HITACHI

Reliable solutions

Hitachi Construction Machinery Co., Ltd.

Annual Report 2010

Year ended March 31, 2010

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.

The HCM 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 global top player."

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

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.)

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

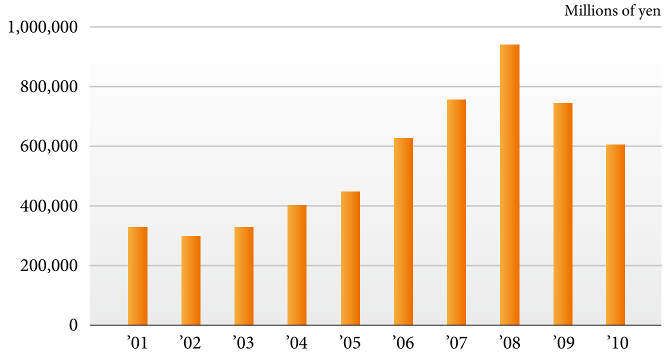
10-Year Financial History

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31

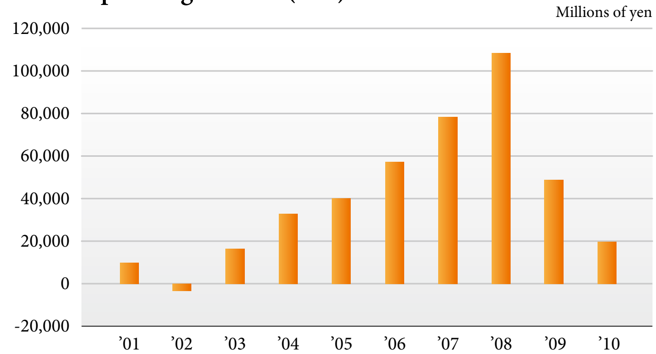
	Millions of yen, except per share data										Thousands of U.S. dollars (Note 3), except per share data
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	**2010**
For the year:											
Net sales	**605,788**	744,167	940,537	756,453	626,457	448,043	402,195	328,496	298,766	328,854	**6,511,049**
Operating income (loss)	**19,669**	48,836	108,458	78,352	57,177	40,120	32,858	16,399	(3,295)	9,892	**211,404**
Income (loss) before income taxes and minority interests	**18,333**	44,142	100,564	70,081	46,795	31,862	21,211	6,486	(20,903)	(1,304)	**197,044**
Net income (loss)	**4,019**	18,253	55,985	36,502	24,223	17,325	12,490	3,883	(17,603)	(3,195)	**43,196**
At year-end:											
Total assets	**883,047**	841,353	833,096	655,326	552,341	463,812	407,049	373,755	360,008	372,718	**9,491,047**
Working capital	**207,948**	124,398	155,901	98,891	99,213	96,638	67,201	61,735	38,736	60,599	**2,235,039**
Shareholders' equity	**304,808**	293,446	309,359	192,393	157,173	131,318	91,132	74,321	64,977	80,141	**3,434,222**
Interest-bearing debt	**307,754**	300,626	190,650	165,910	152,953	154,786	152,152	153,003	159,584	141,317	**3,307,760**
Per share data (yen):											
Net income (loss)	**19.33**	85.79	271.00	187.43	124.37	91.05	72.62	25.90	(122.47)	(22.23)	**0.21**
Diluted net income	**19.32**	85.72	270.23	186.81	124.00	90.88	70.92	24.35	–	–	**0.21**
Shareholders' equity	**1,441.73**	1,422.54	1,446.55	987.56	807.17	673.81	520.93	460.98	452.07	557.55	**15.50**
Cash dividends (declared)	**10.00**	44.00	42.00	28.00	18.00	14.00	11.00	7.00	0.00	6.00	**0.11**
Other indicators:											
Return on net sales (%)	**0.7%**	2.5%	6.0%	4.8%	3.9%	3.9%	3.1%	1.2%	–	–	
Return on equity (%)	**1.3%**	6.1%	22.3%	20.9%	16.8%	15.6%	15.1%	5.6%	–	–	
Equity ratio (%)	**34.5%**	34.9%	37.1%	29.4%	28.5%	28.3%	22.4%	19.9%	18.0%	21.5%	
Price/earning ratio (times)	**114.28**	14.79	9.21	17.02	24.92	16.24	23.60	22.66	-2.59	-19.30	

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.

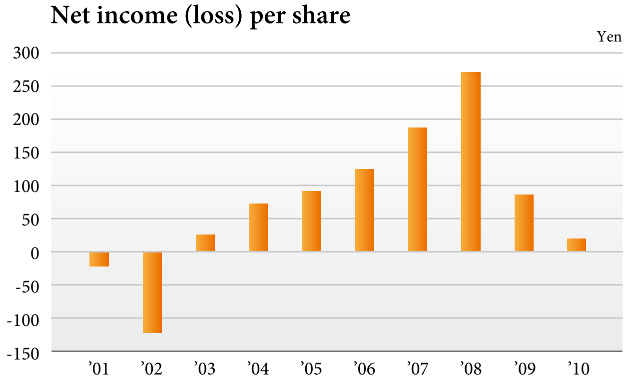
Net sales



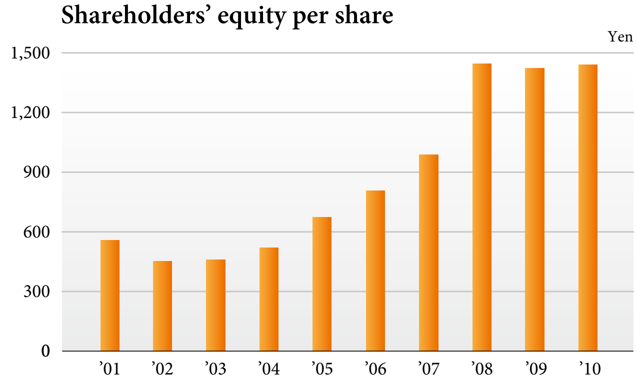
Operating income (loss)



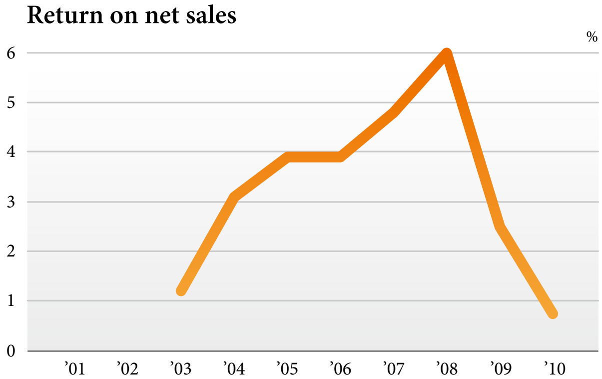
Net income (loss) per share



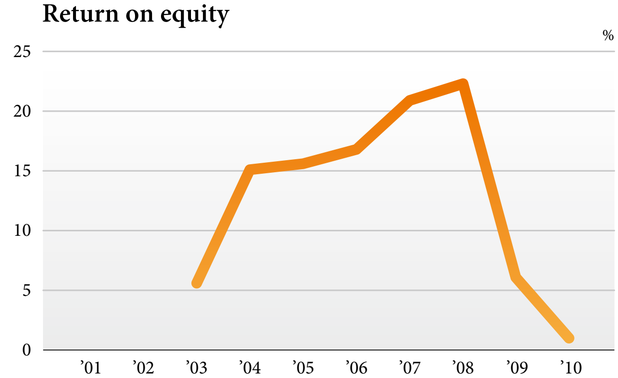
Shareholders' equity per share



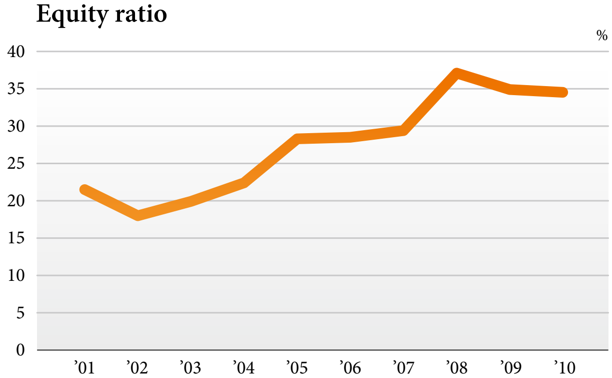
Return on net sales



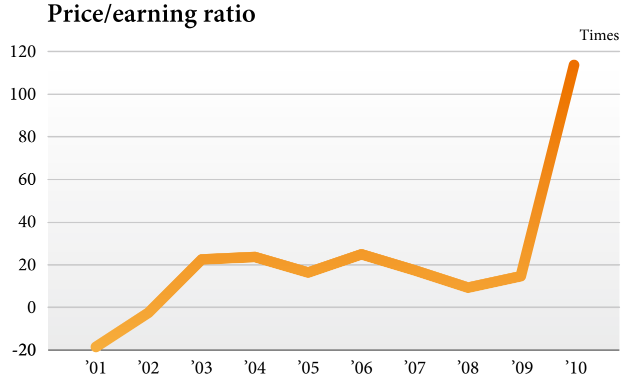
Return on equity



Equity ratio



Price/earning ratio



Interview with the President

Amid a continuation of the extremely tough business environment, consolidated business performance for the fiscal year ended March 31, 2010 (period from April 1, 2009 to March 31, 2010) saw decreases in sales and profits for the second consecutive year despite achieving profitability. HCM President, Chief Executive Officer and Director Michijiro Kikawa discusses the management strategies and other measures HCM will implement in response to these challenging times.

Michijiro Kikawa President, Chief Executive Officer and Director

Ongoing Measures to Enhance Earnings a Key Policy

● What events and developments stand out over the last year?

The ongoing global decline in demand for construction machinery significantly impacted business operations in an extremely severe environment. We overcame the adverse conditions and worked as a Group to enhance profits, which enabled us to stay in the black. Despite this, we unfortunately recorded year-on-year declines in sales and profits for the second consecutive year.

Nonetheless, we mostly completed reductions of inventory exceeding appropriate levels worldwide in the first half of the fiscal year, and recommenced production in the second half, driving a turnaround toward recovery. In addition, although the climate remains severe in markets in the developed nations of Japan, the United States and throughout Europe, positive signs started to emerge, albeit gradually, particularly in terms of recovery in demand in China and certain other countries in Asia, in the second half of the fiscal year.

● What are the primary measures you have undertaken to enhance profits?

HCM views the aforementioned reduction of inventory as a priority issue, and based on the idea that it is imperative to do what needs to be done, we meticulously, yet swiftly, adopted a series of fundamental measures to achieve this goal.

First, we assured a guaranteed level of quality to increase the trust customers have in HCM as a manufacturer. We reviewed quality management, including at our business partners, and focused on improving basic operations and passing down technologies in order to provide to customers products in which our production divisions worldwide have absolute confidence, from the perspectives of material quality, processing quality and assembly quality.

After returning inventory close to a suitable level, we aimed to increase profit margins by leveraging the brand power of HCM products to raise selling prices and expand market share. We also worked to secure net income through efforts to reduce, among other things, material costs and fixed costs.

Although we did not achieve 100% of our target, these initiatives still had the desired effect of enhancing profits to an extent, and as such, we plan to persist with this key policy in the fiscal year ending March 31, 2011 as well.

Strategy in View of a Paradigm Shift in the Construction Machinery Industry

● How do you perceive the future demand outlook?

I consider the construction machinery industry as a growing industry in macro terms. In emerging nations, where growth continues, there is a need to develop infrastructure such as roads, railways, ports and essential utilities, which will lead to investment in construction machinery. In addition, growing demand for iron ore, coal and cement, which are essential for economic advancement, will drive development in the mining sector and stimulate demand for large mining equipment. Against this backdrop, it is expected that construction machinery demand will remain solid over the medium to long term.

The structure of construction machinery demand has completely changed over the past 10 years. In the year ended March 2002, developed nations accounted for 70% of demand, with the remaining 30% accounted for by emerging nations. Nowadays, the reverse is true, whereby 70% of demand comes from emerging nations and 30% from developed nations. In other words, to seize all opportunities as a business group with a part to play in this growth industry, it is vital for us to increase our presence in emerging markets.

China is seen as the most important of these markets. Accordingly, we aim to secure a sizeable share of the market, which accounts for over one-quarter of HCM Group sales.

The next key market is India. Along with expectations for high economic growth, India is proceeding with a national policy to develop lagging infrastructure, prompting a forecast of considerable demand. It is also an iron- and coal-producing nation, so we can expect demand in the resource development sector as well. Previously, business in India was conducted through Telco Construction Equipment Co., Ltd. (Telcon), a joint venture with Tata Motors Ltd., until we made it a consolidated subsidiary in March 2010. Going forward, we will exploit the proven record of Telcon, which commands over 40% share in the market for hydraulic excavators, and look to maintain and expand market share of HCM products. Further, India has been positioned as a strategic location for the supply of products to other emerging nations near the Middle East and Africa.

We are also strengthening production systems in Asian countries, such as Indonesia, and creating new bases in other regions, namely, Russia and Africa, in a step-wise manner.

● Amid intensifying global competition, how do you consider manufacturers from South Korea and China?

