

Six-year Summary of Selected Financial Data

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

Years ended March 31	Millions of yen, except per share amounts						Thousands of U.S. dollars (Note 3), except per share amounts
	2005	2004	2003	2002	2001	2000	2005
For the year:							
Net sales	¥ 448,043	¥ 402,195	¥ 328,496	¥ 298,766	¥ 328,854	¥ 320,127	\$ 4,164,743
Cost of sales	316,918	287,360	243,642	227,613	248,432	244,552	2,945,882
SGA expenses.....	92,055	82,847	68,803	73,197	73,206	71,091	855,689
Operating income (loss).....	40,120	32,858	16,399	(3,295)	9,892	6,056	372,932
Income (loss) before income taxes and minority interests.....	31,862	21,211	6,486	(20,903)	(1,304)	4,016	296,170
Net income (loss)	17,325	12,490	3,883	(17,603)	(3,195)	1,530	161,043
At year-end:							
Total assets	¥ 463,812	¥ 407,049	¥ 373,755	¥ 360,008	¥ 372,718	¥ 369,678	\$ 4,311,322
Working capital	96,638	67,201	61,735	38,736	60,599	86,198	898,290
Shareholders' equity.....	131,318	91,132	74,321	64,977	80,141	91,282	1,220,654
Per share of common stock (yen and U.S. dollars):							
Net income (loss)	¥ 91.05	¥ 72.62	¥ 25.90	¥ (122.47)	¥ (22.23)	¥ 10.64	\$ 0.85
Diluted net income	90.88	70.92	24.35	—	—	—	0.84
Shareholders' equity.....	673.81	520.93	460.98	452.07	557.55	635.13	6.26
Cash dividend.....	14.00	11.00	7.00	0.00	6.00	6.00	0.13
Return on net sales	3.9%	3.1%	1.2%	—	—	0.5%	—
Return on equity.....	15.6%	15.1%	5.6%	—	—	1.7%	—
Shareholders' equity ratio	28.3%	22.4%	19.9%	18.0%	21.5%	24.7%	—
Number of employees	10,602	9,983	9,924	9,452	9,848	9,503	—
Number of shareholders	11,861	8,913	10,566	12,373	12,546	12,168	—

Management's Discussion and Analysis

Performance

In the fiscal year under review, despite such continuing challenges as curbed public spending and high unemployment, the economy displayed signs of a recovery in the first half of the fiscal year amid robust exports driven by steady recoveries in the U.S. and Asian economies as well as improved corporate performance and increased capital spending. However, the second half of the fiscal year saw a more lackluster recovery as exports softened and production leveled off.

The HCM Group was impacted by such factors as money-tightening measures and macro-economic adjustments by the Chinese government. However, the Group capitalized on robust construction machinery markets in such areas as Asia (excluding China) and the Asian Pacific region (excluding the United States), as well as growing resource development product markets amid an increasing scarcity of steel worldwide, while also expanding international business in its five market regions and augmenting the manufacturing structure. In addition, the Group implemented organizational reforms for its internal marketing structure and revised its domestic six-branch structure into the East Japan Division and West Japan Division.

As a result of these efforts, consolidated net sales rose 11.4% to ¥448,043 million (US\$4,165 million), operating income increased 22.1% to ¥40,120 million (US\$373 million) and net income jumped 38.7% to ¥17,325 million (US\$161 million) to produce record sales and income for the second consecutive term.

Cost of sales rose 10.3% to ¥316,918 million (US\$2,946 million). Despite rising domestic steel prices, the cost of sales to net sales ratio edged down 0.7 percentage point to 70.7% chiefly as a result of declining expenses for non-steel materials and manpower. Gross profit increased 14.2% to ¥132,175 million (US\$1,229 million).

Selling, general and administrative (SG&A) expenses rose 11.1% to ¥92,055 million (US\$856 million). The key reasons for the increase were an increase in packing and shipping expenses associated with higher sales, an increase in employees' salaries following new hires, as well as increases in depreciation expenses and rental expenses as a result of augmenting production capacity for hydraulic excavators at the Tsuchiura Works.

Operating income rose 22.1% to ¥40,120 million (US\$373 million) due to an increase in sales and an improved gross profit margin. The ratio of operating income to net sales edged up 0.8 percentage point to 9.0%.

