008, however, the Company has applied "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued July 5, 2006) and sought to make accounting treatment consistent for the Company and its consolidated subsidiaries. Accordingly, such inventories are generally valued at cost, principally determined by the moving-average method or individual method. The amounts shown on the Consolidated Balance Sheets are stated at net selling value considering a decline in profitability. The effect of this change on the operating income and income before income taxes and minority interests in the period was insignificant.

Application of "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements"

Effective from April 1, 2008, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, issued by the ASBJ on May 17, 2006.), has been applied and, accordingly, some revisions have been made to the consolidated accounts as necessary. The application of this policy had no material impact on operating income and income before income taxes and minority interests.

Application of "Accounting Standard for Lease Transactions" Lessee

Previously, finance leases that are not deemed to transfer ownership of the leased property to the lessee were accounted for as operating leases. From the fiscal year beginning April 1, 2008, however, domestic companies statutorily applied "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued March 30, 2007; revised from standard originally issued by the Corporate Accounting Council on June 17, 1993) and "Guidance on Accounting Standard for Lease Transactions," (ASBJ Guidance No.16, issued March 30, 2007; revised from standard originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994).

From April 1, 2008, the Company and its domestic subsidiaries have applied this standard, treating such leases as sell and buy transactions.

In addition, lease assets that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

The finance leases that are not deemed to transfer ownership of the leased property to the lessee that were contracted before a new standard application are treated as operating leases sequentially except for a domestic company which operates lease transaction as major business.

Lessor

Previously, finance leases that are not deemed to transfer ownership of the leased property to the lessee were accounted for as operating leases. From the fiscal year beginning April 1, 2008, however, domestic companies statutorily applied "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued March 30, 2007; revised from standard originally issued by the Corporate Accounting Council on June 17, 1993) and "Guidance on Accounting Standard for Lease Transactions," (ASBJ Guidance No.16, issued March 30, 2007; revised from standard originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994).

From April 1, 2008, the Company and its domestic subsidiaries have applied this standard, treating such leases as sell and buy transactions.

The finance leases that are not deemed to transfer ownership of the leased property to the lessee that were contracted before a new standard application are treated as operating leases sequentially except for a domestic company which operates lease transaction as major business.

The application of this policy had no material impact on operating income and income before income taxes and minority interests.

Application of Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)

Effective from April 1, 2008, "Partial Amendments to Accounting Standard for Retirement Benefits" (ASBJ Statement No.19), has been applied.

In this fiscal year, the application of this policy had no impact on operating income and income before income taxes and minority interests, because unrecognized actuarial loss will be amortized from next fiscal year.

The amount to be amortized from next fiscal year with application of this standard is ¥582million.

(Additional Information)

Change in estimate of the useful lives of tangible assets

As a result of reviewing its use of assets and other factors in the wake of revisions to the Corporate Tax Law, the Company and its domestic consolidated subsidiaries have changed the useful life of machinery and equipment from the beginning of the fiscal year ended March 31, 2009. As a result of this change, operating income and income before income taxes and minority interests each increased by ¥1,709 million.

8. Notes receivable discounted or endorsed

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Notes receivable discounted	**¥ 0**	¥ 69	**$ 0**
Notes receivable endorsed	**647**	339	**6,587**
Total	**647**	408	**6,587**

9. Contingent liabilities

At March 31, 2009 and 2008, the Company was contingently liable for guarantees given in respect of bank loans of affiliated companies and other entities amounting to ¥23,473 million (US$238,960 thousand) and ¥12,132 million, respectively.

10. Assets pledged as collateral

Assets pledged as collateral at March 31, 2009 and 2008 were as follows:	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Buildings and structures	**¥ 1,822**	¥ 360	**$ 18,548**
Property held for lease	**20,847**	26,205	**212,226**
Machinery,equipment and vehicles	**575**	0	**5,854**
Land	**716**	466	**7,289**
Total	**23,960**	27,031	**243,917**

Related debts secured with the above assets at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term loans	¥ 11,738	¥ 10,263	$ 119,495
Long-term loans	18,100	20,269	184,261
Total	29,838	30,532	303,756

11. Research and development costs

Research and development costs that were charged to cost of sales as incurred and included in selling, general and administrative expenses for the years ended March 31, 2009 and 2008 were ¥15,089 million (US$153,609 thousand) and ¥13,826 million, respectively.

