

Notes to Consolidated Financial Statements

Hitachi Koki Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2011 and 2010

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of Hitachi Koki Co., Ltd. (the "Company") prepared in accordance with accounting principles generally accepted in Japan and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements. Accounting principles generally accepted in Japan are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Upon discovery of improper business transaction and accounting practices by consolidated subsidiary Hitachi Power Tools Europe GmbH, the Company restated its consolidated financial statements for the past five years ended March 31, 2006 through March 31, 2010.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (50 subsidiaries in 2011 and 2010). All significant inter-company accounts, transactions and unrealized profits are eliminated in consolidation. Goodwill is amortized using the straight-line method over a reasonable period not exceeding 20 years.

Investments in an affiliated company (20% to 50% owned) and an unconsolidated overseas subsidiary are stated at the underlying equity value, and the appropriate portion of the earnings of such companies is included in consolidated income.

(Change in Fiscal Year-end of Consolidated Subsidiaries)

Previously, the Company's consolidated financial statements included the accounts of 10 subsidiaries with fiscal years ending December 31 or February 28, with appropriate adjustments for significant transactions occurring from January 1 or March 1 to the consolidated fiscal year end of March 31. Effective for the year ended March 31, 2011, the Company's consolidated financial statements include the accounts of these subsidiaries as of March 31, to provide more appropriate and timely disclosure.

As a result, the consolidated financial statements include the accounts

of Guang Dong Hitachi Koki Co., Ltd. and two other companies for the 15 months from January 1, 2010 to March 31, 2011. Similarly, the Company changed the fiscal year end of Nikko Tanaka Engineering Co., Ltd. and six other consolidated subsidiaries to March 31, and consolidated their financial statements for the 13 months from March 1, 2010 to March 31, 2011.

(Application of Accounting Standard for Business Combinations)

Effective the fiscal year ended March 31, 2011, the Company and its consolidated subsidiaries applied "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

(Application of Accounting Standard for Equity Method of Accounting for Investments)

Effective the fiscal year ended March 31, 2011, the Company and its consolidated subsidiaries applied "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No. 24, March 10, 2008). This change had no effect on the consolidated statements of income.

(c) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

Resulting exchange gains or losses are credited or charged to income as incurred.

The assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at current rates of exchange at the balance sheet date. Common stock, capital surplus and retained earnings are translated at the historical exchange rates. Income and expenses are translated at average rates of exchange in effect during the year. Translation adjustments are debited or credited to the foreign currency translation adjustments account and minority interests, which are reported in net assets in the accompanying consolidated balance sheets.

(d) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries classify cash on hand, readily available bank deposits and short-term highly liquid investments with low risk of value fluctuation with maturities not exceeding three months at the time of purchase as cash and cash equivalents.

(e) Marketable securities and investment securities

Under the Japanese accounting standards, companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by nonconsolidated subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Equity securities issued by subsidiaries and affiliated companies which are neither consolidated nor accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gain on sale of such securities is computed using the moving-average cost. Securities with no fair market values are stated principally at the moving-average cost.

The Company and its consolidated subsidiaries had no trading securities or held-to-maturity debt securities.

If the market value of equity securities issued by subsidiaries and affiliated companies neither consolidated nor accounted for using the equity method, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline.

(f) Derivative transactions and hedge accounting

The Company and its consolidated subsidiaries utilize forward foreign exchange contracts and interest rate and currency swap agreements as derivative transactions, in order to hedge foreign currency risks and interest rate risks arising from normal business transactions.

Derivative instruments are stated at fair value. Changes in the fair values are recognized as gains or losses unless derivative transactions are used for hedging purposes.

If foreign currency derivative transactions are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative transactions until the related losses or gains on the hedged items are recognized.

Evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedging instruments are the same as those of the related hedged transactions, assets and liabilities, and therefore they are assumed to be highly effective in offsetting movements in the exchange rates at their inception as well as during their term.

(g) Inventories

Merchandise, finished goods and raw materials of the Company and its consolidated subsidiaries are mainly stated at cost determined using

primarily the moving-average method. Work in process is mainly determined by the specific identification method. Balance sheet amounts are written down to net selling value if profitability of inventories decreased.

(h) Retirement benefits

The Company, its consolidated domestic subsidiaries and certain consolidated overseas subsidiaries provide two post-employment benefit plans, an unfunded lump-sum payment plan and a funded pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company, its consolidated domestic subsidiaries and certain consolidated overseas subsidiaries provided allowance for employees' severance and retirement benefits at the balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains/losses are amortized on a straight-line basis over the following 15 years. Past service costs are amortized on a straight-line basis over 15 years.