In other income (expenses), total other expenses decreased from ¥11,647 million (US\$108 million) in the previous term to ¥8,258 million (US\$77 million). The key factors for this decrease were shifting from the effect of an exchange loss of ¥1,806 million (US\$17 million) to an exchange gain of ¥312 million (US\$3 million) as the yen depreciated against the U.S. dollar near the end of the term, along with the near-total elimination of impairment losses for fixed assets of ¥2,436 million (US\$23 million) that were recorded in the previous fiscal year. Moreover, another

round of subsidiary liquidations drove restructuring costs down by ¥1,932 million (US\$18 million) to ¥800 million (US\$7 million) in the term under review.

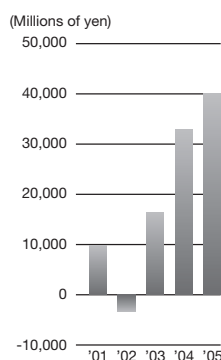
As a result of the above, income before income taxes and minority interests increased by ¥10,651 million (US\$99 million) to ¥31,862 million (US\$296 million). The nominal tax rate, which is derived by dividing income taxes by income before income taxes and minority interests, rose 10.5 percentage points from 30.0% to 40.5%.

In aggregate, net income jumped 38.7% to ¥17,325 million (US\$161 million). Net income per share increased ¥18.43 (US\$0.17) to ¥91.05 (US\$0.85), and ROE improved 0.5 percentage point to 15.6%.

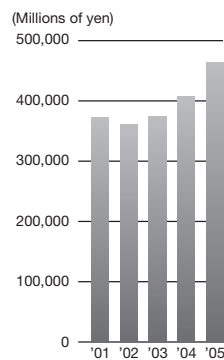
Financial Position

Total assets rose by ¥56,763 million (US\$528 million) to ¥463,812 million (US\$4,311 million). Within this figure, total current assets rose ¥46,618 million (US\$433 million) to ¥311,793 million (US\$2,898 million). Despite the ongoing liquidation of accounts overseas, notes and accounts receivable rose ¥1,183 million (US\$11 million) to ¥130,520 million (US\$1,213 million) as a result of increased sales. Inventories rose ¥28,456 million (US\$265 million) to ¥114,545 million (US\$1,065 million) owing to the increased number of retention days for inventories. This trend was the result of an increase in unit production at the Tsuchiura Works, a rise in shipped components from Japan to Europe

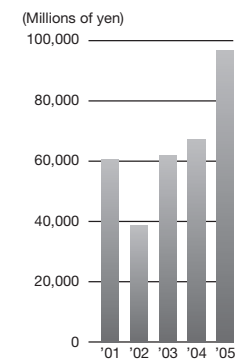
Operating Income (Loss)



Total Assets



Working Capital



following a temporary drop off in the Chinese market, as well as an increase in orders for hydraulic excavators from bustling mining activities and the subsequent extension of the production cycle.

Net property, plant and equipment rose ¥7,709 million (US\$72 million) to ¥103,574 million (US\$963 million). This was from the effects of capital investment of ¥15,069 million (US\$140 million), the development and streamlining of manufacturing facilities for hydraulic excavators at the Tsuchiura Works, the purchase of land for a new design development facility, the ongoing conversion to IT, and finally, the development of production facilities at subsidiaries in Japan, China and the Netherlands.

Total current liabilities increased ¥17,181 million (US\$160 million) to ¥215,155 million (US\$2,000 million), while total long-term liabilities rose ¥2,115 million (US\$20 million) to ¥108,114 million (US\$1,005 million).

In financing, the HCM Group conducted a capital increase with issuance of new shares at market price totaling ¥25,460 million (US\$237 million) in June 2004, and assumed ¥31,897 million (US\$296 million) in long-term loans. The HCM Group allocated ¥10.6 billion (US\$99 million) for the redemption of debentures, ¥1,462 million (US\$14 million) for repayment of short-term debt and ¥20,933 million (US\$195 million) for the repayment of long-term loans.

The net effect was that capital surplus and retained earnings rose, leading to a ¥40,186 million (US\$374 million) gain in shareholders' equity to ¥131,318 million (US\$1,221 million) that resulted in an equity ratio of 28.3%, which was 5.9 percentage points higher than the previous term. Shareholders' equity per share rose by ¥152.88 (US\$1.42) to ¥673.81 (US\$6.26).

equity to ¥131,318 million (US\$1,221 million) that resulted in an equity ratio of 28.3%, which was 5.9 percentage points higher than the previous term. Shareholders' equity per share rose by ¥152.88 (US\$1.42) to ¥673.81 (US\$6.26).