12. Cash and cash equivalents at the end of year consist of the followings:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and bank deposits	¥ 40,109	¥ 53,264	$ 408,317
Deposit to affiliates	0	15,462	0
Less: time deposits with the maturity longer than three months	(5)	0	(51)
Total	40,104	68,726	408,266

13. Lease transactions

Information relating to finance leases accounted for as operating leases is as follows:
(Lessee)

1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2009			2009		
	Machinery, equipment and vehicles	Others	Total	Machinery, equipment and vehicles	Others	Total
Acquisition cost	¥ 5,591	¥ 4,735	¥ 10,326	$ 56,917	$ 48,203	$ 105,120
Accumulated depreciation	(3,233)	(1,513)	(4,746)	(32,913)	(15,403)	(48,316)
Net leased property	2,358	3,222	5,580	24,004	32,800	56,804

	Millions of yen		
	2008		
	Machinery, equipment and vehicles	Others	Total
Acquisition cost	¥ 7,350	¥ 4,607	¥ 11,957
Accumulated depreciation	(3,626)	(1,248)	(4,874)
Net leased property	3,724	3,359	7,083

2. Lease obligation under finance leases inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 2,043	¥ 4,017	$ 20,798
Due after one year	6,242	11,081	63,545
Total	8,285	15,098	84,343

3. Lease payments, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Lease payments	¥ 2,374	¥ 2,709	$ 24,168
Depreciation expense	1,656	2,341	16,858
Interest portion	291	360	2,962

4. Calculation method of depreciation expense and interest portion

Leased property is depreciated over the lease term by the straight-line method with no residual value. Excess of total lease payments over the assumed acquisition costs is regarded as assumed interest payable and is allocated to each period by using the interest method.

(Lessor)

1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2009			2009		
	Property held for lease	Others	Total	Property held for lease	Others	Total
Acquisition cost	¥ 7,403	¥ 0	¥ 7,403	$ 75,364	$ 0	$ 75,364
Accumulated depreciation	(6,083)	0	(6,083)	(61,926)	0	(61,926)
Net leased property	1,320	0	1,320	13,438	0	13,438

	Millions of yen		
	2008		
	Property held for lease	Others	Total
Acquisition cost	¥ 9,057	¥ 0	¥ 9,057
Accumulated depreciation	(6,054)	0	(6,054)
Net leased property	3,002	0	3,002

2. Future lease income inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 1,780	¥ 2,476	$ 18,121
Due after one year	2,140	4,614	21,786
Total	3,920	7,090	39,907

3. Lease income, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Lease income	¥ 695	¥ 1,963	$ 7,075
Depreciation expense	1,368	1,794	13,926
Interest portion	94	207	957

4. Calculation method of interest expense

Excess of total amount of lease payments and residual value over acquisition costs is regarded as assumed interest receivable and is allocated to each period by using the interest method.

Future minimum lease payments and income under non-cancelable operating lease arrangement are as follows:

(Lessee)

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 360	¥ 1,100	$ 3,665
Due after one year	827	1,966	8,419
Total	1,187	3,066	12,084

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 2,054	¥ 2,245	$ 20,910
Due after one year	3,738	4,776	38,054
Total	5,792	7,021	58,964

14. Investments in securities

Marketable securities

	Millions of yen			Thousands of U.S. dollars		
	2009			2009		
Securities with gross unrealized holding gain	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Stocks	¥ 1,563	¥ 2,191	¥ 628	$ 15,912	$ 22,305	$ 6,393
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	1,563	2,191	628	15,912	22,305	6,393
Securities with gross unrealized holding loss						
Stocks	3,279	2,402	(877)	33,381	24,453	(8,928)
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	3,279	2,402	(877)	33,381	24,453	(8,928)
Grand Total	4,842	4,593	(249)	49,293	46,758	(2,535)

	Millions of yen		
	2008		
Securities with gross unrealized holding gain	Acquisition cost	Carrying value	Unrealized gain (loss)
Stocks	¥ 2,101	¥ 4,356	¥ 2,255
Debt securities	0	0	0
Others	0	0	0
Total	2,101	4,356	2,255
Securities with gross unrealized holding loss			
Stocks	2,453	1,955	(498)
Debt securities	0	0	0
Others	0	0	0
Total	2,453	1,955	(498)
Grand Total	4,554	6,311	1,757

Non-marketable securities

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Stocks	¥ 2,037	$ 20,737
Debt securities	0	0
Held-to-maturity debt securities	10	102
Other investments	0	0
Total	2,047	20,839

	Millions of yen
	2008
Stocks	¥ 2,057
Debt securities	0
Held-to-maturity debt securities	10
Other investments	5
Total	2,072

The proceeds from sales of marketable securities amounted to ¥49 million (US$499 thousand) and ¥1,049 million with an aggregate gain of ¥30 million (US$305 thousand) and ¥23 million for the years ended March 31, 2009 and 2008, respectively.

15. Derivative financial instruments

The estimated fair values of the derivative financial instruments, excluding the derivative financial instruments which are accounted for by using deferral hedge accounting, by major instrument types as of March 31, 2009 and 2008 are as follows:

1. Forward exchange contracts

	Millions of yen			Thousands of U.S. dollars		
	2009			2009		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 48,747	¥ 47,406	¥ 1,341	$ 496,254	$ 482,602	$ 13,652
To buy foreign currencies	11,995	11,677	(317)	122,111	118,874	(3,227)
Total	—	—	1,024	—	—	10,425

	2008		
	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 101,397	¥ 96,923	¥ 4,474
To buy foreign currencies	11,530	11,123	(407)
Total	—	—	(4,067)

The fair values of derivative financial instruments were estimated on the basis of information obtained from third party financial institutions. The fair values of currency-related transactions are estimated using forward exchange rates.