They represent a threat. Although currently there is a gap in technology, this is slowly closing. As technological disparities disappear, customers will base product selection on how easily a machine breaks down, how quickly it can be repaired if it does break down and whether costs can be kept down throughout the machine's lifecycle, the latter of which provides obvious benefits. At the same time, it is important to differentiate in terms of services, notably through good after-sales service and enhanced financing services, while I also believe customers will demand reliability in a broad sense.

Realizing Visualization of Inventory through Supply Chain Management

● Developing a supply chain seems to be the key to increasing the precision of inventory management.

It has become increasingly necessary to keep close control over the flow of goods as production has expanded and commercial distribution has gotten more complex.

With new supply chain management, which has improved this issue, it is easier to visualize machinery at each stage of the distribution process. For example, we can see exactly when a machine with a serial number of 100 has left the factory, arrived at the port, been loaded onto the ship, arrived at its destination and been put in storage. The new structure allows us to visualize all of these operations in real time.

With this system, we rollover the amount every month for the period 15 months down the line, which increases the precision of our forecasts and allows us to determine how much base inventory regionally to retain for sales.

Unchanging Stance towards Corporate Governance and Corporate Social Responsibility (CSR)

● How do you view corporate governance as the HCM Group expands globally?

We codified the "*Kenkijin* Spirit" as a code of conduct adhered to by HCM Group members and commenced activities in this regard in 2008 in order to share our corporate identity on a global basis.

What is stipulated in a distributed handbook is just a fundamental outline of the HCM corporate philosophy of "the fundamentals and the right path" and of our code of conduct to challenge goals and enable effective communication based on a customer first principle. We can all benefit by simply sharing these same values while adopting a work style befitting a particular region. Naturally, cultures and customs differ depending on the country, region and ethnicity, so it is better to do things in a way that suits the local population. It is never a good idea to try and instill a Japanese work style. At the same time, micromanagement is never a good approach. It may seem a bit abstract, but I merely ask that employees stay true to the idea of pursuing challenges and ensuring effective communication based on the concept "the fundamentals and the right path" and a customer first mindset. If we all can do that, I know everyone can be trusted to get the job done.

What is *Kenkijin* Spirit?

In pursuing our vision and principles, it is important to achieve the goals of the HCM Group's medium to long-term vision and medium-term management plan while responding to the demands of society in areas such as compliance and CSR. The actions of each individual employee are the driving force behind these efforts. If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee's ideas and initiatives.

The *Kenkijin* Spirit codifies these shared values and guiding principles, to encapsulate portray the attitude of a *Kenkijin*.

● Can you tell us about your CSR activities?

I believe that CSR is the key to a company's survival. But what does survival entail? It means a company treats its employees in a proper manner, as well as has the ability to maintain strong links with suppliers, and with customers, to generate an adequate level of profit, and to share these proceeds with all shareholders. More than anything, a company plays an important role in contributing to a country by paying taxes. If a company cannot survive, it's because it doesn't adhere to these basic principles. We are doing our utmost to avoid this scenario. Put more succinctly, we are just doing what needs to be done. I believe that in itself assures a major contribution to society.

A Year for Strategic Turnaround and Future-focused Structural Reforms

● In closing, do you have a message for shareholders and investors?

In the fiscal year ending March 31, 2011, uncertainty remains due to concern over trends in material prices and currency fluctuations. We forecast global demand for hydraulic excavators to increase year-on-year due primarily to rising demand in emerging markets such as China, India and Indonesia; an increase in replacement demand in the rental business in North America, which has been sluggish; and a bottoming out of demand in Europe.

Amid these circumstances, the HCM Group has positioned the fiscal year ending March 31, 2011 as the year to develop a system for increased production that includes each supplier. We will also work to enhance financial functions and sales systems in general, strengthen sales of used machinery and remanufactured parts as service business and improve parts sales and services in response to recovering demand, as well as to implement structural reforms with an eye on the future.

Regarding the distribution of profits to shareholders for the fiscal year, our policy is to provide stable dividends from retained earnings commensurate with consolidated performance. We have set annual dividends per share at ¥10.00 (US$0.11).

I ask all our shareholders and investors for your understanding of the HCM Group's management strategy, as well as your continued support.

Medium-term Management Plan

"*SOH* 2010 – For the New Stage"

From April 2007 to March 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 global top 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

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.

Services

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.

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.

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.

Special Feature

Business Strategy Aimed at Being a Global Top Player

Worldwide demand for hydraulic excavators dropped sharply following the Lehman Shock in autumn 2008. In the fiscal year ended March 31, 2010, demand declined to 151,000 units, approximately 30% lower than the peak recorded in the year ended March 2007. Within that amount, regional composition has changed dramatically. The decline in demand has been particularly pronounced in developed countries, dropping to 23% of the global total in the fiscal year under review, when it was almost half at one point. In contrast, demand has been growing in emerging countries, led by China, and this sector now accounts for 77% of the global total.

Amid such drastic changes in the market environment, the HCM Group is working to strengthen business from various perspectives with the aim of being a global top player that is trusted by customers worldwide. This Special Feature focuses on some of the key initiatives being undertaken to achieve this goal.

Continued Bipolarization in Construction Machinery Market

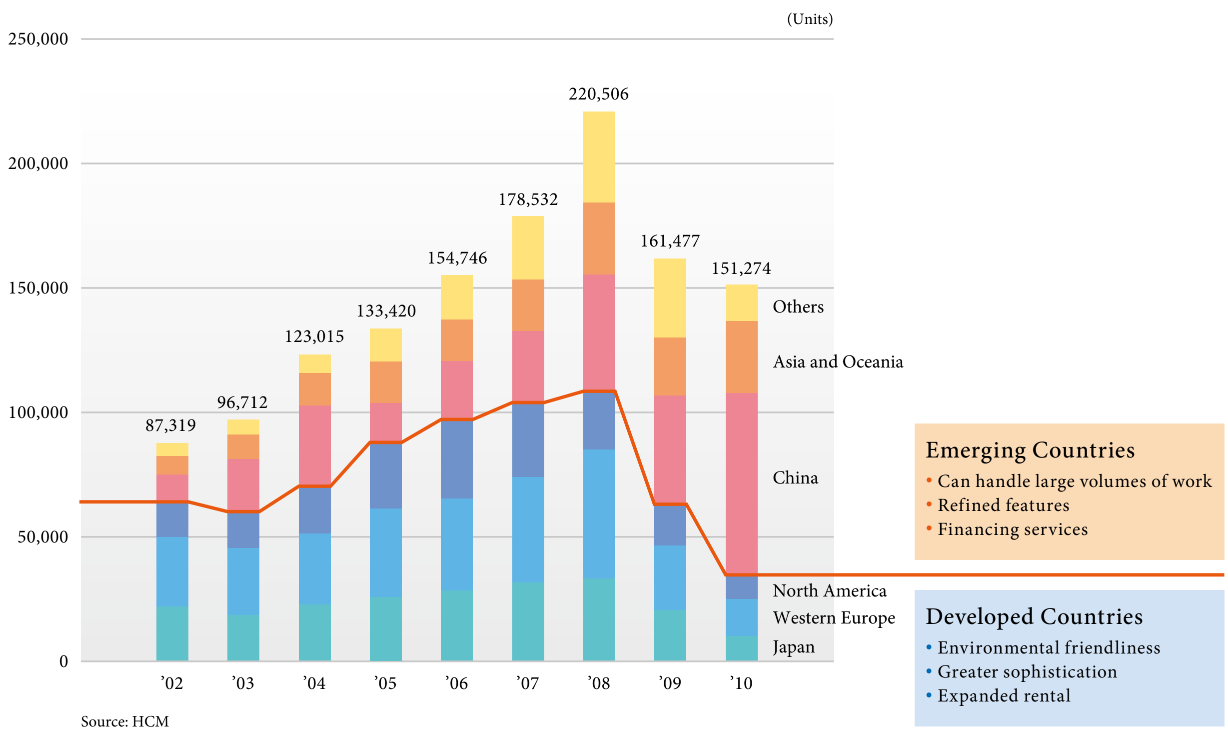
Needs for construction machinery for use in infrastructure and resource development have been rising in emerging countries, which now account for over 70% of the hydraulic excavator market, due to expansive landmass, large populations and abundant underground resources. Since the machinery is used for long periods under grueling conditions in tough environments, the market demands highly durable equipment that can handle large volumes of work for extended periods. In other words, they are looking for machinery that does not break down easily, that can be repaired easily in case of breakdown and that has a simple design with high performance.

Developed markets on the other hand are seeking equipment that complies with such environmental regulations as those for exhaust emissions, that is flexible and can cope with non-excavation based work, such as on building demolition sites, and that incorporates advanced features related to fuel efficiency and other areas.

The HCM Group is working to stimulate demand for construction machinery in different countries and regions through the supply of optimal products that meet local needs and by enhancing the solutions business through services and financing.

Worldwide Demand for Hydraulic Excavators

Years ended March 31



Source: HCM

Products

Focus on Emerging Markets

—Launch of Hydraulic Excavator and Forklift Targeting the Chinese Market—

As part of the product strategy in emerging countries, we launched a hydraulic excavator and forklift that meet the needs of customers in the Chinese market.

The ZAXIS-3G, a new type of hydraulic excavator, features a more durable structure than the highly praised ZAXIS-3 Series in order to enable use at mines with particularly grueling conditions. It is also equipped with a tough engine that requires minimal maintenance. Sales of the ZAXIS-3G commenced with the 30-ton class, and the lineup will be expanded in the year to March 2011. Considerations are underway regarding introduction of the ZAXIS-3G in emerging countries in Africa and the Middle East.

TCM Corporation launched the new forklift C-1 Series in China in March 2010. This forklift inherits critically acclaimed features from past models while realizing a price that the market demands through thorough cost reductions to ensure enhanced competitiveness against local Chinese manufacturers. The name “C-1” stands for “China No. 1” and encapsulates the meaning “hope” (the word for “hope” in Chinese sounds like C-1).

C-1 forklift

ZX300-3G hydraulic excavator

Equipped with lithium-ion battery

ZX35B mini-excavator with lithium-ion battery

Response to Developed Countries

At the same time, Hitachi Construction Machinery Tierra Co., Ltd. and Shin-Kobe Electric Machinery Co., Ltd. have jointly developed the ZX35B mini-excavator with a lithium-ion battery that contributes to reducing CO_2 emissions and realizing a low-carbon society.

The ZX35B operates by supplying power to the motor and cylinders from a lithium-ion battery equipped on the machine. Since it does not emit exhaust gas, crops or plants are not affected by blight. There are also no ventilation problems that occur due to emissions during interior teardown or tunnel construction. Moreover, the machine’s use as a mini-excavator can be adapted to various site conditions. Additionally, since the ZX35B has no engine, this enables a significant reduction in noise. Its superiority in terms of quietness is especially a key requirement for mini-excavators mostly used for civil engineering projects in urban areas.

Regions

Aggressive Strategy in Emerging Markets Following China

HCM is reinforcing operations in India, Africa and Russia, among others, which are viewed as the most promising markets after China, where demand is booming.

HCM made India-based Telco Construction Equipment Co., Ltd. (Telcon) a consolidated subsidiary during the period. This company, which built up overwhelming advantages in the Indian market as a subsidiary of Tata Motors Ltd., will promote initiatives to further strengthen development and production in India going forward. Efforts are also being made to enhance existing models to maintain and expand high market share in the country, cultivate other emerging markets by using India as a strategic base, develop parts and components business using India as a global hub and further strengthen mining business there.

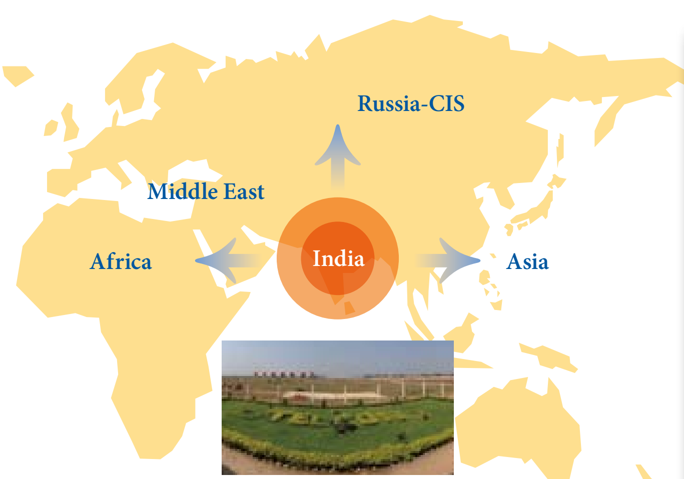
In Russia, we established Hitachi Construction Machinery Eurasia Sales LLC, a distributor in which HCM has a 100% equity stake, which will devise sales strategy and supply parts as well as direct sales and service support to dealers. Demand for machinery to excavate iron ore and coal and to develop urban infrastructure is growing in Russia, with demand for hydraulic excavators forecast to expand going forward. Accordingly, we intend to strengthen business there by bolstering marketing and inventory management, while aiming to increase sales of mining machinery, including to the Commonwealth of Independent States (CIS).