Cash Flow Analysis

At the end of the fiscal year, cash and cash equivalents totaled ¥49,534 million (US\$460 million), an increase of ¥8,403 million (US\$78 million) from the same time last year. Factors relating to respective cash flows were as follows.

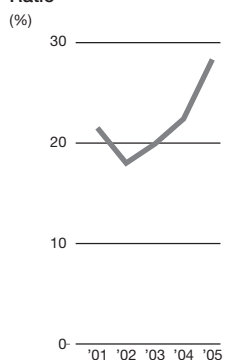
Net cash provided by operating activities totaled ¥7,899 million (US\$73 million), a decrease of ¥122 million (US\$1 million) from ¥8,021 million (US\$75 million) in the previous fiscal year. Income before income taxes and minority interests was ¥31,862 million (US\$296 million), which rose ¥10,651 million (US\$99 million) compared to the previous fiscal year, and efforts were taken to streamline notes and accounts receivable through liquidation. However, an increase in inventories of ¥25,265 million (US\$235 million) was recorded, primarily from overseas inventories, compared with an increase in inventories of ¥9,685 million (US\$90 million) in the previous fiscal year, as well as an increase of ¥11,583 million (US\$108 million) in income taxes paid to ¥16,727 million (US\$155 million).

Net cash used in investing activities was ¥17,133 million (US\$159 million). This consisted primarily of ¥14,783 million (US\$137 million) in acquisitions of property, plant and equipment,

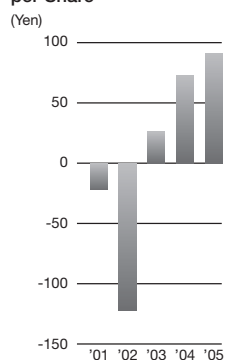
mainly in the purchase of land adjacent to the Tsuchiura Works from Hitachi, Ltd., the parent company, for a new design development facility, as well as capital investment to increase production at various manufacturing bases. Net cash used in investing activities also mainly consisted of ¥7,553 million (US\$70 million) for the purchase of investments in securities that included investments in TCM Corporation. As a result, free cash flows, the sum of net cash provided by operating activities less net cash used in investing activities, amounted to a negative ¥9,234 million (US\$86 million).

Net cash provided by financing activities totaled ¥17,594 million (US\$164 million). This was chiefly the result of proceeds from issuance of common stock in the amount of ¥24,825 million (US\$231 million), which included a capital increase by issuance of new shares at market price, the purpose of which was to acquire capital to pay for projected expenditures for capital investment as well as to repay bonds redeemable in the fiscal year under review. As another primary factor, although these funds were allocated in accordance with the original purpose, HCM also took advantage of low interest rates to procure ¥31,897 million (US\$296 million) in long-term loans, mainly ¥20.0 billion (US\$186 million) in syndicate loans, in view of an expected further increase in working capital and investment capital requirements during the current fiscal year.

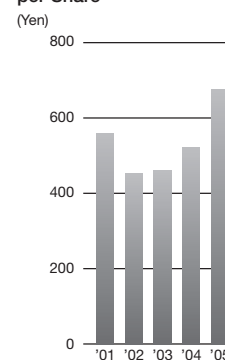
Shareholders' Equity Ratio



Net Income (Loss) per Share



Shareholders' Equity per Share



Consolidated Balance Sheets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current assets			
Cash and bank deposits	¥ 32,522	¥ 36,848	\$ 302,305
Notes and accounts receivable (Note 9)	130,520	129,337	1,213,237
Inventories	114,545	86,089	1,064,742
Short-term loans receivable	1,083	1,046	10,067
Deferred tax assets (Note 16)	9,716	9,782	90,314
Others	33,698	16,831	313,237
Less: Allowance for doubtful accounts	(10,291)	(14,758)	(95,659)
Total current assets	<u>311,793</u>	<u>265,175</u>	<u>2,898,243</u>
Property, plant and equipment			
Property held for lease	33,175	33,000	308,375
Land	32,858	29,610	305,429
Buildings and structures	62,079	57,608	577,050
Machinery and equipment	106,488	99,517	989,849
Construction in progress	463	1,154	4,304
	<u>235,063</u>	<u>220,889</u>	<u>2,185,007</u>
Less: Accumulated depreciation	<u>131,489</u>	<u>125,024</u>	<u>1,222,244</u>
Net property, plant and equipment	<u>103,574</u>	<u>95,865</u>	<u>962,763</u>
Intangible assets	<u>3,384</u>	<u>2,890</u>	<u>31,456</u>
Investments and other assets			
Investments in securities (Note 14)	27,403	23,521	254,722
Long-term loans receivable	330	518	3,067
Deferred tax assets (Note 16)	10,038	12,122	93,307
Others	8,256	7,672	76,743
Less: Allowance for doubtful accounts	(966)	(714)	(8,979)
Total investments and other assets	<u>45,061</u>	<u>43,119</u>	<u>418,860</u>
Total assets	<u>¥ 463,812</u>	<u>¥ 407,049</u>	<u>\$ 4,311,322</u>