16. Retirement and severance benefits

The Company has defined-benefit corporate pension plans, lump-sum retirement plans and defined contribution plans. In addition, some consolidated subsidiaries have tax qualified pension plans, lump-sum retirement plans and defined contribution plans.

The funded status of the Company's pension plans as of March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ (65,684)	¥ (68,200)	$ (668,676)
Plan assets at fair value	47,006	56,829	478,530
Funded status	(18,678)	(11,371)	(190,146)
Unrecognized actuarial loss	27,137	17,543	276,260
Unrecognized prior service cost	(4,306)	(4,810)	(43,836)
Total	4,153	1,362	42,278
Prepaid pension cost	15,851	13,447	161,366
Retirement and severance benefits	(11,698)	(12,085)	(119,088)

Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the years ended March 31, 2009 and 2008 consist of the following components:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 2,494	¥ 2,475	$ 25,389
Interest cost	1,848	1,875	18,813
Expected return on plan assets	(1,680)	(1,673)	(17,103)
Amortization of unrecognized actuarial loss	2,075	1,710	21,124
Amortization of unrecognized prior service cost	(380)	(326)	(3,868)
Cost for defined contribution plan	1,151	1,239	11,717
Net periodic benefit cost	5,508	5,300	56,072

Actuarial assumption and the basis of the calculation accounting for Company's plans are principally as follows:

	2009	2008
Discount rate (weighted average):	2.75%	2.66%
Expected rate of return on plan assets:	Principally 2.5%	2.5%

Unrecognized actuarial gain and loss are amortized using the straight-line method over 10 to 23 years.
Unrecognized prior service cost is amortized using the straight-line method over 9 to 23 years.

17. Income taxes

The tax effects of the temporary difference that give rise to significant position of tax assets and liabilities as of March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
Deferred tax assets	2009	2008	2009
Allowance for doubtful accounts	¥ 817	¥ 1,146	$ 8,317
Accrued employees bonuses	3,030	2,759	30,846
Net operating loss carryforward	7,728	7,730	78,673
Unrealized gain on inventories	8,296	11,114	84,455
Retirement and severance benefits	4,652	4,846	47,358
Loss incurred by consolidated subsidiaries after initial consolidation	0	458	0
Unrealized gain on fixed assets	1,323	1,537	13,468
Others	17,107	16,445	174,152
Subtotal	42,953	46,035	437,269
Less: Valuation allowance	(20,752)	(11,210)	(211,259)
Total	22,201	34,825	226,010
Less: Deferred tax liabilities	(6,498)	(9,466)	(66,151)
Net deferred tax assets	15,703	25,359	159,859
Deferred tax liabilities			
Earnings generated in consolidated subsidiaries and affiliated companies after initial consolidation	4,871	6,784	49,588
Net unrealized holding gains on investment in other securities	3,390	3,944	34,511
Prepaid pension cost	6,153	5,898	62,639
Others	1,657	2,302	16,869
Total	16,071	18,928	163,607
Less: Deferred tax assets	(6,498)	(9,466)	(66,151)
Net deferred tax liabilities	9,573	9,462	97,456

The aggregate statutory tax rate for the Company was approximately 40.5% for the years ended March 31, 2009 and 2008.

Reconciliations between the statutory income tax rate and effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2009 and 2008 are as follows:

	Percentage	
	2009	2008
Statutory tax rate applicable to the Company	% 40.5	% 40.5
(reconciliations)		
Expenses not deductible for tax purposes	1.1	0.3
Inhabitant tax on per capita basis	0.6	0.1
Difference in statutory tax rates of foreign subsidiaries	(14.3)	(9.1)
Elimination of dividends from subsidiaries	15.4	6.5
Amortization of goodwill	1.3	0.3
Equity in earnings of affiliated companies	(0.3)	(1.3)
Income tax effect on undistributed earnings of affiliated companies	(4.3)	1.9
Effect of foreign tax credit	(9.2)	(5.5)
Increase in valuation allowance	21.6	–
Others	(6.4)	(0.3)
Effective income tax rate	46.0	33.4

18. Short-term and long-term loans and bonds

(a) Short-term loans consist principally of bank loans with maturity within one year. The weighted-average interest rates on short-term loans outstanding at March 31, 2009 and 2008 were 2.36% and 4.12%, respectively.