In Africa, we opened a Sub-Sahara base in Ghana in light of a projected increase in demand for resources in the future and worked to cultivate new distributors and strengthen our existing distributor system. Moving ahead, we will develop a sales and service network covering the continent, which includes opening maintenance centers for mining equipment in Zambia and Mozambique.

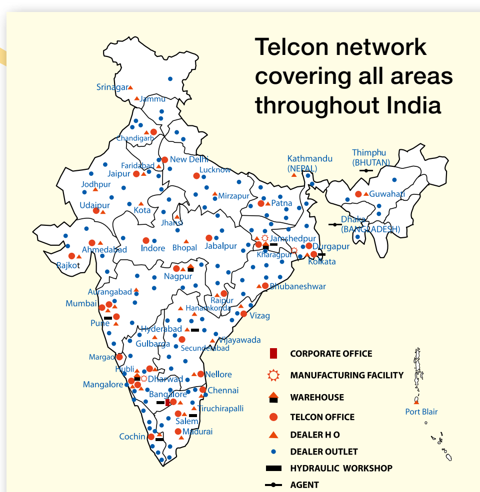
In Indonesia, where construction machinery demand is recovering strongly on the back of higher prices of resources such as palm oil, pulp and coal, we will enhance production capacity of hydraulic excavators and increase the number of sales and service sites.

Overall, we will take an aggressive approach in emerging countries around the world to take advantage of burgeoning demand.

Market Cultivation in Emerging Countries Underpinned by Strategic Base in India



Telcon's new plant in Kharagpur, India



Services

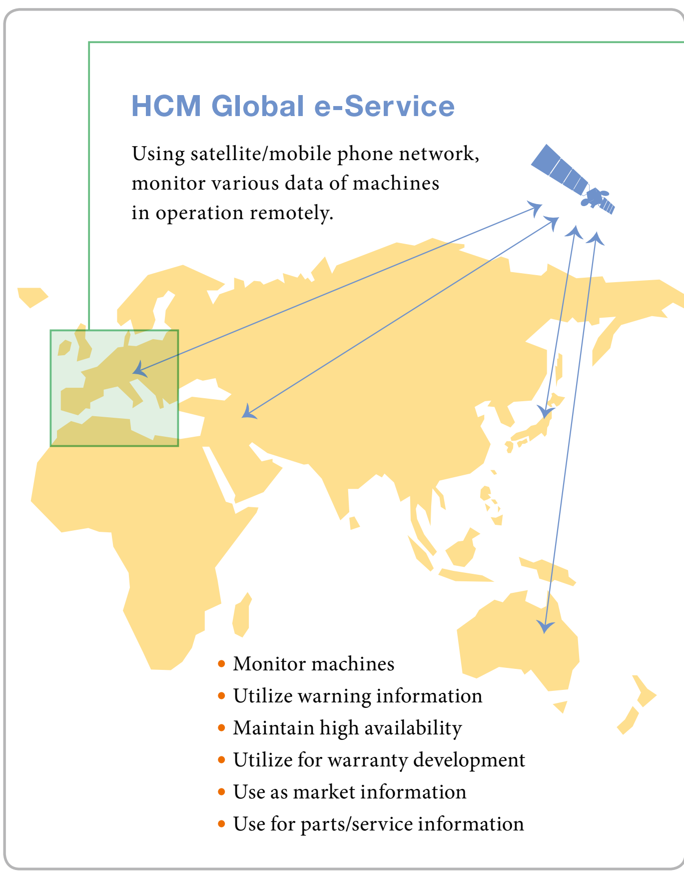
Expansion of Global e-Service Coverage

With Global e-Service, information on machine location and operation is collected at a center at HCM via satellite communications. The system covers around 60,000 units of HCM's construction machinery in operation around the world.

HCM will enhance Global e-Service using a mobile phone network to promote usage in countries where satellite communications are unavailable due to regulations regarding data transmission. The service has been expanded from roughly 40 countries at present to over 60, which will lead to heightened competitiveness in emerging markets.

Screen showing Global e-Service in operation

Advancing Global e-Service

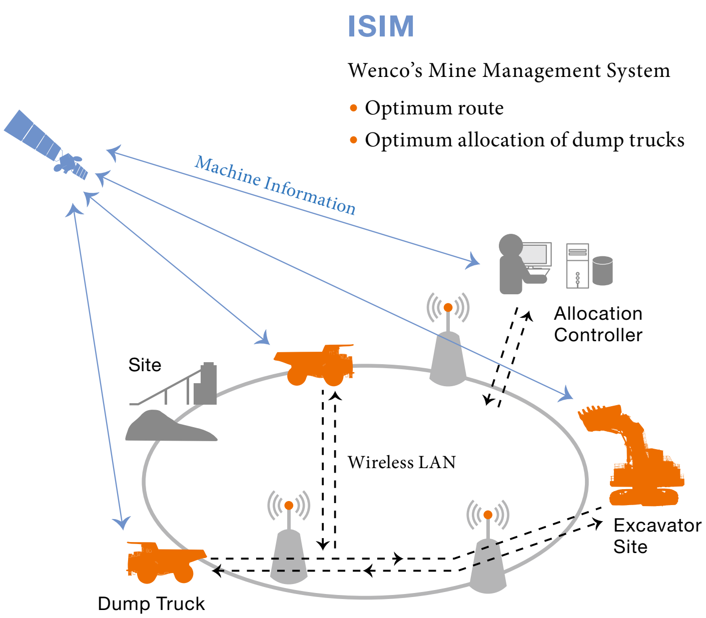


Further Development of Mining Business

In collaboration with Hitachi, Ltd., as well as a company that produces fleet management systems for mining, HCM is developing unique products and services for machinery used to support mining operations and energy development in emerging countries.

The market has been calling for the introduction of a system that can determine the operating condition of equipment such as hydraulic excavators and dump trucks at mining sites and handle efficient operating management in order to raise productivity. HCM made Wenco International Mining Systems Ltd. (Wenco), a producer of fleet management systems for mining in Canada, into a consolidated subsidiary and created a structure enabling provision of its own unique fleet management system for mining. Moving ahead, HCM aims to expand the potential of its mining machinery business. This includes development of a higher-precision preventive maintenance service that utilizes our conventional Global e-Service, an information analysis service that contributes to an increase in productivity and a reduction in production costs for customers through integration with Wenco's operating management system, and new-generation models that apply operating data from HCM.

Management Systems for Mining



Strengthen Mining Business

- Total solutions of products (machine) and systems (traffic control)

TOPICS

Start of Sales of Trolley-Assisted Dump Trucks

HCM launched a trolley-assisted dump truck that uses the overhead electric transmission lines and power equipment at mining sites. This system combines electric power from the overhead cables with engine power when climbing hills to enable up to 40% greater speed than the standard diesel engine alone. It also reduces the burden on the engine when going uphill, providing the added benefits of a reduction in fuel costs, and less frequent overhaul requirements, thus potentially slashing operating costs by 50~80%. We have also commenced sales as a package of feeder and wire facilities for mining produced by Hitachi, Ltd.

Management Foundation and CSR

The HCM Group's human resource development and corporate social responsibility (CSR) activities are highlighted here, reflecting our corporate emphasis on a comfortable and prosperous society for all global citizens.

Human Resources Development

International Skills Competition Spreads HCM's Culture of Manufacturing Worldwide

In 2007, in coordination with our major global business expansion, HCM instituted major changes to the human resources development structure. Until then, management, RSS (rental, service, sales), and skills and technology training were handled independently. The new undertaking resulted in a new structure in which the consolidated management of these areas of training has been implemented at the Kasumigaura Institute, which was established in April of the same year.

The International Skills Competition, sponsored by HCM, took place at the Kasumigaura Institute in November 2009. Competitions have been held since 2000, in which employees engaged in production from throughout the HCM Group compete on various skills and techniques with the aim of improving capabilities and increasing the quality of each individual's work. A total of 52 competitors from 15 production sites pitted their skills against one another in welding, measuring, coating and assembly. Our policy is to hold the competition regularly to spread HCM's culture of manufacturing around the world.

Assembly competition

Supporting Demining Activities

Contributing to the mechanization of demining in Colombia's mountainous regions

There are more than 100 million landmines buried throughout the world today. In 2000, Yamanashi Hitachi Construction Machinery developed demining equipment employing hydraulic excavator technology and immediately put it to use in Cambodia. Since then, they have continued to support demining and local revitalization not only in Cambodia, but also in Vietnam, Afghanistan, Nicaragua, Angola and Thailand. With the installation of two more demining machines in Colombia in 2009, they now have 70 demining machines in operation around the world.

Anti-government guerrillas have been engaged in illegal activities in Colombia for 40 years. The number of landmines buried by guerrillas increases every year, and it is now estimated that approximately 70% of the national land has been turned into a minefield. The number of residents migrating from such mine-strewn areas in search of a safe place to live is huge, and the Colombian government is searching for quick solutions to the problem.

Maintenance instructional session for humanitarian team handling the demining equipment

According to material published by the Presidential Program for Comprehensive Action against Antipersonnel Mines (PAICMA), approximately 15,000 landmine-related accidents have occurred since 1990, reaching a total of 8,000 victims. Even now, approximately three people are injured per day.

It was under such extreme conditions that the Colombian government requested the cooperation of Yamanashi Hitachi Construction Machinery in 2008 for the development of demining equipment. Mr. Amemiya, the president of Yamanashi Hitachi Construction Machinery Co., Ltd., visited the area in February 2009 to conduct a weeklong survey of the situation. In February 2010, two demining machines (BM307-FV20) were installed in Tolima Department.

Mr. Amemiya also established technical training and maintenance instructional sessions for the humanitarian teams handling the demining equipment. Although the removal of landmines with this demining equipment has just begun, Hitachi has already received a message of gratitude from the vice president of Colombia himself.

Yamanashi Hitachi Construction Machinery is not about simply providing technology or aid money. They aim to support demining and the rebuilding of the livelihoods of the residents by educating the local staff and working along side the residents to get the work done. The truest form of international contribution, which Mr. Amemiya regards as his ideal and has implemented in many places in the past, is carried out in Colombia as well.

Overview by Regional Segment

Japan

Despite a moderate increase in public investments due in part to supplementary budgets, private housing investment and capital expenditure remained low, resulting in continued stagnation in demand for hydraulic excavators. In light of these trends, we integrated the West and East Japan Divisions to establish the Japan Division in April 2009. We also reformed sales systems based on industry-specific sales such as environment and resources while shifting sales staff to high-demand areas to be more competitive.

Despite such efforts, net sales in Japan fell 20% from the previous fiscal year to ¥171,657 million (US$1,845 million).

The Americas

Although housing-related economic indicators partially improved, there were minimal signs of the effects of economic stimulus packages and the surrounding business environment remained severe due to continued weak demand. In response, U.S.-based Deer-Hitachi Construction Machinery Corporation worked to maintain appropriate inventory levels, reduce costs and improve productivity.

Net sales in the Americas were down 53% to ¥37,245 million (US$400 million).

Europe, Russia-CIS, Africa and the Middle East

Although demand for construction machinery declined throughout Europe due to ongoing economic stagnation, there were signs that demand has bottomed out, notably with demand for hydraulic excavators on a recovery track in some parts of Europe in the fourth quarter (January 1 to March 31, 2010).

Amid these conditions, we succeeded in adjusting inventory of hydraulic excavators and mini-excavators to appropriate levels in addition to significantly improving market share by expanding sales to major clients through close cooperation with sales dealers. For wheel loaders, we endeavored to increase efficiency in production systems and to increase market share by augmenting our product lineup through the launch of large models.

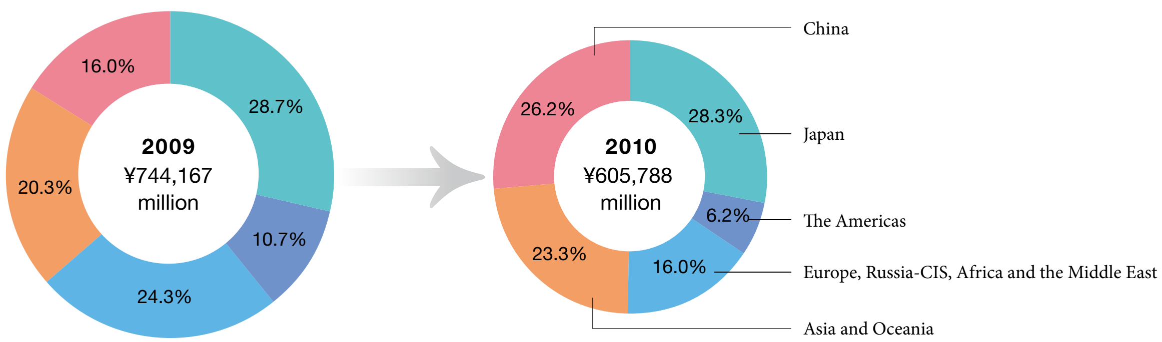
Net sales in Europe declined 36% from the previous fiscal year to ¥63,504 million (US$683 million).