Accrued retirement benefits for directors and corporate auditors of the Company are provided at the amounts which would be required if all directors and corporate auditors retired at the balance sheet date. Payment of such benefits is subject to the approval at the shareholders' meeting.

Effective April 1, 2009, the Company adopted Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" issued by the Accounting Standards Board of Japan on July 31, 2008. As the Company amortizes actuarial gains/losses from the succeeding period, there was no effect of the adoption on net income. The remaining difference of projected benefit obligation incurred by the adoption of the statement amounted to ¥661 million as of March 31, 2010.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives, except that buildings are depreciated primarily based on the straight-line method.

The significant useful lives are summarized as follows:

Buildings and structures	3-50 years
Machinery and equipment	3-12 years

(Application of Accounting Standard for Asset Retirement Obligations)

Effective the fiscal year ended March 31, 2011, the Company and its consolidated subsidiaries applied "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

The Company and its consolidated subsidiaries recognize asset

retirement obligations associated with real estate rental contracts requiring restoration of sites to their original condition and retirement of assets containing hazardous substances such as PCBs. The effect of this change was immaterial.

(j) Intangible assets

Intangible assets are amortized by the straight-line method.

(k) Leased assets

Finance leases are capitalized and depreciated over the useful lives of the assets or lease terms. However, the Company and its consolidated domestic subsidiaries account for finance leases that commenced prior to April 1, 2008 which do not transfer the ownership of the leased property to the lessee as operating leases.

(l) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is mainly determined on the basis of past experience of bad debts and an estimate of the collectibility of individual receivables based on the financial position of the debtors.

(m) Accrued bonuses for directors and corporate auditors

Accrued bonuses for directors and corporate auditors are provided for the expected payments at the amount attributable to the fiscal year.

(n) Research and development costs

Research and development costs included in cost of sales, and selling, general and administrative expenses were ¥3,185 million (\$38,304 thousand) and ¥3,239 million for the years ended March 31, 2011 and 2010, respectively.

(o) Loss on disaster

The Company recognized loss associated with the Great East Japan Earthquake that occurred on March 11, 2011, as follows:

	Millions of yen	Thousands of U.S. dollars
Impairment loss of fixed asset.....	¥ 708	\$ 8,518
Cost of repairing/restoring facilities.....	401	4,834
Fixed costs incurred during business activity stoppages ...	387	4,663
Other.....	90	1,083
Total	¥1,588	\$19,098

Cost of repairing/restoring facilities includes the reserve for loss on disaster.

(p) Income taxes

Provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(q) Appropriation of retained earnings

Payments of dividends are accounted for as appropriation of retained earnings or other capital surplus, as applicable, in the period when approved at the shareholders' meeting or at the Board of Directors meeting.

(r) Consolidated statements of comprehensive income

For the fiscal year ended March 31, 2010, comprehensive income attributable to shareholders of Hitachi Koki Co., Ltd. and minority interests were as follows:

	Millions of yen
Attributable to:	
Shareholders of Hitachi Koki Co., Ltd.	¥205
Minority.....	¥ 45

For the fiscal year ended March 31, 2010, other comprehensive income (loss) was as follows:

	Millions of yen
Net unrealized holding gains (losses) on securities	¥ (59)
Deferred gains or losses on hedges	9
Foreign currency translation adjustments	(733)
Total other comprehensive income.....	¥(783)

Effective the fiscal year ended March 31, 2011, the Company and its consolidated subsidiaries applied "Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, June 30, 2010).

(s) Earnings per share

Net income per share of common stock is computed based upon the weighted-average number of shares outstanding during each year.

(t) Reclassification

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2011 and 2010 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash on hand and in banks	¥ 9,383	¥ 9,922	\$112,844
Deposits	18,041	15,197	216,969
Cash and cash equivalents	¥27,424	¥25,120	\$329,814

3. FAIR VALUE INFORMATION FOR SECURITIES

At March 31, 2011, acquisition cost and fair value of available-for-sale securities with fair value were as follows:

Available-for-sale securities

	Millions of yen		
	Acquisition cost	Fair value	Difference
Securities with fair value exceeding acquisition costs:			
Equity securities	¥ 57	¥ 59	¥ 1
Total.....	¥ 57	¥ 59	¥ 1
Other securities:			
Equity securities	¥1,093	¥824	¥(269)
Total.....	¥1,093	¥824	¥(269)