(b) Current portion of bonds at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Unsecured bonds, interest 10 years swap rate plus 0.5%, due 2008	¥ 0	¥ 3,000	$ 0
Unsecured bonds, interest 1.22%, due 2008	0	10,000	0
Unsecured bonds, interest 1.39%, due 2009	500	0	5,090
	500	13,000	5,090

(c) Bonds other than current portion at March 31, 2009 and 2008 are as follows:

Unsecured bonds, interest 1.39%, due 2009	0	500	0
Unsecured bonds, interest 1.27%, due 2010	1,500	1,500	15,270
Unsecured bonds, interest range between 0.80 to 1.49%, due 2014 to 2016	320	0	3,258
	1,820	2,000	23,618

(d) Loans from banks and other financial institutions

Loans from banks and other financial institutions:			
Short-term loans	193,466	110,562	1,969,521
Current portion of long-term loans included in current liabilities	36,439	14,622	370,956
Short-term lease obligation	4,462	68	45,424
Long-term loans	63,421	50,466	645,638
Long-term lease obligation	8,195	150	83,427
Commercial paper	5,000	0	50,901
Total loans	310,963	175,868	3,165,867

19. Segment information

Business segment information

The Company and its subsidiaries' business segments are classified as "Construction Machinery," "Industrial Vehicle," and "Semiconductor Production Equipment."

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Net sales:			
Construction Machinery	¥ 660,412	¥ 854,882	$ 6,723,119
Industrial Vehicle	82,832	83,849	843,245
Semiconductor Production Equipment	2,195	3,430	22,346
Elimination	(1,272)	(1,624)	(12,949)
Consolidated total	744,167	940,537	7,575,761
Operating income:			
Construction Machinery	48,866	104,740	497,465
Industrial Vehicle	10	5,627	102
Semiconductor Production Equipment	(41)	428	(417)
Elimination	1	(2,337)	10
Consolidated total	48,836	108,458	497,160

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Total Asset			
Construction Machinery	¥ 777,130	¥ 763,576	$ 7,911,331
Industrial Vehicle	53,194	49,042	541,525
Semiconductor Production Equipment	810	1,965	8,246
Elimination	10,219	18,513	104,031
Consolidated total	841,353	833,096	8,565,133
Depreciation			
Construction Machinery	30,421	26,121	309,692
Industrial Vehicle	4,369	3,724	44,477
Semiconductor Production Equipment	27	25	275
Elimination	300	292	3,054
Consolidated total	35,117	30,162	357,498
Capital expenditure			
Construction Machinery	59,947	76,479	610,272
Industrial Vehicle	3,805	8,629	38,736
Semiconductor Production Equipment	32	42	326
Elimination	136	119	1,385
Consolidated total	63,920	85,269	650,719

Notes:
1) The business segments are classified based on similarity of products.
2) The principal products and services of each segment are as follows:
① Construction Machinery: excavators, mini-excavators, wheel loaders and cranes & foundation machines
② Industrial Vehicle: forklift trucks, transfer cranes and container carriers
③ Semiconductor Production Equipment: ultrasonic inspection equipment and atomic force microscope equipment
3) Corporate assets included in "Elimination" of March 31,2009 and March 31,2008 amounted to ¥10,219 million and ¥18,513 million respectively. Those assets principally consisted of working capital(cash and cash equivalents, time deposits, long term investment and others).
4) Effective from the year ended March 31,2009, the Company reassessed the segment allocation of its operating expense, certain administrative expense of TCM corporation headquarter and the subsidiaries which had previously been included under the "Elimination" as unallocatable expense, are now allocated to each segment for the 2009. As a result of this change, compared with when applying the previous method, operating income of "Construction machinery" decreased by ¥580 million and "Industrial Vehicle" decreased by ¥1,774 million and "Elimination" increased by ¥2,354 million, respectively.
5) Accounting principles and practices were changed from the year ended March 31,2009 as stated in Note 7, "Inventory" and "practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement".From these changes, there is no significant impact on each segment.
6) Estimate of the useful lives of tangible assets were changed from the year ended March 31,2009 as stated in Note 7,"Change in Estimate of the useful lives of tangible assets". As a result of this change, compared with when applying the previous method, operating income of "Construction machinery" increased by ¥1,884 million and "Industrial Vehicle" decreased by ¥175 million, respectively.
7) Accounting principles and practices were changed from the year ended March 31,2009 as stated in Note 7 "Accounting Standards for lease transaction".From this change, there is no significant impact on each segment profit.

Segment information by geographic area:

	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Net sales:			
Domestic (inside Japan)	¥ 594,012	¥ 683,191	$ 6,047,155
Outside Japan			
Asia	170,436	194,664	1,735,071
Europe	143,121	247,323	1,456,999
Americas	64,753	75,445	659,198
Other Areas	87,371	120,799	889,453
Elimination	(315,526)	(380,885)	(3,212,114)
Consolidated total	744,167	940,537	7,575,762
Operating income:			
Domestic (inside Japan)	4,577	52,669	46,595
Outside Japan			
Asia	23,412	26,134	238,339
Europe	1,656	18,804	16,858
Americas	6,659	7,214	67,790
Other Areas	7,036	10,372	71,628
Elimination	5,496	(6,735)	55,950
Consolidated total	48,836	108,458	497,160