Although demand for hydraulic excavators decreased in Russia-CIS due to the economic downturn, we worked to enhance relations with local dealers in Kazakhstan and Azerbaijan to gain new orders. We also established Hitachi Construction Machinery Eurasia Sales LLC in Moscow to strengthen dealer support and delegated management of inventory control and product supply to flexibly respond to market trends in Russia.

In Africa, we received large orders for dump trucks in

Proportion of Consolidated Net Sales by Region

Years ended March 31



Zambia and Congo. Additionally, we opened a Sub-Sahara base in Ghana with the medium- to long-term prospect of increasing demand for resources, and to cultivate new dealers and enhance the structure of existing dealers.

In the Middle East, although demand continued to decline, we received a steady flow of individual orders and focused marketing efforts on acquiring new clients to increase market share.

Total net sales of Russia-CIS, Africa and the Middle East regions fell 59% from the previous fiscal year to ¥33,463 million (US$360 million).

Asia and Oceania

In Asia and Oceania, demand for construction machinery related to palm oil, forestry and mining increased steadily. Reflecting this trend, we started marketing activities in earnest by proposing the optimal combination of construction machinery, particularly for woodcutting in the forestry industry.

In Indonesia, we enhanced sales activities for new machines and parts to increase market share. In addition, in response to growing demand for mining, we expanded the financing schemes of PT. Hitachi Construction Machinery Finance (Indonesia) to promote sales.

Net sales in Oceania and Asia declined 7% from the previous fiscal year to ¥141,238 million (US$1,518 million).

China

A recovery phase was evident in China on the back of large infrastructure projects backed by governmental stimulus packages, as well as considerably higher demand for hydraulic excavators and mini-excavators from the second half of the fiscal year.

Under these circumstances, we increased the number of staff by dispatching a special support team from Japan, who had been attending customers' diverse needs in the domestic market, and enhanced dealer competitiveness by expanding the introduction of the sales support software "Hi-STEP."

In addition, we aggressively conducted promotional activities such as exhibitions in each region to introduce core products, including hydraulic excavators, which helped us realize record unit sales.

In the financing business, Hitachi Construction Machinery Leasing (China) Co., Ltd. provided financing schemes that meet customer needs to all dealers directed toward expanding sales.

Net sales in China increased 33% from the previous fiscal year to ¥158,681 million (US$1,706 million).

Overview by Business Segment

Construction Machinery Business

Regarding construction-related machinery, in addition to further expanding sales of the ZAXIS-3 Series of new-model hydraulic excavators and the ZW Series of new-model wheel loaders, we upgraded our lineup by launching a series of the ZX UR-3 mini-excavators with an ultra-short tail swing, and a large crawler crane 6000SLX that delivers maximum 500-ton lifting capacity.

In machinery for resource development, we made efforts to expand sales of new products such as the EX-6 Series of ultra-large hydraulic excavators, which are equipped with environmentally friendly engines, as well as the Electric-drive Series of ultra-large hydraulic excavators, which have an external electricity supply, and dump trucks that realize outstanding driving performance using AC electric-drive systems.

In the mining business, we made Wenco International Mining Systems Ltd. a consolidated subsidiary in July 2009 to promote sales of mining equipment to customers that already have Wenco's system, while we aggressively proposed Wenco's system to customers who bought our mining machinery, to improve customer satisfaction. Wenco is a leading producer of fleet management systems in Canada for mining and conducts systems development, manufacturing, sales and maintenance.

We also launched the ZAXIS-3G Series of 30-ton class hydraulic excavators in China, where demand is rapidly rising, as a first step in our product strategy, which accommodates the bipolarization of developed and emerging nations.

Net sales in the Construction Machinery Business fell 16% from the previous fiscal year to ¥552,169 million (US$5,935 million).

Industrial Vehicles Business

In industrial vehicles, demand for forklifts, a core product, was on a recovery track in emerging nations such as China from the second half of the fiscal year, although demand on the whole decreased dramatically compared with the previous year. Reflecting this situation, we strove to realize significant cost reductions and expand sales in regions where HCM has yet to make inroads.

As for product development, we launched machines that meet emission standards and successfully developed products targeting emerging markets, namely, the C-1 Series of forklifts, which we launched in China in March 2010.

Net sales in the Industrial Vehicles Business decreased 35% from the previous fiscal year to ¥53,619 million (US$576 million).

Notes: 1) Business categories are based on internal segments used within HCM. The products included in each category are as follows:
1. Construction Machinery Business: Hydraulic excavators, mini-excavators, wheel loaders and crawler cranes.
2. Industrial Vehicles Business: Forklifts, transfer cranes and container carriers.

2) We previously divided our businesses into the following three segments: Construction Machinery Business, Industrial Vehicles Business and Semiconductor Production Equipment Business. However, we decided to scale back the Semiconductor Production Equipment Business and consolidate it into the Construction Machinery Business because the market has diminished in size and the ultrasonic imaging device business, which is a core business of the Semiconductor Production Equipment Business, is expected to decrease in growth potential. The sales and the operating profit (loss) of the Semiconductor Production Equipment Business included in the Construction Machinery Business at this fiscal year are insignificant.

TOPICS

Launch of Large Crawler Crane Enables Significantly Shorter Assembly Time

In June 2009, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. launched the 6000SLX with a 500-ton maximum lifting capacity as the first in a series of large crawler cranes.

Overseas, demand is growing for large crawler cranes for use at large oil and gas plants and energy-related facilities including those for nuclear power and wind power generation. The simple pin arrangement for frame and boom attachments on the 6000SLX enables assembly without a hammer, thereby enabling assembly in one-third the time (two days) of conventional designs.

By altering the boom and counterweight, the 6000SLX can be used in the same manner as 350-ton, 500-ton and 600-ton class cranes. That means it can handle a workload that previously required three cranes, thereby increasing the utilization rate.

The 6000SLX was awarded the "Nippon Brand Prize," the second prize of the 40th MACHINE DESIGN AWARD sponsored by The Nikkan Kogyo Shimbun, Ltd. This was the second award received in two years since the SCX2000-2 won the Prize Machine Design Award: Distinctive Merit Award.

Toshimi Sakai, President (left) and Kazuaki Inoue, Executive Vice President of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

Directors and Executive Officers

As of June 21, 2010

Takashi Miyoshi (1) (3)
Chairman of the Board and Independent Director

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

Mitsuji Yamada
Executive Vice President, Representative Executive Officer and Director

Taiji Hasegawa
Executive Vice President, Executive Officer and Director

Toru Sakai
Senior Vice President, Executive Officer and Director

Shinichi Mihara
Senior Vice President, Executive Officer and Director

Hiroshi Tokushige
Vice President, Executive Officer and Director

Kiichi Uchibayashi (2)
Director

Yoshio Kubo (1) (2)
Independent Director

Masahide Tanigaki (1) (2) (3)
Independent Director

Notes: Numbers in parentheses beside names show committee membership: (1) Nominating Committee, (2) Audit Committee and (3) Compensation Committee.

Directors

Chairman of the Board and Independent Director	**Takashi Miyoshi**
Director	**Michijiro Kikawa**
Director	**Mitsuji Yamada**
Director	**Taiji Hasegawa**
Director	**Toru Sakai**
Director	**Shinichi Mihara**
Director	**Hiroshi Tokushige**
Director	**Kiichi Uchibayashi**
Independent Director	**Yoshio Kubo**
Independent Director	**Masahide Tanigaki**

Executive Officers

President and Chief Executive Officer	**Michijiro Kikawa**
Executive Vice President and Representative Executive Officer	**Mitsuji Yamada**
Executive Vice President and Executive Officer	**Taiji Hasegawa**
Senior Vice President and Executive Officer	**Toru Sakai**
Senior Vice President and Executive Officer	**Shinichi Mihara**
Vice President and Executive Officer	**Tsutomu Mizutani**
Vice President and Executive Officer	**Makoto Sato**
Vice President and Executive Officer	**Hiroshi Tokushige**
Vice President and Executive Officer	**Yukio Arima**
Vice President and Executive Officer	**Kiyomitsu Yamanaka**
Vice President and Executive Officer	**Yoshimi Iwase**
Executive Officer	**Mitsuhiro Tabei**
Executive Officer	**Yuichi Tsujimoto**
Executive Officer	**Masaki Kanahara**
Executive Officer	**Shigeru Murasugi**
Executive Officer	**Hideo Kitawaki**
Executive Officer	**Akihiko Hiraoka**

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 Paragraph 2 of Article 12 of 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 corporate social responsibility (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.

Two of HCM's three independent directors 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 through the HCM Board of Directors, which is comprised of a total of 10 directors, including seven internal directors, who have no relationship with Hitachi, Ltd. or the companies of the Hitachi Group, and since one of the directors is an independent director. 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.

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 fiscal year under review (April 1, 2009 to March 31, 2010), although demand in developed countries such as Japan, the United States and Europe remained sluggish, overall business conditions surrounding the HCM Group appeared to bottom out, particularly in the fourth quarter, while demand in emerging countries such as China was on a recovery track on the back of economic stimulus packages in individual countries.

Under these circumstances, the HCM Group aimed to secure profits for the fiscal year, and proceeded with inventory adjustments, reduction of material costs and fixed costs, improvement of market share and to increase selling prices. In addition, from a mid-term perspective, the Group tackled structural reforms to bolster the competitiveness of the organization as a whole and worked vigorously to strengthen the Group's business position to adequately respond to the changing business environment.

In terms of sales in the domestic market, HCM strove to increase market share via a strategic shift of staff nationwide to industry-specific domains such as the environment, resources, and forestry, while focusing on high-demand areas. Overseas, efforts were made to expand sales structure by providing a range of financing services that meet the needs of customers in Asia, such as China, where the market is on the road to recovery.

In production, HCM reduced inventories of hydraulic excavators to an appropriate level while decreasing material costs.

As for business strategy, the HCM Group worked towards realizing swifter execution of management policies in light of a rapidly changing construction machinery market, through such initiatives as making TCM Corporation a wholly owned subsidiary through an exchange of shares.

Overseas, as part of the strategy in emerging countries, HCM acquired additional shares in India-based Telco Construction Equipment Co., Ltd. (Telcon) and made it a subsidiary, with the aim of further expanding business in India where demand for construction machinery is expected to increase due to a rising number of infrastructure projects.

Despite these measures, in terms of consolidated results for the fiscal year under review, we were adversely affected by stagnant demand in all but certain regions, fierce competition among manufacturers and appreciation of the yen. As a result, consolidated net sales for the fiscal year under review were down 18.6% from the previous fiscal year to ¥605,788 million (US$6,511 million), and consolidated net income decreased 78.0% to ¥4,019 million (US$43 million).

Financial Position

Current assets at the end of the fiscal year amounted to ¥549,470 million (US$5,906 million), an increase of 2.0% from the previous fiscal year-end. This was due mainly to an increase of ¥17,218 million (US$185 million) in cash and bank deposits and an overall increase of ¥58,121 million (US$625 million) in notes and accounts receivable and lease receivables and investment assets, which offset a marked decrease of ¥62,359 million (US$670 million) in inventories.

Non-current assets rose 10.2% from the end of the previous fiscal year to ¥333,577 million (US$3,585 million). This was due mainly to the acquisition of additional shares in Telcon to make it a subsidiary. As a result, total assets increased 5.0% from the previous fiscal year-end to ¥883,047 million (US$9,491 million).

Current liabilities at the end of the fiscal year amounted to ¥341,522 million (US$3,671 million), a decrease of 17.6% from the previous fiscal year-end. This was due mainly to a decrease of ¥90,041 million (US$968 million) in short-term loans. Non-current liabilities increased ¥101,331 million (US$1,089 million) from the previous fiscal year-end to ¥197,294 million (US$2,121 million). As a result, total liabilities increased 5.6% from the previous fiscal year-end to ¥538,816 million (US$5,791 million).

Net assets, including minority interests, increased 4.0% from the previous fiscal year-end to ¥344,231 million (US$3,700 million). This was due mainly to net income during the period of ¥4,019 million (US$43 million) and a decrease in treasury stock of ¥6,369 million (US$68 million) from the previous fiscal year-end in line with an exchange of shares to make TCM Corporation a wholly owned subsidiary. Another attributable factor was an increase in minority interests by making Telcon a subsidiary. As a result of the above, the equity ratio was 34.5% versus 34.9% at the previous fiscal year-end.

Cash Flow Analysis

Cash and cash equivalents at end of year totaled ¥57,314 million (US$616 million), an increase of ¥17,210 million (US$185 million) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Net cash provided by operating activities totaled ¥71,705 million (US$771 million), an increase of ¥126,530 million (US$1,360 million) compared with cash flows used in operating activities of ¥54,825 million (US$589 million) in the previous fiscal year. Factors that increased cash included a dramatic improvement in inventories of ¥165,016 million (US$1,774 million) for the fiscal year, which marked a decrease of ¥78,132 million (US$840 million) due to aggressive sales expansion measures, compared with an increase of ¥86,884 million (US$934 million) in the previous fiscal year. Additional factors were an increase of ¥2,190 million (US$24 million) in notes and accounts payable due to an increase in production for the second half of the year in response to growing demand in China and the Asian region and a decrease of cash used by ¥50,418 million (US$542 million) compared with a decrease in notes and accounts payable of ¥48,228 million (US$518 million) in the previous fiscal year. Other factors included ¥2,314 million (US$25 million) in income taxes paid, a decrease of ¥29,938 million (US$322 million) compared with ¥32,252 million (US$347 million) in the previous fiscal year.