	Thousands of U.S. dollars		
	Acquisition cost	Fair value	Difference
Securities with fair value exceeding acquisition costs:			
Equity securities	\$ 696	\$ 714	\$ 19
Total.....	\$ 696	\$ 714	\$ 19
Other securities:			
Equity securities	\$13,151	\$9,911	\$(3,240)
Total.....	\$13,151	\$9,911	\$(3,240)

At March 31, 2010, acquisition cost and fair value of available-for-sale securities with fair value were as follows:

Available-for-sale securities

	Millions of yen		
	Acquisition cost	Fair value	Difference
Securities with fair value exceeding acquisition costs:			
Equity securities	¥225	¥241	¥ 16
Total.....	¥225	¥241	¥ 16
Other securities:			
Equity securities	¥939	¥796	¥(143)
Total.....	¥939	¥796	¥(143)

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and finished goods.....	¥34,638	¥39,185	\$416,572
Work in process	2,650	2,291	31,870
Raw materials	3,803	2,478	45,737
Total.....	¥41,091	¥43,955	\$494,179

5. DERIVATIVE TRANSACTIONS

(a) Derivative transactions not accounted for by hedge accounting

The aggregate amounts contracted to be paid or received and the fair value of derivative transactions at March 31, 2011 and 2010 were as follows:

Currency-related derivatives:

	Millions of yen			
	2011			
	Contract amount		Fair value	Unrealized gains (losses)
Total	Due after one year			
Forward contracts:				
To sell:				
U.S. dollars	¥ 1,871	—	¥ (7)	¥ (7)
Euro.....	8,002	—	(351)	(351)
U.K. pound sterling.....	503	—	(5)	(5)
Australian dollars.....	718	—	(28)	(28)
Singapore dollars	39	—	(1)	(1)
Czech koruna	67	—	(0)	(0)
Romanian ron	25	—	(1)	(1)
Polish zloty.....	38	—	0	0
Taiwan dollars.....	100	—	(0)	(0)
To buy:				
U.S. dollars	79	—	3	3
Euro.....	362	—	7	7
Japanese yen	80	—	(3)	(3)
Total.....	¥11,884	—	¥(386)	¥(386)

	Millions of yen			
	2010			
	Contract amount		Fair value	Unrealized gains (losses)
Total	Due after one year			
Forward contracts:				
To sell:				
U.S. dollars	¥ 1,850	—	¥ (42)	¥ (42)
Euro.....	6,710	—	210	210
U.K. pound sterling.....	443	—	10	10
Australian dollars.....	622	—	(18)	(18)
Singapore dollars	5	—	(0)	(0)
Czech koruna	73	—	(1)	(1)
Romanian ron	9	—	(0)	(0)
Polish zloty.....	119	—	(2)	(2)
To buy:				
U.S. dollars	26	—	0	0
Euro.....	198	—	(0)	(0)
Czech koruna	6	—	0	0
Norwegian krone.....	3	—	0	0
Total.....	¥10,068	—	¥155	¥155

	Thousands of U.S. dollars			
	2011			
	Contract amount		Fair value	Unrealized gains (losses)
Total	Due after one year			
Forward contracts:				
To sell:				
U.S. dollars	\$ 22,497	—	\$ (88)	\$ (88)
Euro	96,234	—	(4,217)	(4,217)
U.K. pound sterling	6,048	—	(57)	(57)
Australian dollars	8,635	—	(344)	(344)
Singapore dollars	476	—	(8)	(8)
Czech koruna	812	—	(6)	(6)
Romanian ron	299	—	(12)	(12)
Polish zloty	457	—	1	1
Taiwan dollars	1,200	—	(2)	(2)
To buy:				
U.S. dollars	957	—	43	43
Euro	4,351	—	86	86
Japanese yen	960	—	(36)	(36)
Total	\$142,926	—	\$(4,640)	\$(4,640)

Note: Fair value is calculated using the forward exchange rate.

Interest related derivatives:

	Millions of yen			
	2011			
	Contract amount		Fair value	Unrealized gains (losses)
Total	Due after one year			
Interest rate and currency swap agreements:				
Pay U.S. dollars, receive yen				
Receive variable, pay variable....	¥ 224	—	¥ (4)	¥ (4)
Pay Euro, receive yen				
Receive variable, pay variable....	4,320	—	(103)	(103)
Pay Polish zloty, receive yen				
Receive variable, pay variable....	716	—	(19)	(19)
Pay Mexican pesos, receive yen				
Receive variable, pay variable....	218	—	(6)	(6)
Pay Czech koruna, receive yen				
Receive variable, pay variable....	93	—	(2)	(2)
Total	¥5,573	—	¥(135)	¥(135)