Notes:
1) Net sales above include inter-segment sales.
2) The countries included in each segment are as follows:
① Asia: China, Indonesia, Singapore, Thailand and Malaysia
② Europe: The Netherlands and France
③ Americas: The United States and Canada
④ Other areas: New Zealand, Australia and South Africa
3) Accounting principles and practices were changed from the year ended March 31,2009 as stated in Note 7 "Inventory" and "practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement". From these changes, there is no significant impact on each segment.
4) Estimate of the useful lives of tangible assets were changed from the year ended March 31,2009 as stated in Note 7 "Change in Estimate of the useful lives of tangible assets".As a result of this change, compared with when applying the previous method, operating income of "Japan" increased by ¥1,709 million, respectively.
5) Accounting principles and practices were changed from the year ended March 31,2009 as stated in Note 7 "Accounting Standards for lease transaction".From this change, there is no significant impact on each segment profit.

Overseas sales by geographic area:

	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Americas	¥ 79,178	¥ 88,518	$ 806,047
Europe, Africa and the Middle East	180,843	291,942	1,841,016
Australia, New Zealand and Other areas of Asia, except China	151,148	184,021	1,538,715
China	119,295	127,323	1,214,446
Total	530,464	691,804	5,400,224

Note: Overseas sales are sales in countries and areas other than Japan where the Company and its consolidated subsidiaries are located.

20. Legal reserve and cash dividends

The Japanese Corporate Law provides that earnings in an amount equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as legal reserve until legal reserve equals 25% of stated common stock. In addition to reduction of a deficit and transfer to stated common stock, legal reserve may be available for dividends by resolution of the shareholders' meeting.

"Cash dividends during the years ended March 31, 2009 and 2008 represent dividends resolved during those years. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥22.00 (US$0.22) per share totaling ¥4,538 million (US$46,198 thousand) for the second half of the year, subsequently proposed by the Board of Directors in respect of the year ended March 31, 2009."

21. Stock option

The stock option expense of ¥293 million (US$2,983 thousand) is recognized and classified as selling, general and administrative expenses for the year ended March 31, 2009.

The details for stock option

1) Stock option information

Company name		Hitachi Construction Machinery Co., Ltd.							TCM Corporation	
Resolution date		June 29, 2000	June 27, 2002	June 26, 2003	June 29, 2004	June 28, 2005	June 26, 2006	June 25, 2007	June 27, 2006	June 27, 2008
Number of grantees		17 Directors 17 Employees	8 Directors 36 Employees 28 Subsidiary Directors	8 Directors 14 Executive Officers 25 Employees 28 Subsidiary Directors	8 Directors 15 Executive Officers 29 Employees 27 Subsidiary Directors	9 Directors 15 Executive Officers 25 Employees 32 Subsidiary Directors	9 Directors 14 Executive Officers 22 Employees 30 Subsidiary Directors	9 Directors 14 Executive Officers 26 Employees 33 Subsidiary Directors	9 TCM Directors 12 TCM Executive Officers 185 TCM Employees 19 TCM Subsidiary Directors	10 TCM Directors 14 TCM Executive Officers 189 TCM Employees 17 TCM Subsidiary Directors
Number of options granted (common stock, shares)		241,000	416,000	454,000	488,000	504,000	305,000	332,000	755,000	767,000
Granted date		August 4, 2000	August 1, 2002	August 7, 2003	August 6, 2004	August 8, 2005	August 8, 2006	November 6, 2007	September 8, 2006	August 5, 2008
Exercise period	from	July 1, 2002	July 1, 2004	July 1, 2005	July 1, 2006	July 1, 2007	July 29, 2008	July 1, 2009	August 26, 2008	July 26, 2010
	to	June 28, 2010	June 27, 2012	June 26, 2013	June 29, 2014	June 28, 2015	June 26, 2016	June 27, 2017	June 27, 2016	June 27, 2018

2) Changes in stock option during fiscal year

① Numbers of stock option

Company name	Hitachi Construction Machinery Co., Ltd.							TCM Corporation	
Before vested									
Beginning of the fiscal year	—	—	—	—	—	305,000	—	755,000	—
Granted	—	—	—	—	—	—	332,000	—	767,000
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	305,000	—	755,000	—
Outstanding	—	—	—	—	—	—	332,000	—	767,000
After vested									
Beginning of the fiscal year	5,000	55,000	61,000	164,000	346,000	—	—	—	—
Vested	—	—	—	—	—	305,000	—	755,000	—
Exercised	—	5,000	10,000	19,000	26,500	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Ending of the fiscal year	5,000	35,000	51,000	145,000	320,100	305,000	—	755,000	—