Conversely, factors that reduced cash included a decrease of ¥25,809 million (US$277 million) in income before income taxes and minority interests to ¥18,333 million (US$197 million) compared with ¥44,142 million (US$474 million) in the previous fiscal year. Other factors included an increase of ¥72,564 million (US$780 million) in lease receivables and investment assets mainly in China, which was an increase of ¥50,073 million (US$538 million) compared with an increase of ¥22,491 million (US$242 million) in the previous fiscal year.

Net cash used in investing activities was ¥39,292 million (US$422 million), a decrease of ¥22,332 million (US$240 million) compared with ¥61,624 million (US$662 million) in the previous fiscal year. Key factors underlying this decrease included a decrease of ¥34,653 million (US$372 million) in acquisitions of property, plant and equipment to ¥18,466 million (US$198 million), compared with ¥53,119 million (US$571 million) in the previous fiscal year. This was because we shifted from capital investment to increase production to investment mainly for renewal and rationalization of manufacturing bases. Other factors included ¥3,652 million (US$39 million) in the purchase of intangible assets, which was a decrease of ¥6,276 million (US$67 million) compared with ¥9,928 million (US$107 million) in the previous fiscal year, and ¥3,231 million (US$35 million) in proceeds from sale of property, plant and equipment. Factors that increased cash included a payment of ¥23,682 million (US$255 million) due to the acquisition of shares in Telcon.

As a result, free cash flows, the sum of cash flows from operating activities and investing activities, amounted to an inflow of ¥32,413 million (US$348 million).

Net cash used in financing activities totaled ¥16,010 million (US$172 million). This was due mainly to the issuance of domestic corporate bonds and repayments of short-term loans and long-term loans, along with proceeds from long-term loans and free cash flows.

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. 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 71.3% in the previous fiscal year and 71.7% 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 or Chinese Yuan, 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 ¥307.8 billion (US$3.3 billion) as of March 31, 2010. 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 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 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, 2010 and 2009

ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 3) 2010
Current assets			
Cash and bank deposits	¥ 57,327	¥ 40,109	$ 616,154
Notes and accounts receivable (Note 7)	162,961	175,854	1,751,515
Lease receivables and investment assets	93,800	22,786	1,008,169
Merchandise and manufactured goods	144,931	193,686	1,557,728
Work in process	39,326	50,512	422,678
Materials and supplies	21,696	24,114	233,190
Short-term loans receivable	1,014	889	10,899
Deferred tax assets (Note 18)	7,282	12,367	78,267
Other	27,394	25,577	294,433
Less: Allowance for doubtful accounts	(6,261)	(7,121)	(67,294)
Total current assets	549,470	538,773	5,905,739
Non-current assets			
Property, plant and equipment			
Property held for lease (Notes 9, 13and 24)	100,860	92,807	1,084,050
Land (Note 9)	58,663	56,212	630,514
Buildings and structures (Note 9)	127,955	120,332	1,375,269
Machinery, equipment and vehicles (Notes 9 and 13)	189,369	172,984	2,035,350
Construction in progress	7,376	8,206	79,278
	484,223	450,541	5,204,461
Less: Accumulated depreciation	(251,943)	(223,579)	(2,707,900)
Net property, plant and equipment	232,280	226,962	2,496,561
Intangible assets			
Software	20,611	18,969	221,528
Goodwill	32,598	5,373	350,365
Other	1,586	1,886	17,046
Total intangible assets	54,795	26,228	588,939
Investments and other assets			
Investments in securities (Note 15)	15,482	21,504	166,402
Deferred tax assets (Note 18)	5,786	3,336	62,188
Other (Note 17)	26,735	26,548	287,350
Less: Allowance for doubtful accounts	(1,501)	(1,998)	(16,133)
Total investments and other assets	46,502	49,390	499,807
Total Non-current assets	333,577	302,580	3,585,307
Total assets	¥ 883,047	¥ 841,353	$ 9,491,047

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 3) 2010
Current liabilities			
Notes and accounts payable (Note 24)	¥ 122,027	¥ 100,372	$ 1,311,554
Short-term loans (Notes 9, 19 and 24)	139,844	229,885	1,503,053
Commercial paper (Note 19)	0	5,000	0
Current portion of bonds (Note 19)	1,510	500	16,230
Income taxes payable	5,432	5,970	58,383
Other (Note 24)	72,709	72,648	781,481
Total current liabilities	341,522	414,375	3,670,701
Non-current liabilities			
Bonds (Note 19)	50,280	1,820	540,413
Long-term loans (Notes 9 and 19)	116,120	63,421	1,248,065
Lease obligations (Notes 13 and 19)	9,473	8,195	101,816
Deferred tax liabilities (Note 18)	3,360	9,494	36,113
Retirement and severance benefits (Note 17)	11,224	11,698	120,636
Other	6,837	1,335	73,485
Total non-current liabilities	197,294	95,963	2,120,528
Total liabilities	538,816	510,338	5,791,230
Net assets			
Shareholders' equity			
Common stock	81,577	81,577	876,795
Authorized: 700,000,000 shares in 2010 and 2009			
Issued: 215,115,038 shares in 2010 and 2009			
Capital surplus	84,468	81,084	907,868
Retained earnings	158,063	159,726	1,698,871
Less: treasury stock, at cost: 3,696,618 shares in 2010 and 8,831,203 shares in 2009	(4,588)	(10,957)	(49,312)
	319,520	311,430	3,434,222
Valuation and translation adjustments			
Net unrealized gain (loss) on securities (Note 15)	1,625	(124)	17,466
Deferred gain (loss) on hedging instruments	(501)	(129)	(5,385)
Foreign currency translation adjustments	(15,836)	(17,731)	(170,206)
Total valuation and translation adjustments	(14,712)	(17,984)	(158,125)
Stock acquisition rights	766	747	8,233
Minority interests	38,657	36,822	415,488
Total net assets	344,231	331,015	3,699,816
Commitments and contingencies (Note 8)			
Total liabilities and net assets	¥ 883,047	¥ 841,353	$ 9,491,047

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Net sales (Note 24)	¥ 605,788	¥ 744,167	$ 6,511,049
Cost of sales (Note 10)	465,176	552,095	4,999,742
Gross profit	140,612	192,072	1,511,307
Selling, general and administrative expenses (Note 10)	120,943	143,236	1,299,903
Operating income	19,669	48,836	211,404
Other income (expenses):			
Interest and dividend income	¥ 2,824	4,871	30,353
Gains (losses) on equity in earnings of affiliated companies	(977)	147	(10,501)
Interest expenses	(7,244)	(7,888)	(77,859)
Foreign exchange gains, net	3,560	2,276	38,263
Gains on sales of property, plant and equipment	803	0	8,631
Gains on sales of securities	223	0	2,397
Business structure improvement expenses (Note 11)	(1,859)	0	(19,981)
Losses on valuation of securities	0	(3,521)	0
Losses on valuation of inventories	0	(142)	0
Other, net	1,334	(437)	14,338
	(1,336)	(4,694)	(14,359)
Income before income taxes and minority interests	18,333	44,142	197,044
Income taxes:			
current	11,564	12,579	124,291
prior year, net (Note 25)	0	(3,225)	0
deferred	(3,115)	10,930	(33,480)
Minority interests	5,865	5,605	63,037
Net income	4,019	18,253	43,196

Per share data	Yen		U.S. dollars (Note 3)
Net income	¥ 19.33	¥ 85.79	$ 0.21
Diluted net income	19.32	85.72	0.21
Cash dividends (declared)	10.00	44.00	0.11
Weighted average number of shares (thousands)	207,870	212,755	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Shareholders' equity			
Common stock			
Balance at beginning of year	¥ 81,577	¥ 81,577	$ 876,795
Changes during the period			
Total changes during the period	0	0	0
Balance at end of year	81,577	81,577	876,795
Capital surplus			
Balance at beginning of year	81,084	81,084	871,496
Changes during the period			
Disposal of treasury stock	3,384	0	36,371
Total changes during the period	3,384	0	36,371
Balance at end of year	84,468	81,084	907,868
Retained earnings			
Balance at beginning of year	159,726	150,942	1,716,745
Changes during the period			
Cash dividends	(5,570)	(9,411)	(59,867)
Decrease by inclusion of consolidated subsidiaries	(112)	0	(1,204)
Net income	4,019	18,253	43,196
Disposal of treasury stock	0	(58)	0
Total changes during the period	(1,663)	8,784	(17,875)
Balance at end of year	158,063	159,726	1,698,871
Treasury stock			
Balance at beginning of year	(10,957)	(2,856)	(117,767)
Changes during the period			
Purchase of treasury stock	(5)	(8,241)	(54)
Disposal of treasury stock	6,374	140	68,508
Total changes during the period	6,369	(8,101)	68,454
Balance at end of year	(4,588)	(10,957)	(49,312)
Total shareholders' equity			
Balance at beginning of year	311,430	310,747	3,347,270
Changes during the period			
Cash dividends	(5,570)	(9,411)	(59,867)
Decrease by inclusion of consolidated subsidiaries	(112)	0	(1,204)
Net income	4,019	18,253	43,196
Purchase of treasury stock	(5)	(8,241)	(54)
Disposal of treasury stock	9,758	82	104,880
Total changes during the period	8,090	683	86,951
Balance at end of year	319,520	311,430	3,434,222
Valuation and Translation adjustments			
Net unrealized gain (loss) on securities			
Balance at beginning of year	(124)	722	(1,333)
Changes during the period			
Change in unrealized gain (loss) on securities	1,749	(846)	18,798
Total changes during the period	1,749	(846)	18,798
Balance at end of year	1,625	(124)	17,466
Deferred gain (loss) on hedging instruments			
Balance at beginning of year	(129)	974	(1,387)
Changes during the period			
Change in deferred gain (loss) on hedging instruments	(372)	(1,103)	(3,998)
Total changes during the period	(372)	(1,103)	(3,998)
Balance at end of year	(501)	(129)	(5,385)
Foreign currency translation adjustments			
Balance at beginning of year	(17,731)	(3,084)	(190,574)
Changes during the period			
Change in foreign currency translation adjustments	1,895	(14,647)	20,368
Total changes during the period	1,895	(14,647)	20,368
Balance at end of year	(15,836)	(17,731)	(170,206)
Total Valuation and Translation adjustments			
Balance at beginning of year	(17,984)	(1,388)	(193,293)
Changes during the period			
Changes in amounts during the period excluding shareholders' equity (net)	3,272	(16,596)	35,168
Total changes during the period	3,272	(16,596)	35,168
Balance at end of year	(14,712)	(17,984)	(158,125)
Stock acquisition rights			
Balance at beginning of year	747	415	8,029
Changes during the period			
Change in stock acquisition rights	19	332	204
Total changes during tthe period	19	332	204
Balance at end of year	766	747	8,233
Minority interests			
Balance at beginning of year	36,822	36,844	395,765
Changes during the period			
Change in minority interests	1,835	(22)	19,723
Total changes during the period	1,835	(22)	19,723
Balance at end of year	38,657	36,822	415,488
Total net assets			
Balance at beginning of year	331,015	346,618	3,557,771
Changes during the period			
Cash dividends	(5,570)	(9,411)	(59,867)
Decrease by inclusion of consolidated subsidiaries	(112)	0	(1,204)
Net income	4,019	18,253	43,196
Purchase of treasury stock	(5)	(8,241)	(54)
Disposal of treasury stock	9,758	82	104,880
Changes in amounts during the period excluding shareholders' equity (net)	5,126	(16,286)	55,095
Total changes during the period	13,216	(15,603)	142,046
Balance at end of year	344,231	331,015	3,699,817