	Millions of yen			
	2010			
	Contract amount		Fair value	Unrealized gains (losses)
Total	Due after one year			
Interest rate and currency swap agreements:				
Pay U.S. dollars, receive yen				
Receive variable, pay variable....	¥ 277	—	¥ (1)	¥ (1)
Pay Euro, receive yen				
Receive variable, pay variable....	6,220	—	(81)	(81)
Pay Polish zloty, receive yen				
Receive variable, pay variable....	821	—	(20)	(20)
Total	¥7,319	—	¥(102)	¥(102)

	Thousands of U.S. dollars			
	2011			
	Contract amount		Fair value	Unrealized gains (losses)
Total	Due after one year			
Interest rate and currency swap agreements:				
Pay U.S. dollars, receive yen				
Receive variable, pay variable....	\$ 2,704	—	\$ (51)	\$ (51)
Pay Euro, receive yen				
Receive variable, pay variable....	51,957	—	(1,243)	(1,243)
Pay Polish zloty, receive yen				
Receive variable, pay variable....	8,620	—	(234)	(234)
Pay Mexican pesos, receive yen				
Receive variable, pay variable....	2,625	—	(77)	(77)
Pay Czech koruna, receive yen				
Receive variable, pay variable....	1,126	—	(29)	(29)
Total	\$67,032	—	\$(1,634)	\$(1,634)

Note: Fair value is calculated using the forward exchange rate.

(b) Derivative transactions accounted for by hedge accounting

Currency transactions: Not applicable.

Interest-related transactions: Not applicable.

6. LEASE INFORMATION

As discussed in Note 1 (k), finance leases commenced prior to April 1, 2008 which do not transfer ownership of leased assets to lessees are accounted for as operating leases.

Assumed amounts of acquisition cost and accumulated depreciation at March 31, 2011 and 2010 was as follows:

(a) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Machinery and equipment:			
Acquisition cost	¥7	¥58	\$94
Accumulated depreciation	4	51	60
Net book value	¥2	¥ 7	\$34

(b) Future minimum lease payments at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥1	¥3	\$12
Due after one year	1	2	12
Total	¥2	¥6	\$24

(c) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease payments	¥4	¥22	\$48
Assumed depreciation charges.....	3	20	36
Assumed interest charges	0	0	0

(d) Assumed depreciation charges are computed using the straight-line method over the lease terms assuming no residual value.

(e) Assumed interest charges are computed using the effective-interest method.

7. FINANCIAL INSTRUMENTS

(a) Outline of financial instruments

(1) Management policies

The Company and its consolidated subsidiaries invest mainly in short-term instruments such as deposits in banks and raise funds by borrowing from outside financial institutions. The Company and certain consolidated subsidiaries enter into derivatives transactions only for the purpose of mitigating risk as described below and do not engage in such transactions for speculative purposes.

(2) Nature of financial instruments, related risk and risk management system

Notes and accounts receivable, trade are exposed to credit risk of customers and counterparties. The Company and its consolidated subsidiaries' credit risk monitoring activities include review of overdue and balance amounts of each customer as well as review of creditworthiness of major customers on a regular basis. Trade receivables in foreign currencies generated by worldwide operations are exposed to foreign exchange fluctuation risk. This risk is hedged by using forward exchange contracts for, in principle, the net positions after offsetting trade receivables denominated in foreign currency with trade payables denominated in foreign currencies.

Investment securities mainly consist of marketable securities of the companies with which the Company has business relationships. As such marketable securities are exposed to market volatility risk, the Company keeps track of their fair value on a quarterly basis.

Trade payables are mostly due within one year. Trade payables denominated in foreign currencies are exposed to foreign exchange fluctuation risk, which are principally hedged by using forward exchange contracts.

Short-term bank loans are mainly for operating capital.

Forward exchange contracts and interest currency swaps are used to minimize foreign exchange fluctuation risk associated with receivables and payables in foreign currencies, and to minimize interest rate risk from the possibility of changes in interest rates associated with financing debts. Foreign exchange fluctuation risk and interest rate risk are

inherent in forward exchange contracts and interest currency swaps, respectively. To mitigate such risks, the Accounting Division of the Company executes and controls derivative transactions in conformity with the internal rules specifying authorization and the maximum limit of transactions. The results of transactions are reported monthly to the director in charge.

Trade payables and short-term bank loans are exposed to liquidity risk. The Company and its consolidated subsidiaries develop and update their cash flow forecasts on a monthly basis to manage their liquidity risk.