② Price information

Company name	Hitachi Construction Machinery Co., Ltd.							TCM Corporation	
Exercise price	¥ 564	¥ 413	¥ 1,211	¥ 1,325	¥ 1,557	¥ 2,728	¥ 4,930	¥ 393	¥ 247
Average stock prices when exercised	—	¥ 3,040	¥ 3,040	¥ 3,294	¥ 2,975	—	—	—	—
Fair value at the grant date	—	—	—	—	—	¥ 877	¥ 1,501	¥ 148	¥ 61
Exercise price	US$ 5.74	US$ 4.12	US$ 12.33	US$ 13.49	US$ 15.85	US$ 27.77	US$ 50.19	US$ 4.00	US$ 2.51
Average stock prices when exercised	—	US$ 30.95	US$ 30.95	US$ 33.53	US$ 30,29	—	—	—	—
Fair value at the grant date	—	—	—	—	—	US$ 8.93	US$ 15.28	US$ 1.51	US$ 0.62

The valuation method for estimated fair value of stock options granted during the year ended March 31, 2009

1) The calculation formula: The Black Scholes

2) The underlying data used and method of estimation:

	(Notes)	Hitachi Construction Machinery Co., Ltd.
Stock price volatility	1)	42%
Estimated remaining period	2)	6 Year
Estimated dividend	3)	¥4.5 (US$0.46)
Risk free rate	4)	1.16%

Note :
1) The daily historical average price for the past 6 years is used.
2) We assumed options were exercised at the middle of the exercise period because there is no accumulation of sufficient data and rational estimate was difficult.
3) The actual results of the previous year
4) Estimated rate of Japanese Government Bond with the corresponding remaining period to maturity

Estimation method for number of options to vest:
Basically we only consider actual expired number, because we have no rational method for estimate for future expiration.

22. Related party transactions

As of March 31, 2009, Hitachi, Ltd., the parent company of the Company, holds 52.2% of the Company's total number of shares issued and 53.1% (including indirect shareholdings) of the total number of shares with voting rights. Hitachi, Ltd. oversees numerous affiliated companies, and engages in a wide variety of operations covering the manufacture, sale and service of products.

The Company and its Group companies are part of the power and industrial systems in the business segment of Hitachi, Ltd. The Company maintains a close cooperative relationship with Hitachi, Ltd. and Hitachi Group companies.

Effective from the current fiscal year the Company has applied "Accounting Standard for Disclosure of Related Party Transactions" (ASBJ Statement No.11 October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No.13 October 17, 2006). There is no change of principal disclosure from this.

The following are summaries of the major transactions with Hitachi, Ltd., and the Company has transactions with other subsidiaries and affiliated companies of Hitachi, Ltd.

Transactions with Hitachi, Ltd.	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash deposit transaction	**¥ 15,462**	¥ 234,529	**$ 157,406**
Cash borrowing transaction	**11,006**	213,091	**112,043**

Balances with Hitachi, Ltd.	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Short term loan as of March 31	**¥ 11,006**	¥ 0	**$ 112,043**
Short term lending as of March 31		15,462	**0**

Transactions with Deer Hitachi Construction Machinery Corp.(Affiliate of the Company)	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Sales transaction	¥ 18,136	¥ 19,709	$ 184,628

Transactions with Deer Hitachi Construction Machinery Corp.(Affiliate of the Company)	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Accounts receivable as of March 31	¥ 5,324	¥ 8,331	$ 54,199

Transactions with Hitachi Capital Corpration(subsidiary of parent company)	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Commission of payment transaction	¥ 95,945	¥ 87,669	$ 976,738

Balances with Hitachi Capital Corpration(subsidiary of parent company)	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Accounts payable as of March 31	¥ 19,913	¥ 29,610	$ 202,718
Other payable as of March 31	964	1,490	9,814

23. Per share data

	Yen		U.S. dollars
	2009	2008	2009
Per share data:			
Net assets	¥ 1,442.54	¥ 1,446.55	$ 14.00
Net income	85.79	271.00	1.00
Diluted net income	85.72	270.23	1.00

	Millions of yen		Thousands of U.S. dollars
Basis in calculation:	2009	2008	2009
1) Net assets			
Total net assets on consolidated balance sheet	¥ 331,015	¥ 346,618	$ 3,369,795
Total net assets for oridinary shares	293,446	309,359	2,987,336
Major item for above discrepancies			
Stock purchase warrants	747	415	7,605
Minority interests	36,822	36,844	374,855
Common stock issued	215,115,038	215,115,038	—
Treasury stock	8,831,203	1,254,982	—
Number of common stock for net assets per share	206,283,835	213,860,056	—

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
2) Net income			
Net income	¥ 18,253	¥ 55,985	$ 185,819
Net income not belong to common shareholders	0	0	0
Net income for common shareholders	18,253	55,985	185,819
Weighted average common shares outstanding, less treasury stock	212,754,987	206,587,605	—
Dilutive effect of: Stock purchase warrants	188,571	586,357	—
Weighted average diluted common shares outstanding	212,943,558	207,173,962	—

24. Subsequent Events

The issue of straight bonds

The Company has issued 12th straight bonds under the following condition according to the resolution on the board of directors held on June 2, 2009.