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current liabilities			
Notes and accounts payable	¥ 90,692	¥ 87,457	\$ 843,019
Short-term loan (Note 17)	42,528	41,367	395,315
Current portion of long-term loan (Notes 10 and 17)	15,461	11,840	143,716
Current portion of bond (Note 17)	10,615	10,600	98,671
Income taxes payable	7,112	9,610	66,109
Unrealized profit on installment sales and interest	1,275	2,374	11,852
Others	47,472	34,726	441,272
Total current liabilities	<u>215,155</u>	<u>197,974</u>	<u>1,999,954</u>
Long-term liabilities			
Bond (Note 17)	24,320	34,800	226,064
Long-term loan (Notes 10 and 17)	61,862	53,545	575,033
Deferred tax liabilities (Note 16)	725	599	6,739
Retirement and severance benefits (Note 15)	7,181	8,991	66,750
Others	14,026	12,294	130,378
Total long-term liabilities	<u>108,114</u>	<u>110,229</u>	<u>1,004,964</u>
Total liabilities	<u>323,269</u>	<u>308,203</u>	<u>3,004,918</u>
Minority interests	<u>9,225</u>	<u>7,714</u>	<u>85,750</u>
Shareholders' equity			
Common stock			
Authorized — 700,000,000 shares			
Issued: 195,865,038 shares in 2005			
and 175,567,038 shares in 2004	42,583	29,779	395,826
Capital surplus	42,092	29,306	391,262
Retained earnings	49,929	34,296	464,111
Net unrealized holding gain on securities (Note 14)	1,703	1,468	15,830
Foreign currency translation adjustments	(3,828)	(2,948)	(35,583)
Less cost of treasury stock: 977,227 shares in 2005 and 678,457 shares in 2004	(1,161)	(769)	(10,792)
Total shareholders' equity	<u>131,318</u>	<u>91,132</u>	<u>1,220,654</u>
Total liabilities, minority interests and shareholders' equity	<u>¥ 463,812</u>	<u>¥ 407,049</u>	<u>\$ 4,311,322</u>
Commitments and contingent liabilities (Note 9)			

Consolidated Statements of Income

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Net sales	¥ 448,043	¥ 402,195	\$ 4,164,743
Cost of sales	316,918	287,360	2,945,882
(Realized) unrealized profit on installment sales	(1,050)	(870)	(9,760)
Gross profit	132,175	115,705	1,228,621
Selling, general and administrative expenses	92,055	82,847	855,689
Operating income	40,120	32,858	372,932
Other income (expenses)			
Interest and dividends income	1,695	1,369	15,756
Equity in losses of affiliated companies	(855)	(686)	(7,948)
Interest expenses	(3,666)	(3,519)	(34,077)
Exchange gain (loss)	312	(1,806)	2,900
Loss on revaluation of investment in securities	0	(265)	0
Gain on transfer of the substitutional portion of employee pension fund liabilities to Japanese Government	0	949	0
Amortization of transition difference (Note 15)	(542)	(919)	(5,038)
Restructuring costs	(800)	(2,732)	(7,437)
Loss on disposal of inventories	(691)	(733)	(6,423)
Gain on sales of property, plant and equipment	1,425	829	13,246
Loss on sales of property, plant and equipment	(196)	(217)	(1,822)
Impairment losses for fixed assets	0	(2,436)	0
Others, net	(4,940)	(1,481)	(45,919)
	<u>(8,258)</u>	<u>(11,647)</u>	<u>(76,762)</u>
Income before income taxes and minority interests	31,862	21,211	296,170
Income taxes			
current	10,418	12,105	96,839
deferred	2,488	(5,738)	23,127
Minority interests	1,631	2,354	15,161
Net income	<u>17,325</u>	<u>12,490</u>	<u>161,043</u>
Per share of common stock			
Net income	¥ 91.05	¥ 72.62	\$ 0.85
Net income (Diluted)	90.88	70.92	0.84
Cash dividend	14.00	11.00	0.13
Weighted average number of shares (thousands)	190,278	171,596	—