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 18,333	¥ 44,142	$ 197,044
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	37,022	35,117	397,915
Increase (decrease) in allowance for doubtful accounts	(1,376)	697	(14,789)
Interest and dividend income	(2,662)	(4,352)	(28,611)
Interest expenses	7,262	7,888	78,052
(Gains) losses on equity earnings of affiliated companies	977	(143)	10,501
Decrease in notes and accounts receivable	15,845	48,303	170,303
Increase in lease receivables and investment assets	(72,564)	(22,491)	(779,923)
(Increase) decrease in inventories	78,132	(86,884)	839,768
Purchase of property held for lease	(15,913)	(14,082)	(171,034)
Sale of property held for lease	3,217	3,841	34,577
Increase (decrease) in notes and accounts payable	2,190	(48,228)	23,538
Gains on sales of property, plant and equipment	(3,200)	(3,285)	(34,394)
Losses on valuation of investments in securities	–	3,837	–
Gains on sales of investments in securities	–	(120)	–
Other, net	6,756	13,187	72,614
Subtotal	74,019	(22,573)	795,561
Income taxes paid	(2,314)	(32,252)	(24,871)
Net cash provided by (used in) operating activities	71,705	(54,825)	770,690
Cash flows from investing activities			
Acquisitions of property, plant and equipment	(18,466)	(53,119)	(198,474)
Proceeds from sale of property, plant and equipment	3,231	650	34,727
Purchase of intangible assets	(3,652)	(9,928)	(39,252)
Purchase of investments in securities	(141)	(4,225)	(1,515)
Decrease in purchase of investments in subsidiaries	(23,682)	0	(254,536)
Increase in purchase of investments in subsidiaries	0	209	0
Proceeds from sale of investments in securities	1,419	337	15,252
Interest and dividends received	2,607	4,223	28,020
Interest and dividends received from affiliated companies	438	892	4,708
Other, net	(1,046)	(663)	(11,242)
Net cash used in investing activities	(39,292)	(61,624)	(422,313)
Cash flows from financing activities			
Net increase (decrease) in short-term loans	(84,133)	100,048	(904,267)
Proceeds from long-term loans	72,174	49,685	775,731
Repayments of long-term loans	(36,988)	(14,853)	(397,549)
Repayments of lease obligation	(1,965)	(2,590)	(21,120)
Proceeds from issuance of bonds	49,783	0	535,071
Repayments of bonds	(530)	(13,000)	(5,696)
Interest paid	(6,847)	(8,216)	(73,592)
Dividends paid to shareholders	(5,570)	(9,411)	(59,867)
Dividends paid to minority shareholders by subsidiaries	(3,749)	(3,538)	(40,294)
Proceeds from issuance of common stocks to minority shareholders by subsidiaries	1,753	71	18,841
Proceeds from disposal of treasury stock	67	82	720
Purchase of treasury stock	(5)	(8,241)	(54)
Net cash provided by (used in) financing activities	(16,010)	90,037	(172,076)
Effect of exchange rate changes on cash and cash equivalents	807	(2,210)	8,674
Net increase (decrease) in cash and cash equivalents	17,210	(28,622)	184,974
Cash and cash equivalents at beginning of year	40,104	68,726	431,040
Cash and cash equivalents at end of year (Note 12)	¥ 57,314	¥ 40,104	$ 616,015

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. 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 expressed in yen and solely for the convenience of readers have been translated into U.S. dollars at the rate of ¥93.04 = US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2010. 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 its 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 available-for-sale securities.

Unrealized holding gains and losses of marketable securities are reported in a net amount as a separate component of shareholders' equity until realized. Non-marketable securities are carried at cost.

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

(b) Inventories

Inventories held by the Company are stated at lower of cost or market, which is mainly determined by the gross average method with necessary write down based on the decrease in their profitability for the years ended March 31, 2010 and 2009.

(c) Depreciation and amortization methods

Property, plant and equipment, 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 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.

(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. Specific reserves are provided based on the assessment of the collectability 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) Revenue and expense recognition

① Finance lease transactions

Revenues and the related costs for the finance lease transactions are recognized upon the receipt of lease payment. For the sublease transactions interests are recognized upon the receipt of lease payment.

② Installment sales transactions

Certain subsidiaries have installment sales transactions. Interests for the installment sales transactions are recognized when the related installment receivables become due.

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

(g) Translation of 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) 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.

(i) 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.

(j) Impairment of long-lived assets

Long-lived 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 non-current assets are less than the carrying amounts, the non-current 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 non-current assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the non-current 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.

(k) 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. Notes receivable discounted or endorsed

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Notes receivable endorsed	¥ 36	¥ 647	$ 387
Total	36	647	387

8. Commitments and contingencies

At March 31, 2010 and 2009, the Company was contingently liable for guarantees given in respect of bank loans of affiliated companies and other entities amounting to ¥19,732 million (US$212,081 thousand) and ¥23,473 million, respectively.

9. Assets pledged as collateral

Assets pledged as collateral at March 31, 2010 and 2009 were as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Buildings and structures	¥ 1,721	¥ 1,822	$ 18,497
Property held for lease	21,345	20,847	229,417
Machinery,equipment and vehicles	0	575	0
Land	582	716	6,255
Total	23,648	23,960	254,169

Related debts secured with the above assets at March 31, 2010 and 2009 were as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Short-term loans	¥ 8,639	¥ 11,738	$ 92,853
Long-term loans	15,491	18,100	166,498
Total	24,130	29,838	259,351

10. 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, 2010 and 2009 were ¥15,406 million (US$165,585 thousand) and ¥15,089 million, respectively.

11. Business structure improvement expenses at the end of year consist of the followings:

	Millions of yen 2010	Thousands of U.S. dollars 2010
Premium severance payment for the liquidation of overseas subsidiaries	¥ 753	$ 8,093
Relocation costs for the merger of overseas subsidiaries	139	1,494
Relocation costs for the combination of 10 domestic subsidiaries	58	623
Losses on disposition of P.P& E. for the reorganization of domestic offices	389	4,181
Transfer costs of equipment for the integration of the domestic plant	163	1,752
Advisory expenses for share exchange	107	1,150
Other	250	2,687
Total	1,859	19,981

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

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Cash and bank deposits	¥ 57,327	¥ 40,109	$ 616,154
Less: time deposits with the maturity longer than three months	(13)	(5)	(140)
Total	57,314	40,104	616,015

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 2010			Thousands of U.S. dollars 2010		
	Machinery, equipment and vehicles	Other	Total	Machinery, equipment and vehicles	Other	Total
Acquisition cost	¥ 3,648	¥ 4,681	¥ 8,329	$ 39,209	$ 50,312	$ 89,521
Accumulated depreciation	(2,533)	(1,965)	(4,498)	(27,225)	(21,120)	(48,345)
Net leased property	1,115	2,716	3,831	11,984	29,192	41,176

	Millions of yen 2009		
	Machinery, equipment and vehicles	Other	Total
Acquisition cost	¥ 5,591	¥ 4,735	¥ 10,326
Accumulated depreciation	(3,233)	(1,513)	(4,746)
Net leased property	2,358	3,222	5,580

2. Lease obligation under finance leases inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 1,308	¥ 2,043	$ 14,058
Due over one year	3,837	6,242	41,240
Total	5,145	8,285	55,298

3. Lease payments, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease payments	¥ 2,131	¥ 2,374	$ 22,904
Depreciation expense	1,425	1,656	15,316
Interest portion	253	291	2,719

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		
	2010			2010		
	Property held for lease	Other	Total	Property held for lease	Other	Total
Acquisition cost	¥ 6,993	¥ 0	¥ 6,993	$ 75,161	$ 0	$ 75,161
Accumulated depreciation	(6,250)	0	(6,250)	(67,175)	0	(67,175)
Net leased property	743	0	743	7,986	0	7,986

	Millions of yen		
	2009		
	Property held for lease	Other	Total
Acquisition cost	¥ 7,403	¥ 0	¥ 7,403
Accumulated depreciation	(6,083)	0	(6,083)
Net leased property	1,320	0	1,320

2. Future lease income inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 1,275	¥ 1,780	$ 13,704
Due over one year	1,459	2,140	15,681
Total	2,734	3,920	29,365

3. Lease income, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease income	¥ 1,368	¥ 695	$ 14,703
Depreciation expense	691	1,368	7,427
Interest portion	43	94	462

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
	2010	2009	2010
Due within one year	¥ 341	¥ 360	$ 3,665
Due over one year	629	827	6,761
Total	970	1,187	10,426

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 2,385	¥ 2,054	$ 25,634
Due over one year	3,889	3,738	41,799
Total	6,274	5,792	67,433

14. Financial instruments

1. Description of financial instruments

(1) Policy for financial instruments

The Company and its subsidiaries (collectively, "HCM group") raise necessary funds for capital expenditures, working capital and investments and financing by borrowings from banks, bonds and borrowings from money pooling system of Hitachi, Ltd., mainly for manufacturing and sales of construction machinery and industrial vehicle.

HCM group has a policy to invest the surplus fund to safety financial asset. Accordingly, HCM group has deposits to the money pooling system of Hitachi, Ltd.

(2) Types of risks associated with financial instruments

HCM group has various types of financial instruments, such as notes and accounts receivable and lease receivables, which are exposed to credit risk of the customers.

The foreign currency receivables originated from our global operation are exposed to market risk which arises from foreign exchange rate fluctuation. HCM group hedges exchange rate fluctuation risks with foreign currency forward exchange contracts. Investment securities consist of held-to-maturity securities and available for sale securities associated with business or capital tie-up with the customers, which are exposed to market risks mainly arise from change in market price.

The due dates of notes and accounts payable are within one year.

The loans and bonds are applied for capital expenditures and working capital, and the final redemption year is 14 years after March 31, 2010.

With respect to variable interest rates, of certain loans, HCM group has derivative instruments such as interest rate swap to hedge the interest rate fluctuation risks.

With respect to derivative instruments, HCM group has foreign currency forward exchange contracts to hedge the exchange rate fluctuation risk for foreign currency receivables and has interest rate swaps to hedge the interest rate fluctuation risks for loans.

(3) Risk management relating to financial instruments

Credit risk management

HCM group regularly monitors and assesses the credit portfolios and uses uniform credit rating and asset evaluation and assessment systems to ensure timely and proper evaluation of credit risk.

Since held to maturity securities are high rated securities, HCM group finds no credit risks. Since the counter parties are only high rated financial institution so HCM group find no counter party risk.

The carrying amount in the consolidated financial statement reflects the major amount of credit risk in each account.

Market risk management

The Company and certain subsidiaries hedge the exchange rate fluctuation risk for foreign currency receivables with foreign currency forward exchange contracts.

In evaluating currency exchange market, the Company and certain subsidiaries hedge foreign currency receivables considered to occur definitely in the future periods by foreign currency forward exchange contracts.

The Company and certain subsidiaries consider whether the Company and certain subsidiaries continue to hold the securities of the customers continuously except for the held to maturity securities.

The Company and certain subsidiaries hedge the interest rate fluctuation risks with interest rate swap.

Derivative transactions are executed by Treasury Dept. and reconciled with financial institutions and recorded by Accounting Dept.

The results and forecasts of transactions are monthly reported to the officer in charge of Treasury Dept. and the sales and manufacturing meeting.

Liquidity risk management in respect of fund raising

The Company prepares and updates the budget for cash flows based on the report distributed from each department.

The Company maintains the commitment line and credit line to manage the liquidity risk.

(4) Supplementary explanation on fair value and other information related to financial instruments

The fair value of financial instruments includes, in addition to the value determined based on the market price, a valuation calculated on a reasonable basis if no market price is available. Certain assumptions are used for the calculation of such amount. Accordingly, the result of such calculation may vary if different assumptions are used.

(5) Concentration of credit risk

There is no accounts receivable from specific customer with material balance as of March 31, 2010.

2. Fair value and other information related to financial instruments

The following table provides the carrying amount on the consolidated balance sheet, the fair value and the differences between them as of March 31, 2010. Note that the following table does not include financial instruments whose fair value is difficult to determine (see Note 2).

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and bank deposit	57,327	57,327	0
(2) Notes and accounts receivable	162,961	–	–
Less: allowance for doubtful accounts	(5,041)	–	–
Notes and accounts receivable (NET)	157,920	156,477	(1,443)
(3) Lease receivables and investment assets	93,800	–	–
Less: allowance for doubtful accounts	(9,638)	–	–
Lease receivables and investment assets (NET)	84,162	85,878	1,716
(4) Investments in securities			
Available for sale securities (Note 14)	6,131	6,131	0
Investments in affiliate	307	511	204
Total assets	305,847	306,324	477
(5) Notes and accounts payable	(122,027)	(122,027)	0
(6) Short-term loans	(139,844)	(139,844)	0
(7) Current portion of bonds	(1,510)	(1,510)	0
(8) Long-term loans	(116,120)	(115,734)	386
(9) Bonds	(50,280)	(50,549)	(269)
Total liabilities	(429,781)	(429,664)	117
(10) Derivative financial instruments			
Hedge transactions	(734)	(734)	0
Other	(842)	(842)	0
Total derivatives	(1,576)	(1,576)	0

Derivative assets/liabilities are reported net with those resulting in net liabilities in total presented in parentheses.

(Note 1) Method used for determining the fair value of financial instruments

Assets

(1) Cash and deposits in banks
Cash and deposits, including deposits with maturity and without maturity, are carried at cost taking into account that their fair value approximates the book value as they are settled in a short-term period.

(2) Notes and accounts receivable, (3) Lease receivables and investment assets
The fair value of the items with due over 1 year is determined as the present value of expected future cash flows for principal and interest with the discount rates to be applied to new transactions with same terms and conditions as the existing transactions as of March 31, 2010. The balances with due within 1 year are carried at cost taking into account that their fair value approximates the book value as they are settled in a short-term period.

(4) Investment in securities
The fair value of equity securities is determined based on the quoted market prices.

(5) Notes and accounts payable, (6) Short-term loan, (7) Current portion of bond
These items are carried at cost taking into account that their fair value approximates the book value as they are settled in a short-term period.

(8) Long-term loans
The fair value is measured as the present value of expected future cash flows for principal and interest with the discount rates to be applied to additional loans with same terms and conditions as of March 31, 2010.

(9) Long-term bonds
The fair value is measured as the present value of expected future cash flows for principal and interest with the discount rates to be applied to additional bonds with same terms and conditions as of March 31, 2010.