(b) Fair value of financial instruments

The carrying amounts on the consolidated balance sheet, fair values and differences between them as of March 31, 2011 of financial instruments are set out as below:

Financial instruments of which fair values are not generally available and are deemed to be extremely difficult to measure are excluded from the following table.

For the year ended March 31, 2011

	Millions of yen		
	Carrying amount (*1)	Fair value (*1)	Difference
Cash on hand and in banks	¥ 9,383	¥ 9,383	—
Deposits	18,041	18,041	—
Notes and accounts receivable, trade (*2)...	33,735	33,735	—
Investment securities:			
Other investment securities	883	883	—
Notes and accounts payable, trade	(8,519)	(8,519)	—
Short-term bank loans.....	(12,393)	(12,393)	—
Derivatives (*3)	(522)	(522)	—

	Thousands of U.S. dollars		
	Carrying amount (*1)	Fair value (*1)	Difference
Cash on hand and in banks	\$ 112,844	\$ 112,844	—
Deposits	216,969	216,969	—
Notes and accounts receivable, trade (*2)...	405,713	405,713	—
Investment securities:			
Other investment securities	10,619	10,619	—
Notes and accounts payable, trade	(102,453)	(102,453)	—
Short-term bank loans.....	(149,044)	(149,044)	—
Derivatives (*3)	6,278	6,278	—

Notes: 1. The amounts of liabilities are represented in parentheses.

2. The amounts of notes and accounts receivable, trade are presented after allowance for doubtful accounts amounting to ¥730 million (\$8,779 thousand) are deducted.

3. Net debts and credits arising from derivative transactions are presented in net value.

For the year ended March 31, 2010

	Millions of yen		
	Carrying amount (*1)	Fair value (*1)	Difference
Cash on hand and in banks	¥ 9,922	¥ 9,922	—
Deposits	15,197	15,197	—
Notes and accounts receivable, trade (*2)...	35,329	35,329	—
Investment securities:			
Other investment securities	1,038	1,038	—
Notes and accounts payable, trade	(8,267)	(8,267)	—
Short-term bank loans	(14,448)	(14,448)	—
Derivatives (*3)	53	53	—

- Notes: 1. The amounts of liabilities are represented in parentheses.
 2. The amounts of notes and accounts receivable, trade are presented after allowance for doubtful accounts amounting to ¥655 million are deducted.
 3. Net debts and credits arising from derivative transactions are presented in net value.

i. Fair value measurement of financial instruments and information for investment securities and derivative transactions

Cash on hand and in banks, deposits and notes and accounts receivables, trade:

Book values of these accounts are deemed fair values as they are settled in a short-term period.

Investment securities:

Fair values of investment securities are measured at quoted market prices of stock exchanges.

See "Note 3. Fair value information for securities" for additional information on investment securities.

Notes and accounts payable, trade and short-term bank loans:

Book values of these accounts are deemed fair values as they are settled in a short-term period.

Derivatives:

See "Note 5. Derivative transactions" for the relevant information.

ii. Unlisted equity shares, amounting to ¥173 million (\$2,081 thousand) at March 31, 2011, are excluded from other investment securities above as quoted market prices are not available and their future cash flows cannot be estimated.

Redemption schedule for monetary claims and securities with maturity after the year-end at March 31, 2011 and 2010 are set out below.

For the year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars
	Within 1 year	Within 1 year
Cash on hand and in banks	¥ 9,383	\$112,844
Deposits	18,041	216,969
Notes and accounts receivable, trade	33,735	405,713
Investment securities		
Other investment securities with maturity ...	—	—
Total	¥61,159	\$735,526

For the year ended March 31, 2010

	Millions of yen
	Within 1 year
Cash on hand and in banks	¥ 9,922
Deposits	15,197
Notes and accounts receivable, trade	35,329
Investment securities	
Other investment securities with maturity ...	—
Total	¥60,450

8. SHORT-TERM BANK LOANS

The weighted-average rate of interest for short-term bank loans is approximately 1.53% at March 31, 2011 and 1.54% at March 31, 2010.

9. INCOME TAXES

Taxes on income consist of corporation tax, inhabitant taxes and enterprise tax. The aggregate statutory tax rate on income before income taxes and minority interests was approximately 40.5% for 2011 and 2010.

The significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Statutory tax rate	40.5%	40.5%
Non-deductible expenses	3.4	3.7
Change in valuation allowance	66.5	36.8
Difference in statutory tax rate		
of foreign subsidiaries	(35.2)	(4.0)
Dividend income from foreign subsidiaries	—	31.2
Experimental research expenses	(7.7)	(6.5)
Deduction for foreign taxes paid	(5.0)	(29.2)
Per capita inhabitant tax	2.8	—
Foreign withholding taxes paid	5.5	—
Tax on retained earnings of specified		
overseas subsidiaries	—	2.1
Increase/decrease in tax effects of undistributed		
earnings of overseas subsidiaries	2.6	—
Others	6.4	(1.7)
Effective tax rate	79.8%	72.9%

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Retirement benefits.....	¥ 726	¥ 683	\$ 8,738
Accrued bonuses.....	644	673	7,750
Accrued expenses.....	677	515	8,151
Devaluation of inventories.....	765	965	9,210
Foreign tax credit carry-forward.....	624	481	7,505
Unrealized intercompany profit of inventories.....	546	1,766	6,567
Tax loss carry-forward.....	1,877	981	22,577
Others.....	1,315	885	15,820
Subtotal.....	7,177	6,951	86,318
Valuation allowance.....	(2,205)	(1,602)	(26,522)
Total deferred tax assets.....	4,972	5,348	59,796
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries ..	(168)	(88)	(2,020)
Others.....	—	(3)	—
Total deferred tax liabilities.....	(168)	(92)	(2,020)
Net deferred tax assets.....	¥ 4,804	¥ 5,256	\$ 57,776

10. CONTINGENT LIABILITIES

Guarantees of employees' loans were ¥54 million (\$649 thousand) and ¥65 million at March 31, 2011 and 2010, respectively.

11. RETIREMENT BENEFITS AND RETIREMENT COSTS

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2011 and 2010 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation.....	¥(31,349)	¥(33,439)	\$(377,017)
Fair value of plan assets.....	23,595	23,981	283,764
Unfunded benefit obligations.....	(7,754)	(9,457)	(93,253)
Unrecognized actuarial differences.....	6,522	8,378	78,437
Unrecognized prior service cost.....	(594)	(663)	(7,144)
Net retirement benefit obligation.....	(1,826)	(1,742)	(21,960)
Prepaid pension costs.....	(1,259)	(1,267)	(15,141)
Employees' severance and retirement benefits.....	¥ (3,085)	¥ (3,009)	\$ (37,102)

Included in the consolidated statements of income for the years ended March 31, 2011 and 2010 is a severance and retirement benefit expense comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service costs-benefits earned during the year.....	¥ 901	¥ 986	\$10,836
Interest cost on projected benefit obligation ...	774	863	9,308
Expected return on plan assets.....	(623)	(584)	(7,492)
Amortization of actuarial differences.....	904	1,002	10,872
Amortization of prior service costs.....	(70)	(70)	(842)
Severance and retirement benefit expense ...	¥1,886	¥2,197	\$22,682

The discount rates used by the Company and certain consolidated subsidiaries are principally 2.3% and 2.3% for the years ended March 31, 2011 and 2010, respectively. The rates of expected return on plan assets used by the Company and certain consolidated subsidiaries are principally 2.5% and 2.5% for the years ended March 31, 2011 and 2010, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized as income or expense in equal amounts over 15 years commencing from the succeeding period. Past service costs are recognized as income or expense in equal amounts over 15 years.

12. ASSET RETIREMENT OBLIGATIONS

The Company and certain consolidated subsidiaries recognize asset retirement obligations associated with real estate rental contracts for business-use facilities requiring restoration to their original condition, and asset retirement obligations for disposal of machinery and equipment containing PCBs based on the Law Concerning Special Measures Against PCB Waste effective as of July 2001. The liability is calculated using expected useful lives ranging from 12 to 24 years and discount rates ranging from 1.824% to 6.250%.

The following table summarizes changes in the aggregate carrying amount of asset retirement obligations for the year ended March 31, 2011:

	Millions of yen	Thousands of U.S. dollars
Beginning of year (*1).....	¥250	\$3,007
Increase due to purchase of property, plant and equipment.....	26	313
Changes in asset retirement obligation over time.....	2	24
Decrease due to execution of asset retirement obligations.....	(2)	(24)
End of year.....	¥277	\$3,331

Note: The balance of beginning of year is the aggregate carrying amounts as of March 31, 2011 due to the application of "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008) from the fiscal year ended March 31, 2011.

13. SHAREHOLDERS' EQUITY

Certain provisions of the Japanese Corporate Law (the "Corporate Law") that may significantly affect financial and accounting matters are summarized below.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law also provides certain limitations on the amounts available for dividends or purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The maximum amount that companies can distribute as dividends is calculated based on their non-consolidated financial statements in accordance with Japanese laws and regulations.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the Board of Directors' approval has been obtained.