Item	Descriptions
The nature of bond	12th straight bonds (unsecured)
Total amount of bond issuance	30 billion yen
Terms	5years
Coupon rate	1.38%
Issue price	100yen per face value of 100yen
The date of issuance	June 18, 2009
The details of pledge	No guarantee, no pledge and no specification
The purpose of funds	Repayment of borrowings, Working capital, Investment on securities and P.P.E
Redemption method	Bullet repayment
Other important clause	Negative pledge clause

Report of Independent Auditors

The Board of Directors
Hitachi Construction Machinery Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hitachi Construction Machinery Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Construction Machinery Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 7 to the consolidated financial statements, the Company and consolidated subsidiaries adopted new "Accounting standard for Lease Transactions" and "Guidance on Accounting standard for Lease Transactions" effective April 1, 2008.

As described in Note 24 to the consolidated financial statements, the Company has issued 12th straight bonds in June 18, 2009 according to the resolution on the board of directors held in June 2, 2009 .

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 22, 2009

Global Network

As of June 22, 2009

Major Consolidated Subsidiaries and Affiliates *Affiliates

Europe, Africa and the Middle East

Manufacturing & Sales Companies
- Hitachi Construction Machinery (Europe) N.V. [HCME]

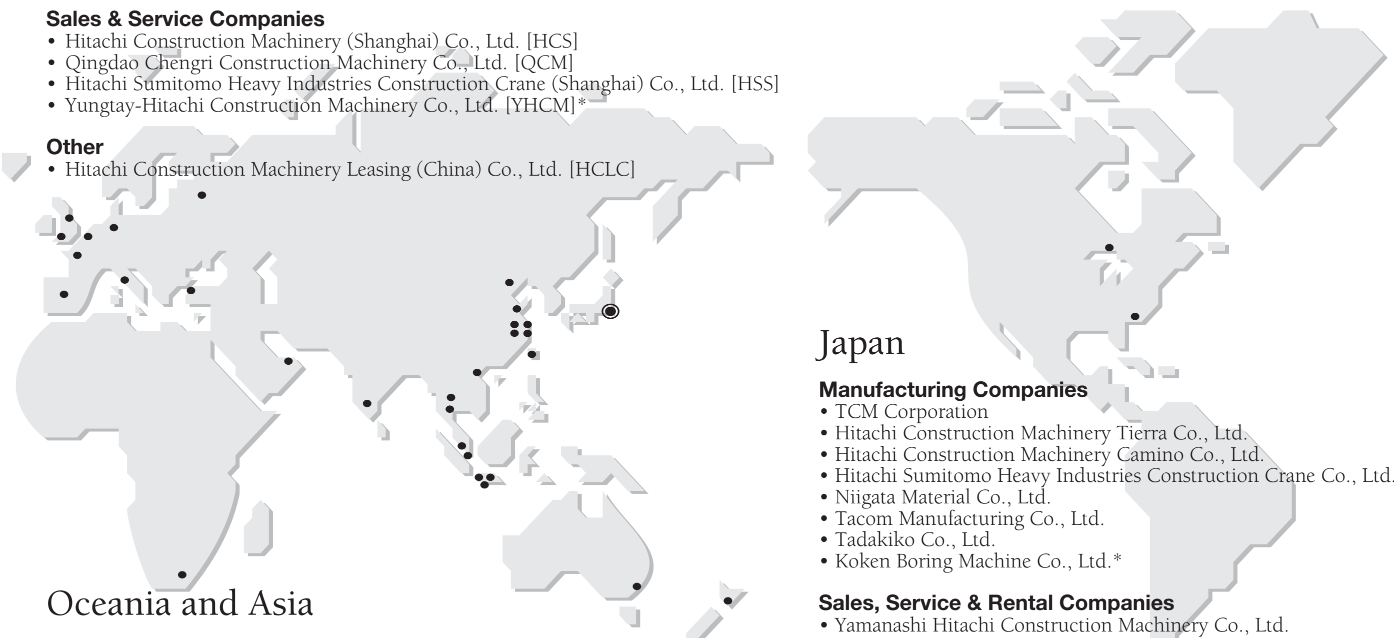
Sales & Service Companies
- Hitachi Construction Machinery Southern Africa Co., Ltd. [HCSA]
- Hitachi Construction Machinery Sales and Service France S.A.S. [HCSF]
- Heavy Construction Machinery Ltd. [HMP]
- SCAI S.p.A. [SCAI]*

China

Manufacturing & Sales Companies
- Hitachi Construction Machinery (China) Co., Ltd. [HCMC]
- Hefei Rijian Shearing Co., Ltd. [HRS]

Sales & Service Companies
- Hitachi Construction Machinery (Shanghai) Co., Ltd. [HCS]
- Qingdao Chengri Construction Machinery Co., Ltd. [QCM]
- Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai) Co., Ltd. [HSS]
- Yungtay-Hitachi Construction Machinery Co., Ltd. [YHCM]*

Other
- Hitachi Construction Machinery Leasing (China) Co., Ltd. [HCLC]