(10) Derivative financial instruments
Please see Note 16 Derivative financial instruments.

(Note 2) Financial instruments for which it is extremely difficult to determine the fair value
The above table does not include non-listed equity securities (¥9,044 million on the consolidated balance sheet as of March 31, 2010) as no quoted market price is available and it is extremely difficult to determine the fair value.

(Note 3) Redemption schedule for receivables as of March 31, 2010

(Millions of yen)

	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years
Cash and bank deposits	52,547	0	0
Notes and accounts receivable	146,768	10,772	380
Lease receivables and investment assets	37,440	46,722	0
Total	236,755	57,494	380

(Additional information)

The Company has adopted the "Accounting Standards for Financial Instruments" (ASBJ Accounting Standard No.10 issued on March 10, 2008) and the "Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 issued on March 10, 2008) from the fiscal year ended March 31, 2010.

15. Investments in securities

Marketable securities

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
Securities with gross unrealized holding gain	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Stocks	¥ 5,320	¥ 3,032	¥ 2,288	$ 57,180	$ 32,588	$ 24,592
Debt securities	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	5,320	3,032	2,288	57,180	32,588	24,592
Securities with gross unrealized holding loss						
Stocks	811	938	(127)	8,717	10,082	(1,365)
Debt securities	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	811	938	(127)	8,717	10,082	(1,365)
Grand Total	6,131	3,970	2,161	65,897	42,670	23,227

	Millions of yen		
	2009		
Securities with gross unrealized holding gain	Carrying value	Acquisition cost	Unrealized gain (loss)
Stocks	¥ 2,191	¥ 1,563	¥ 628
Debt securities	0	0	0
Other	0	0	0
Total	2,191	1,563	628
Securities with gross unrealized holding loss			
Stocks	2,402	3,279	(877)
Debt securities	0	0	0
Other	0	0	0
Total	2,402	3,279	(877)
Grand Total	4,593	4,842	(249)

Non-marketable securities

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Stocks	¥ 2,009	$ 21,593
Debt securities	0	0
Held-to-maturity debt securities	0	0
Other investments	0	0
Total	2,009	21,593

	Millions of yen
	2009
Stocks	¥ 2,037
Debt securities	0
Held-to-maturity debt securities	10
Other investments	0
Total	2,047

The proceeds from sales of marketable securities amounted to ¥1,416 million (US$15,219 thousand) with an aggregate gain of ¥223 million (US$2,397 thousand) and loss of ¥11million (US$118 thousand) for the year ended March 31, 2010, and ¥49 million with an aggregate gain of ¥30 million for the year ended March 31, 2009, respectively.

16. Derivative financial instruments

Summarized below are the notional amounts and the estimated fair values of the derivative financial instruments outstanding as of March 31, 2010 and 2009, for which hedged accounting has not been applied.

Forward exchange contracts

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 55,865	¥ (581)	¥ (581)	$ 600,441	$ (6,245)	$ (6,245)
To buy foreign currencies	18,633	(153)	(153)	122,111	(1,644)	(1,644)
Total	—	(734)	(734)	—	(7,899)	(7,899)

	Millions of yen		
	2009		
	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 48,747	¥ 47,406	¥ 1,341
To buy foreign currencies	11,995	11,667	(317)
Total	—	—	1,024

The fair values of derivative financial instruments are 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.

Summarized below are the notional amounts and the estimated fair values of the derivative financial instruments outstanding as of March 31, 2010, for which hedged accounting has been applied.

Interest rate swaps

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Notional amount	Notional amount of which maturing after one year	Unrealized gains (losses)	Notional amount	Notional amount of which maturing after one year	Unrealized gains (losses)
Receive/floating and pay/fixed	¥ 19,568	¥ 19,568	¥ (842)	$ 210,318	$ 210,318	$ (9,050)

The fair values of interest rate swaps are mainly estimated on the basis of appraisal information obtained from third-party financial institutions.

17. Retirement and severance benefits

The Company has defined-benefit corporate pension plans, lump-sum retirement plans and defined contribution plans. In addition, certain 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
	2010	2009	2010
Projected benefit obligation	¥ (66,456)	¥ (65,684)	$ (714,273)
Plan assets at fair value	52,909	47,006	568,669
Funded status	(13,547)	(18,678)	(145,604)
Unrecognized actuarial loss	21,903	27,137	235,415
Unrecognized prior service cost	(3,952)	(4,306)	(42,476)
Total	4,404	4,153	47,334
Prepaid pension cost	15,628	15,851	167,971
Retirement and severance benefits	(11,224)	(11,698)	(120,636)

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
	2010	2009	**2010**
Service cost	¥ **2,653**	¥ 2,494	$ **28,515**
Interest cost	**1,800**	1,848	**19,347**
Expected return on plan assets	**(1,476)**	(1,680)	**(15,864)**
Amortization of unrecognized actuarial loss	**1,979**	2,075	**21,270**
Amortization of unrecognized prior service cost	**(391)**	(380)	**(4,202)**
Cost for defined contribution plan	**1,290**	1,151	**13,865**
Net periodic benefit cost	**5,855**	5,508	**62,930**

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

	2010	2009
Discount rate (weighted average):	**2.68%**	2.75%
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 6 to 23 years.
Unrecognized prior service cost is amortized using the straight-line method over 8 to 23 years.

18. 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
	2010	2009	**2010**
Deferred tax assets			
Allowance for doubtful accounts	¥ **683**	¥ 817	$ **7,341**
Accrued employees bonuses	**2,769**	3,030	**29,761**
Net operating loss carryforward	**17,902**	7,728	**192,412**
Unrealized gain on inventories	**4,732**	8,296	**50,860**
Retirement and severance benefits	**4,312**	4,652	**46,346**
Unrealized gain on fixed assets	**522**	1,323	**5,610**
Other	**18,959**	17,107	**203,773**
Subtotal	**49,879**	42,953	**536,103**
Less: Valuation allowance	**(22,232)**	(20,752)	**(238,951)**
Total	**27,647**	22,201	**297,152**
Less: Deferred tax liabilities	**(14,579)**	(6,498)	**(156,696)**
Net deferred tax assets	**13,068**	15,703	**140,455**
Deferred tax liabilities			
Earnings generated in consolidated subsidiaries and affiliated companies after initial consolidation	**5,601**	4,871	**60,200**
Net unrealized holding gains on investment in other securities	**3,668**	3,390	**39,424**
Prepaid pension cost	**6,577**	6,153	**70,690**
Other	**2,947**	1,657	**31,675**
Total	**18,793**	16,071	**201,989**
Less: Deferred tax assets	**(14,579)**	(6,498)	**(156,696)**
Net deferred tax liabilities	**4,214**	9,573	**45,293**

The aggregate statutory tax rate for the Company was approximately 40.5% both for the years ended March 31, 2010 and 2009.
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	
	2010	2009
Statutory tax rate applicable to the Company	% **40.5**	% 40.5
(Reconciliations)		
Expenses not deductible for tax purposes	**1.9**	1.1
Inhabitant tax on per capita basis	**0.8**	0.6
Difference in statutory tax rates of foreign subsidiaries	**(23.7)**	(14.3)
Permanently non-taxable income	**(16.8)**	0.0
Elimination of dividends from subsidiaries	**24.5**	15.4
Amortization of goodwill	**1.6**	1.3
Equity in earnings of affiliated companies	**2.2**	(0.3)
Income tax effect on undistributed earnings of affiliated companies	**1.8**	(4.3)
Effect of foreign tax credit	**10.8**	(9.2)
Increase in valuation allowance	**8.1**	21.6
Other	**(5.6)**	(6.4)
Effective income tax rate	**46.1**	46.0

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

(a) Short-term loans principally consist of bank loans with maturity within one year. The weighted-average interest rates on short-term loans outstanding at March 31, 2010 and 2009 were 2.67% and 2.36%, respectively.

(b) Current portion of bonds at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unsecured bonds, interest 1.27%, due 2010	¥ 1,500	¥ 0	$ 16,122
Unsecured bonds, interest 1.39%, due 2009	0	500	0
Unsecured bonds, interest range between 0.80 to 1.49%, due 2012 to 2014	10	0	107
	1,510	500	16,230

(c) Bonds other than current portion at March 31, 2010 and 2009 are as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Unsecured bonds, interest 1.27%, due 2010	0	1,500	0
Unsecured bonds, interest range between 0.80 to 1.49%, due 2012 to 2014	280	320	3,009
Unsecured bonds, interest 1.38%, due 2014	30,000	0	322,442
Unsecured bonds, interest 0.651%, due 2012	20,000	0	214,961
	50,280	1,820	540,413

(d) Loans from banks and other financial institutions

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Loans from banks and other financial institutions:			
Short-term loans	119,322	193,446	1,282,481
Current portion of long-term loans included in current liabilities	20,522	36,439	220,572
Short-term lease obligation	3,222	4,462	34,630
Long-term loans	116,120	63,421	1,248,065
Long-term lease obligation	9,473	8,195	101,816
Commercial paper	0	5,000	0
Total loans	268,659	310,963	2,887,564

20. Business combination

(Business combination to which purchase method was applied)

Based on the resolution of the board of directors meeting held on March 30, 2010, the Company decided to acquire the 20% shares of Telco Construction Equipment Co., Ltd., which was an equity-method investment. The Company consolidated Telco Construction Equipment Co., Ltd. and its five subsidiaries for the fiscal year ended March 31, 2010.

1. Summary information

Name	Telco Construction Equipment Co.,Ltd
Business	Manufacturing, sales and service of construction machinery
Purpose of the consolidation	The Company acquired shares of Telco Construction Equipment Co., Ltd. to retain the superiority in the Indian market where the Company had high market share and have necessary to blush up the product of the acquired company and inject them to the emergent country and to build up the foothold for the local production of the reduction gear machines and dump truck.
Date of the business combination	March 30, 2010
Legal form of the business combination	Additional purchase of shares
Ratio of voting rights acquired	20.0%
Name of the company after the business combination	Telco Construction Equipment Co.,Ltd

2. Periods of the acquired company's results of operations included in the consolidated financial statements

The results of operations of Telco Construction Equipment Co., Ltd. for the fiscal year ended March 31, 2010 are not consolidated as the Company consolidated Telco Construction Equipment Co., Ltd. from March 31, 2010. However, the results of operations are recorded as equity in earnings in affiliates in the consolidated statement of income.

3. The detail of acquisition cost

Consideration – Payment for shares in cash: ¥23,653 million
Direct expenses for the acquisition – Fees for advisory service: ¥51 million
Total: ¥23,704 million

4. Amount and cause of goodwill, amortization method and expected useful life

The amount of goodwill	¥24,254 million
The cause of goodwill	It is mainly an excess earning power to be provided from superiority in the market by the maintenance of the sales agent network and injection of the blushed up product to the emergent country and to build up the foothold for the local production of the reduction gear and dump truck.
Amortization method and expected useful life	Straight-line method over 5 years

5. Assets acquired and liabilities assumed on the date of business combination

(1) Current assets ¥30,850 million Non-current assets ¥12,542 million total ¥43,392 million
(2) Current liabilities ¥35,746 million Non-current liabilities ¥1,398 million total ¥37,144 million

6. (Unaudited) Estimated impact on the consolidated statements of income assuming that the business combination had been completed at the beginning of the fiscal year ended March 31, 2010

Net sales: ¥39,239 million
Operating loss: ¥818 million
Loss before income taxes and minority interests: ¥1,527 million
Net loss: ¥3,401 million
Net loss per share: ¥16.36
The estimated impact represents the amount of difference between the actual results and the estimated results computed based on the assumption that the business combination has been completed at the beginning of the fiscal year with adjustments of equity method and amortization of goodwill.
The foregoing estimated information has not been audited by the independent auditor.

(Business combination between companies under common control of the parent company)

TCM Corporation through the share exchange transaction
Based on the resolution of the board of directors meeting held on August 31, 2009, the Company entered into a share exchange agreement with TCM Corporation, which was executed effective on December 22, 2009. Accordingly, TCM Corporation has become a wholly-owned subsidiary of the Company.