Retained earnings at March 31, 2011 include the amounts representing the year-end cash dividends of ¥6 (\$0.07) per share, aggregating ¥608 million (\$7,312 thousand) which was approved at the Board of Directors' meeting held on April 26, 2011.

Cash dividends charged to retained earnings during the years ended March 31, 2011 and 2010 represent dividends paid out during these periods.

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal earnings reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal earnings reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the aggregate amount of additional paid-in capital and legal earnings reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, all additional paid-in capital and all legal earnings reserve

may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The Corporate Law also provides that common stock, legal earnings reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

14. STOCK OPTION (STOCK PURCHASE RIGHTS)

By general resolution at the 83rd general shareholders' meeting held on June 28, 2005, the Company introduced a stock option plan in accordance with Article 280-20 and 280-21 of the former Commercial Code of Japan, which was reformed and replaced by a new Corporate Law on May 1, 2006, and granted stock purchase rights at advantageous terms to nine directors and four employees at the closing of the 83rd general shareholders' meeting.

The stock purchase rights can be exercised at a price of ¥1,313 (\$14.11) per share in the period from August 1, 2007 to August 31, 2011 and a total of 290,000 shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price. As of March 31, 2011, stock purchase rights for 191,000 shares of common stock are issued and outstanding under the plan.

15. GAIN/LOSS ON ADJUSTMENT OF VALUE-ADDED TAX

Upon discovery of improper business transaction and accounting practices by consolidated subsidiary Hitachi Power Tools Europe GmbH (the Subsidiary), the Company restated its consolidated financial statements for the past five years ended March 31, 2006 through March 31, 2010.

It was probable that the value-added tax (VAT) paid by the Subsidiary in connection with improper sales transactions would be refunded to the Subsidiary. However, as it was not certain that VAT paid would be refunded until the German tax authorities did complete their investigation, the Subsidiary recognized VAT paid in the past five years ended March 31, 2010 as an expense of each year. For the year ended March 31, 2011, the Subsidiary recognized the accumulated VAT expenses as an income, as the German tax authorities have almost completed their investigation, and it became certain that VAT will be refunded.

16. EXPENSES FOR RESTATING PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Expenses for restating previously issued financial statements are related expenses such as investigation of the improper business transaction and accounting practices discovered at the Subsidiary in September 2010.

17. RENTAL PROPERTY

The Company and its consolidated subsidiaries own rental factories (including land) in Ibaraki Prefecture and elsewhere. Net income from rental of real property for the year ended March 31, 2011 is ¥305 million (\$3,668 thousand) and for the year ended March 31, 2010 is ¥280 million, respectively. Income from and expenses for rental of real property are included in other income (expenses).

The carrying value, net change and fair value of rental property are as follows:

	Millions of yen			
	2011			
	Book value		Carrying amount at March 31, 2011	Fair value at March 31, 2011
Carrying amount at March 31, 2010	Net change			
Rental property.....	¥2,431	¥(393)	¥2,038	¥3,471

	Thousands of U.S. dollars			
	2011			
	Book value		Carrying amount at March 31, 2011	Fair value at March 31, 2011
Carrying amount at March 31, 2010	Net change			
Rental property.....	\$29,236	\$(4,726)	\$24,510	\$41,744

- Notes: 1. Book value represents the acquisition cost less accumulated depreciation.
 2. Net change consists of depreciation amounting to ¥162 million (\$1,948 thousand) and loss on disaster amounting to ¥231 million (\$2,778 thousand).
 3. As the rental properties are immaterial, the fair value of land is calculated based on value for Fixed Property Tax and the fair value of the buildings is calculated based on the carrying value.

	Millions of yen			
	2010			
	Book value		Carrying amount at March 31, 2011	Fair value at March 31, 2010
Carrying amount at March 31, 2009	Net change			
Rental property.....	¥2,588	¥(157)	¥2,431	¥3,944

- Notes: 1. Book value represents the acquisition cost less accumulated depreciation.
 2. Net change consists of depreciation amounting to ¥157 million.
 3. As the rental properties are immaterial, the fair value of land is calculated based on value for Fixed Property Tax and the fair value of the buildings is calculated based on the carrying value.

18. SEGMENT INFORMATION

(Change in Segment Information)

Effective the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008). All the segment information at this footnote is presented in accordance with these new standard and guidance.

(a) Information by reportable segment

The Company has classified its reportable segments as the discrete units from which it obtains financial information, and for which the Board of Directors periodically allocates resources and evaluates performance. The Company's overall strategy involves providing products and services in Japan and overseas.