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Number of shares of common stock (thousands)	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2003	160,963	¥ 26,321	¥ 25,848	¥ 23,239	¥ (276)	¥ (764)	¥ (47)	¥ 74,321
Exercise of stock purchase warrant	14,501	3,458	3,458					6,916
Effect of newly affiliated company				35	187			222
Net income				12,490				12,490
Cash dividend				(1,342)				(1,342)
Directors' bonuses				(126)				(126)
Decrease in treasury stock	(575)						(722)	(722)
Net charge in unrealized holding gain on securities					1,557			1,557
Net charge in foreign currency translation adjustment						(2,184)		(2,184)
Balance at March 31, 2004	<u>174,889</u>	<u>¥ 29,779</u>	<u>¥ 29,306</u>	<u>¥ 34,296</u>	<u>¥ 1,468</u>	<u>¥ (2,948)</u>	<u>¥ (769)</u>	<u>¥ 91,132</u>
Exercise of stock purchase warrant	298	65	65					130
Newly issued	20,000	12,739	12,721					25,460
Effect of liquidation of consolidated subsidiaries				778				778
Effect of affiliated company excluded from equity method				171				171
Net income				17,325				17,325
Cash dividend				(2,588)				(2,588)
Directors' bonuses				(53)				(53)
Decrease in treasury stock	(299)						(392)	(392)
Net charge in unrealized holding gain on securities					235			235
Net charge in foreign currency translation adjustment						(880)		(880)
Balance at March 31, 2005	<u>194,888</u>	<u>¥ 42,583</u>	<u>¥ 42,092</u>	<u>¥ 49,929</u>	<u>¥ 1,703</u>	<u>¥ (3,828)</u>	<u>¥ (1,161)</u>	<u>¥ 131,318</u>

	Thousands of U.S. dollars (Note 3)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2004	\$ 276,808	\$ 272,411	\$ 318,795	\$ 13,646	\$ (27,403)	\$ (7,148)	\$ 847,109
Exercise of stock purchase warrant	604	604					1,208
Newly issued	118,414	118,247					236,661
Effect of liquidation of consolidated subsidiaries			7,232				7,232
Effect of affiliated company excluded from equity method			1,590				1,590
Net income			161,043				161,043
Cash dividend			(24,056)				(24,056)
Directors' bonuses			(493)				(493)
Decrease in treasury stock						(3,644)	(3,644)
Net charge in unrealized holding gain on securities				2,184			2,184
Net charge in foreign currency translation adjustment					(8,180)		(8,180)
Balance at March 31, 2005	<u>\$ 395,826</u>	<u>\$ 391,262</u>	<u>\$ 464,111</u>	<u>\$ 15,830</u>	<u>\$ (35,583)</u>	<u>\$ (10,792)</u>	<u>\$ 1,220,654</u>