1. Summary information

Name	TCM Corporation
Business	Manufacturing, sales and service of construction machinery, industrial vehicle and special purpose vehicle.
Legal form of the business combination	Share exchange
Name of the company after the business combination	TCM Corporation
The summary of the transaction including transaction purpose	Based on the resolution of the board of directors meeting held on August 31, 2009, the Company made a contract for the share exchange transaction with TCM Corporation on August 31, 2009 as a purpose to build up more adamant management background with intensification of tie up relationships and quick decision making by management integration and the execution of the mobile and flexible management policy

2. Accounting method
   The share exchange was accounted for in accordance with the "Comment on Accounting Standard for Business Combinations" (FSA Business Accounting Council, October 31, 2003) and ASBJ Guidance No.10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (November 15, 2007). As a result, the Company treated this transaction as a business combination between companies under common control of the parent company.
3. The summary of the additional acquisition of subsidiary stocks
   Cost of the acquisition of the shares
   The value of the acquisition stock - Common stocks of the Company : ¥9,692 million
   Direct expenses for the acquisition - Fees for advisory service : ¥108 million
   Total: ¥9,800 million
   Share exchange ratio, basis for calculation of share exchange ratio, and number and market value of allocated shares

Share exchange ratio	Share exchange ratio: 0.1 share of the Company to 1 share of TCM Corporation.
Basis for calculation of share exchange ratio	The Company and TCM Corporation deliberately examined the results of analysis and professional opinions relating to the share exchange ratio provided by third-party institutions which are designated separately to perform a fairness analysis relating to the share exchange ratio. The Company and TCM Corporation selected Nikko Citigroup Limited and Nomura securities Co., Ltd. as third-party institutions, respectively. The Company and TCM Corporation decided the exchange ratio based on the results from the third parties.
Number and market value of allocated shares	Number of shares of the Company allocated: 5,082,050 shares Total market value: ¥9,692 million

Amount and cause of goodwill, amortization method and expected useful life

Amount of goodwill	Positive: ¥3,725 million Negative: ¥1,016 million
The cause of goodwill	The cause of goodwill is the difference between the increased value in the ownership and the acquisition costs.
Amortization method and expected useful life	Straight-line method over 5 years

(Business combination between companies under common control of the parent company)

Merger of 10 subsidiaries of the Company
Kinki TCM Co., Ltd merged with Tohoku TCM Co., Ltd., Higashi Kanto TCM Co., Ltd., Tokyo TCM Co., Ltd., Chiba TCM Co., Ltd., Hokuetsu TCM Co., Ltd., Chubu TCM Co., Ltd., Chugoku TCM Co., Ltd., Shikoku TCM Co., Ltd., Kyushu TCM Co., Ltd., on October 1, 2009. The 10 companies were the consolidated subsidiaries of the Company. On October 1, 2009, Kinki TCM Co., Ltd, which was the surviving company, changed the business name to "TCM Sale Co., Ltd.".

1. Summary information

Name	Kinki TCM Co., Ltd and other 9 subsidiaries of TCM Corporation
Business	Sales and service of construction machinery, industrial vehicle and special purpose vehicle.
Legal form	Kinki TCM Co., Ltd as surviving company and other 9 companies as dissolving companies
Name of the company after business combination	TCM Sale Co., Ltd.
Outline of the transaction including the purpose of transaction	The purpose of the merger between Kinki TCM Co., Ltd., which was the surviving company, and the 9 companies was to build up more adamant structure for sales and service with promotion of efficiency of management by standardization of management and communalization of information and development of the production which meet the various demands of customers and the allocation of resource of sales operation and reallocation of management resource to development of new markets.

2. Accounting method

The merger was accounted for in accordance with the "Comment on Accounting Standard for Business Combinations" (FSA Business Accounting Council, October 31, 2003) and ASBJ Guidance No.10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (November 15, 2007). As a result, the Company treated this transaction as a business combination between companies under common control of the parent company.

21. 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
	2010	2009	**2010**
Net sales:			
Construction Machinery	**¥ 552,169**	¥ 660,412	**$ 5,934,748**
Industrial Vehicle	**53,619**	82,832	**576,301**
Semiconductor Production Equipment	**0**	2,195	**0**
Elimination	**0**	(1,272)	**0**
Consolidated total	**605,788**	744,167	**6,511,049**
Operating income:			
Construction Machinery	**19,989**	48,866	**214,843**
Industrial Vehicle	**(320)**	10	**(3,439)**
Semiconductor Production Equipment	**0**	(41)	**0**
Elimination	**0**	1	**0**
Consolidated total	**19,669**	48,836	**211,404**

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total Asset			
Construction Machinery	**¥ 841,828**	¥ 777,130	**$ 9,048,022**
Industrial Vehicle	**41,219**	53,194	**443,025**
Semiconductor Production Equipment	**0**	810	**0**
Elimination	**0**	10,219	**0**
Consolidated total	**883,047**	841,353	**9,491,047**
Depreciation			
Construction Machinery	**33,723**	30,421	**362,457**
Industrial Vehicle	**3,299**	4,369	**35,458**
Semiconductor Production Equipment	**0**	27	**0**
Elimination	**0**	300	**0**
Consolidated total	**37,022**	35,117	**397,915**
Capital expenditure			
Construction Machinery	**29,443**	59,947	**316,455**
Industrial Vehicle	**1,674**	3,805	**17,992**
Semiconductor Production Equipment	**0**	32	**0**
Elimination	**0**	136	**0**
Consolidated total	**31,117**	63,920	**334,447**

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 crawler cranes
   ② Industrial Vehicle: forklift trucks, transfer cranes and container carriers
   ③ Semiconductor Production Equipment: ultrasonic inspection equipment and atomic force microscope equipment
3) The Company previously segmented the businesses into the following three segments: construction machinery business, industrial vehicles business and semiconductor production equipment business. However, the Company decided to include the semiconductor production equipment business into the construction machinery business because the market has reduced in size and the ultrasonic business, which is a core business of the semiconductor production equipment business, is expected to decrease in growth potential. The sales and the operating profit (loss) of the semiconductor production equipment business included in the construction machinery business at this fiscal year are insignificant.

Segment information by geographic area:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net sales:			
Domestic (inside Japan)	¥ 374,656	¥ 594,012	$ 4,026,827
Outside Japan			
Asia	200,445	170,436	2,154,396
Europe	79,736	143,121	857,008
Americas	35,203	64,753	378,364
Other Areas	76,693	87,371	824,301
Elimination	(160,945)	(315,526)	(1,729,847)
Consolidated total	605,788	744,167	6,511,049
Operating income:			
Domestic (inside Japan)	(22,757)	4,577	(244,594)
Outside Japan			
Asia	26,571	23,412	285,587
Europe	525	1,656	5,643
Americas	2,994	6,659	32,180
Other Areas	4,779	7,036	51,365
Elimination	7,557	5,496	81,223
Consolidated total	19,669	48,836	211,404

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, Malaysia and India
② Europe: The Netherlands, France and United Kingdom
③ Americas: The United States and Canada
④ Other areas: New Zealand, Australia and South Africa

Overseas sales by geographic area:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Americas	¥ 37,245	¥ 79,178	$ 400,312
Europe, Africa and the Middle East	96,967	180,843	1,042,208
Australia, New Zealand and Other areas of Asia, except China	141,238	151,148	1,518,035
China	158,681	119,295	1,705,514
Total	434,131	530,464	4,666,069

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

22. 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, 2010 and 2009 represent dividends resolved during those years. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥5.00 (US$0.05) per share totaling ¥1,057 million (US$11,361 thousand) for the second half of the year, subsequently proposed by the Board of Directors in respect of the year ended March 31, 2010.

23. Stock option

The stock option expense of ¥159 million (US$1,709 thousand) is recognized and classified as selling, general and administrative expenses for the year ended March 31, 2010.

Gains on reversal of stock acquisition rights of ¥141million (US$1,515 thousand) are recognized in other income for the year ended March 31, 2010.

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 25, 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	—	—	—	—	—	—	332,000	—	767,000
Granted	—	—	—	—	—	—	—	—	—
Expired	—	—	–	—	—	—	—	—	767,000
Vested	—	—	—	—	—	—	332,000	—	—
Outstanding	—	—	—	—	—	—	—	—	—
After vested									
Beginning of the fiscal year	5,000	30,000	51,000	145,000	320,100	305,000	—	755,000	—
Vested	—	—	—	—	—	—	332,000	—	—
Exercised	—	10,000	10,000	18,000	17,000	—	—	—	—
Expired	—	—	—	—	—	—	—	755,000	—
Ending of the fiscal year	5,000	20,000	41,000	127,000	303,100	305,000	332,000	—	—

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	—	¥ 1,745	¥ 1,874	¥ 2,026	¥ 2,049	—	—	—	—
Fair value at the grant date	—	—	—	—	—	¥ 877	¥ 1,501	¥ 148	¥ 61
Exercise price	US$ 6.06	US$ 4.44	US$ 13.02	US$ 14.24	US$ 16.73	US$ 29.32	US$ 52.99	US$ 4.22	US$ 2.65
Average stock prices when exercised	—	US$ 18.76	US$ 30.95	US$ 33.53	US$ 30,29	—	—	—	—
Fair value at the grant date	—	—	—	—	—	US$ 9.43	US$ 16.13	US$ 1.59	US$ 0.66

Estimation method for number of options to vest:

The Company estimates number of option to vest based on actual vesting as no reliable basis for the estimation other than actual number is available.

24. Related party transactions

As of March 31, 2010, Hitachi, Ltd., the parent company of the Company, holds 51.1% of the Company's total number of shares issued and 51.7% (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 maintains a close cooperative relationship with Hitachi, Ltd. and Hitachi Group companies.

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 between HCM and related party

Transactions with Hitachi, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Repayment of borrowing	**¥ 1.066**	¥ 0	**$ 11,457**
Cash deposit transaction	**0**	15,462	**0**
Cash borrowing transaction	**0**	11,006	**0**

	Millions of yen		Thousands of U.S. dollars
Balances with Hitachi, Ltd.	**2010**	2009	**2010**
Short term loan as of March 31	**¥ 9,940**	¥ 11,006	**$ 106,836**

Transactions with Hitachi Capital Corporation (subsidiary of parent company)

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Commission of payment transaction	**¥ 33,861**	¥ 95,945	**$ 363,940**

Balances with Hitachi Capital Corpration(subsidiary of parent company)

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Accounts payable as of March 31	**¥ 14,542**	¥ 19,913	**$ 156,298**
Other payable as of March 31	**133**	964	**1,429**

Transactions between subsidiary of HCM and related party

Transactions with Hitachi Capital Corpration(subsidiary of parent company)

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Pledge of purchase of property held for lease	**¥ 11,819**	¥ 0	**$ 127,031**

25. Per share data

	Yen		U.S. dollars
	2010	2009	2010
Per share data:			
Net assets	¥ 1,441.73	¥ 1,442.54	$ 15.50
Net income	19.33	85.79	0.21
Diluted net income	19.32	85.72	0.21

	Millions of yen		Thousands of U.S. dollars
Basis in calculation:	2010	2009	2010
1) Net assets			
Total net assets on consolidated balance sheet	¥ 344,231	¥ 331,015	$ 3,699,817
Total net assets for common stock	304,808	293,446	3,276,096
Major item for above discrepancies			
Stock acquisition rights	766	747	8,233
Minority interests	38,657	36,822	415,488
Number of common stock issued	215,115,038	215,115,038	—
Number of treasury stock	3,696,618	8,831,203	—
Number of common stock for net assets per share	211,418,420	206,283,835	—

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
2) Net income			
Net income	¥ 4,019	¥ 18,253	$ 43,196
Net income not belong to common shareholders	0	0	0
Net income for common shareholders	4,019	18,253	43,196
Weighted average common shares outstanding, less treasury stock	207,870,256	212,754,987	—
Dilutive effect of: Stock purchase warrants	134,143	188,571	—
Weighted average diluted common shares outstanding	208,004,399	212,943,558	—

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, 2010 and 2009, 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, 2010 and 2009, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 21, 2010

Global Network

As of June 21, 2010

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]*
- Hitachi Construction Machinery Eurasia Sales LLC [HCRS]

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]*

Others

- 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]

Others

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

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.*
- Shintohoku Metal Co., Ltd.
- Tsukuba Tech 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.

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]

Liaison Offices

- HCM China Office
- HCM Vietnam Representative Office
- HCM Sub-Sahara 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

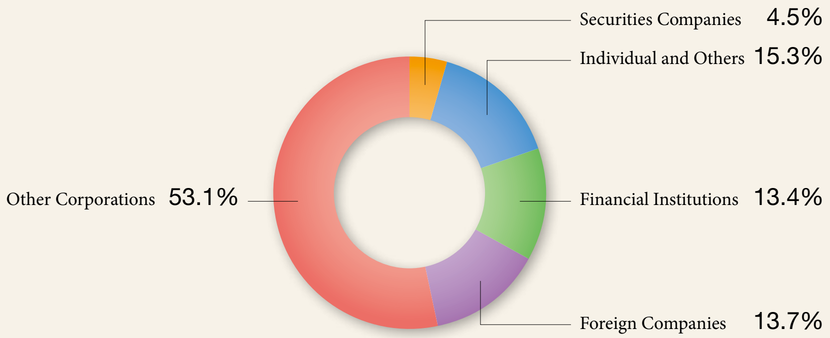
As of March 31, 2010

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	52,692
Number of Employees	19,445 (Consolidated) 3,799 (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.	108,033	50.22
Japan Trustee Services Bank, Ltd.	12,844	5.97
The Master Trust Bank of Japan, Ltd.	7,806	3.63
Trust & Custody Services Bank, Ltd.	3,766	1.75
JP Morgan Securities Japan Co., Ltd.	3,428	1.59
Mitsubishi UFJ Securities Co., Ltd.	1,991	0.93
Societe Generale Securities North Pacific Limited	1,470	0.68
Morgan White Flyers Equity Derivative (standing proxy: Corporate Financial Sales Div., Mizuho Corporate Bank, Ltd.)	1,311	0.61
Chuo Shoji Ltd.	1,295	0.60
Government of Singapore Investment Corporation P Limited	1,224	0.57

Composition of HCM's Shareholders



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