Oceania and Asia

Manufacturing & Sales Companies
- PT. Hitachi Construction Machinery Indonesia [HCMI]
- PT. Shibaura Shearing Indonesia [SSI]*
- Telco Construction Equipment Co., Ltd. [TELCON]*

Sales & Service Companies
- Hitachi Construction Machinery Asia and Pacific Pte. Ltd. [HMAP]
- CablePrice (NZ) Limited [CPL]
- PT. Hexindo Adiperkasa Tbk [HAP]
- Hitachi Construction Machinery (Australia) Pty., Ltd. [HCA]
- Hitachi Construction Machinery (Thailand) Co., Ltd. [HCMT]
- SHCM Service Co., Ltd. [SHSC]
- Hitachi Construction Machinery (Malaysia) Sdn. Bhd. [HCMM]

Other
- Hitachi Construction Machinery Leasing (Thailand) Co., Ltd. [HCMLT]
- PT. Hitachi Construction Machinery Finance (Indonesia) [HCFI]

The Americas

Manufacturing & Sales Companies
- Hitachi Construction Truck Manufacturing Ltd. [HTM]
- Deere-Hitachi Construction Machinery Corporation [DHCM]*

Other
- Hitachi Construction Machinery Holding U.S.A. Corp. [HHUS]

Japan

Manufacturing Companies
- TCM Corporation
- Hitachi Construction Machinery Tierra Co., Ltd.
- Hitachi Construction Machinery Camino Co., Ltd.
- Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.
- Niigata Material Co., Ltd.
- Tacom Manufacturing Co., Ltd.
- Tadakiko Co., Ltd.
- Koken Boring Machine Co., Ltd.*

Sales, Service & Rental Companies
- Yamanashi Hitachi Construction Machinery Co., Ltd.
- Okinawa Hitachi Construction Machinery Co., Ltd.
- Hitachi Construction Machinery REC Co., Ltd.

Others
- Hitachi Construction Machinery Comec Co., Ltd.
- Hitachi Kenki Logistics Technology Co., Ltd.
- Hitachi Kenki Business Frontier Co., Ltd.
- Hitachi Construction Machinery Trading Co., Ltd.
- Hitachi Construction Machinery Operators Training Center Co., Ltd.
- Hitachi Construction Machinery Leasing Co., Ltd.

Liaison Offices

- HCM China Office
- HCM Vietnam Representative Office
- HCME Germany Office
- HCME Iberia Office
- HCME Russia-CIS Office
- HCME UK Office
- HCME Middle East Center
- HCME Middle East Center Istanbul Office

Investor Information

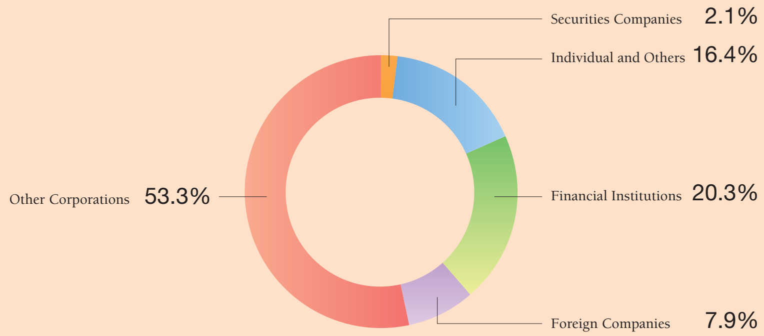
As of March 31, 2009

Company Name	Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha) Head Office: 5-1, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8563, Japan Tel. 81-3-3830-8065 Fax. 81-3-3830-8224
Date of Establishment	October 1, 1970
Major Operations	Manufacturing, sales and service of construction machinery, transportation machinery, and other machines and devices
Common Stock	Number of Shares Authorized 700,000,000 Number of Shares Issued 215,115,038
Paid-in Capital	¥81,576,592,620
Stock Exchange Listings	Tokyo, Osaka (#6305)
Independent Auditor	Ernst & Young ShinNihon
Stock Transfer Agent	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shareholders	47,493
Number of Employees	17,399 (Consolidated) 3,918 (Non-consolidated)
Annual Meeting	The annual meeting of shareholders is usually held before the end of June in Tokyo.

Major Shareholders

	Thousands of Shares	%
Hitachi, Ltd.	107,581	50.01
Japan Trustee Services Bank, Ltd.	18,110	8.42
The Master Trust Bank of Japan, Ltd.	13,045	6.06
Trust & Custody Services Bank, Ltd.	4,481	2.08
JP Morgan Securities Japan Co., Ltd.	1,794	0.83
Governor and Company of Bank of Ireland Clients	1,567	0.73
Chuo Shoji Ltd.	1,295	0.60
NikkoCiti Trust and Banking Corporation	1,192	0.55
Government of Singapore Investment Corporation P Limited	1,160	0.54
Mitsubishi UFJ Securities Co., Ltd.	930	0.43

Composition of HCM's Shareholders



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