The Company classifies its products and services into two reportable segments: Power Tools and Life-Science Instruments. The Power Tools segment manufactures and markets power tools. The Life-Science Instruments segment manufactures and markets life-science instruments including ultracentrifuges and cooled centrifuges.

Sales, income, expenses, assets, liabilities and other items are presented for reportable segments as discussed in Note 1. Basis of Presentation and Summary of Significant Accounting Policies.

Notes to Consolidated Financial Statements

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2011 and 2010 are summarized by reportable segment as follows:

	Millions of yen			
	2011			
	Power tools	Life-science instruments	Elimination or corporation	Consolidated
Net sales:				
Outside customers.....	¥112,856	¥ 5,702	—	¥118,558
Intersegment	—	—	—	—
Total sales	112,856	5,702	—	118,558
Segment operating income	1,985	1,645	—	3,630
Segment assets	122,999	15,623	—	138,622
Depreciation and amortization.....	3,352	214	—	3,566
Increase in property, plant and equipment and intangible assets	1,714	128	—	1,842

	Millions of yen			
	2010			
	Power tools	Life-science instruments	Elimination or corporation	Consolidated
Net sales:				
Outside customers.....	¥109,222	¥ 5,778	—	¥115,000
Intersegment	—	—	—	—
Total sales	109,222	5,778	—	115,000
Segment operating income	1,999	1,638	—	3,637
Segment assets	132,143	12,203	—	144,347
Depreciation and amortization.....	3,703	215	—	3,919
Increase in property, plant and equipment and intangible assets	1,987	93	—	2,080

	Thousands of U.S. dollars			
	2011			
	Power tools	Life-science instruments	Elimination or corporation	Consolidated
Net sales:				
Outside customers.....	\$1,357,258	\$68,575	—	\$1,425,833
Intersegment	—	—	—	—
Total sales	1,357,258	68,575	—	1,425,833
Segment operating income	23,873	19,784	—	43,656
Segment assets	1,479,242	187,889	—	1,667,132
Depreciation and amortization.....	40,313	2,574	—	42,886
Increase in property, plant and equipment and intangible assets	20,613	1,539	—	22,153

(b) Relevance information

A summary of sales and property, plant and equipment by geographic area for the year ended March 31, 2011 is as follows:

2011

(1) Sales

(Millions of yen)					
Japan	Asia	Europe	North America	Others	Consolidated
¥37,544	¥9,508	¥40,944	¥23,568	¥6,994	¥118,558

(Thousands of U.S. dollars)					
Japan	Asia	Europe	North America	Others	Consolidated
\$451,521	\$114,348	\$492,411	\$283,440	\$84,113	\$1,425,833

Notes: 1. Geographic areas are decided based on geographic proximity.

2. The principal nations or regions included in each area other than Japan are as follows:

Asia	Singapore, China and India
Europe	Germany, France, United Kingdom, Norway and Russia
North America ..	U.S.A. and Canada
Others	Australia

(2) Property, plant and equipment

					(Millions of yen)
Japan	Asia	Europe	North America	Others	Consolidated
¥15,450	¥2,647	¥856	¥44	¥85	¥19,082

					(Thousands of U.S. dollars)
Japan	Asia	Europe	North America	Others	Consolidated
\$185,809	\$31,834	\$10,295	\$529	\$1,022	\$229,489

(c) Information of goodwill by reportable segment

For the year ended March 31, 2011

			(Millions of yen)
	Power tools	Life-science instruments	Consolidated
Current year amortization.....	¥ 330	¥ 2	¥ 332
Balance at the end of year	4,613	43	4,656

			(Thousands of U.S. dollars)
	Power tools	Life-science instruments	Consolidated
Current year amortization.....	\$ 3,969	\$ 24	\$ 3,993
Balance at the end of year	55,478	517	55,995

19. TRANSACTIONS WITH RELATED COMPANY

Hitachi, Ltd. directly and indirectly owned 51.3% of the voting rights of the Company as of March 31, 2011.

Balances with the related company, Hitachi, Ltd., and its subsidiaries as of March 31, 2011 and 2010, and related transactions for the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Balances:			
Hitachi, Ltd:			
Deposits.....	¥15,366	¥12,735	\$184,799
Subsidiaries of Hitachi, Ltd:			
Notes and accounts payable, trade.....	476	478	5,725

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Principal transactions:			
Hitachi, Ltd:			
Deposits.....	¥33,501	¥45,800	\$402,898
Interest received.....	29	29	349
Subsidiaries of Hitachi, Ltd:			
Factoring.....	1,861	1,808	22,381