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 31,862	¥ 21,211	\$ 296,170
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	14,381	12,672	133,677
Impairment losses for fixed assets	0	2,436	0
Increase (decrease) in allowance for doubtful accounts	(4,238)	2,943	(39,394)
Interest and dividends income	(1,129)	(811)	(10,495)
Interest expenses	3,666	3,519	34,077
Equity in losses of affiliated companies	855	662	7,948
Increase in notes and accounts receivable	(57)	(21,432)	(530)
Increase in inventories	(25,265)	(9,685)	(234,848)
Purchase of property held for lease	(9,794)	(10,859)	(91,039)
Sale of property held for lease	3,835	3,872	35,648
Increase in notes and accounts payable	1,322	14,238	12,289
Gain on sales of property, plant and equipment	(2,031)	(1,132)	(18,879)
Loss on revaluation of investments in securities	14	265	130
(Gain) loss on sales of investments in securities	(197)	12	(1,831)
Other, net	11,402	(4,746)	105,986
Sub total	24,626	13,165	228,909
Income taxes paid	(16,727)	(5,144)	(155,485)
Net cash provided by operating activities	<u>7,899</u>	<u>8,021</u>	<u>73,424</u>
Cash flows from investing activities			
Investments in time deposits	(754)	(1,691)	(7,009)
Proceeds from time deposits	1,540	1,695	14,315
Acquisitions of property, plant and equipment	(14,783)	(6,447)	(137,414)
Proceeds from sale of property, plant and equipment	2,913	1,447	27,078
Purchase of investments in securities	(7,553)	(5,747)	(70,208)
Difference between the cash balance of newly consolidated companies and investment	(1,422)	(89)	(13,218)
Proceeds from sale of investments in securities	615	47	5,717
Interest and dividends received	1,146	771	10,652
Interest and dividends received from affiliated companies	288	2,412	2,677
Other, net	877	(1,228)	8,152
Net cash used in investing activities	<u>(17,133)</u>	<u>(8,830)</u>	<u>(159,258)</u>
Cash flows from financing activities			
Net increase (decrease) in short-term loan	(1,462)	7,546	(13,590)
Proceeds from long-term loan	31,897	24,531	296,495
Repayments of long-term loan	(20,933)	(11,662)	(194,581)
Proceeds from issuance of bonds	0	9,973	0
Repayments of bond	(10,600)	(25,600)	(98,531)
Proceeds from issuance of bonds with warrants	0	0	0
Interest paid	(3,613)	(3,771)	(33,584)
Dividends paid to shareholders	(2,588)	(1,342)	(24,057)
Dividends paid to minority shareholders by subsidiaries	(1,046)	(785)	(9,723)
Proceeds from issuance of common stock	24,825	160	230,759
Proceeds from issuance of common stock to minority shareholders by subsidiaries	1,500	0	13,943
Purchase of treasury stock	(389)	(723)	(3,616)
Proceeds from sale of treasury stock	3	1	28
Net cash provided by (used in) financing activities	<u>17,594</u>	<u>(1,672)</u>	<u>163,543</u>
Effect of exchange rate changes on cash and cash equivalents	43	(622)	400
Net increase (decrease) in cash and cash equivalents	<u>8,403</u>	<u>(3,103)</u>	<u>78,109</u>
Cash and cash equivalents at beginning of year	41,131	44,234	382,330
Cash and cash equivalents at end of year (Note 12)	<u>¥ 49,534</u>	<u>¥ 41,131</u>	<u>\$ 460,439</u>

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 from the accounts maintained by Hitachi Construction Machinery Co., Ltd. (the Company) and its subsidiaries in accordance with the provisions set forth in the Japanese Securities and Exchanges Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan.

2. Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of Hitachi Construction Machinery Co., Ltd. and its significant subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The differences between cost of investments in the subsidiaries and affiliates and their equity in the net assets at the dates of consolidation are being amortized over 5 years.

Investments in significant affiliates are stated at underlying equity value.

3. U.S. dollar amounts

The consolidated financial statements are expressed in yen and solely for the convenience of readers have been translated into U.S. dollars at the rate of ¥107.58 = US\$1, the approximate exchange rate on the Tokyo foreign exchange market on March 31, 2005.

4. Significant accounting policies

(a) Securities

Held to maturity securities

Held to maturity securities are valued at the amortized cost

Other Securities

Those with market value:

Securities with fair values are stated at fair value as of closing date (Net unrealized holding gain/loss included in a component of shareholders' equity, and cost of sales is determined by moving-average method.)

Those without market value:

Securities without fair value are stated at moving-average method.

(b) Derivatives

Derivatives are evaluated at fair value. Derivatives, which qualified as hedges, are mainly accounted for using the deferral method of the accounting for hedge.

(c) Inventories

Inventories are valued at the lower of cost or market, cost being principally determined by the moving average method or individual method.

(d) Depreciation and amortization methods

①Property held for lease is depreciated by the straight-line method. Other P.P.E. are depreciated principally by the declining-balance method.

②Intangible assets

Intangible assets are principally amortized using the straight-line method.

(e) Allowance for doubtful accounts

In respect of specified receivables where there is a fear of default, an allowance is provided for the amount deemed necessary based on the amount of the receivables less expected amount collectible. An allowance for doubtful accounts is also provided based on the historical default rate for ordinary receivables.

(f) Retirement and severance benefits

In preparations for employees' retirement benefits, the Company and a portion of its domestic consolidated subsidiaries have posted the amounts, which are projected to occur at the end of the period under review based on the projected amount of retirement benefits obligations and pension assets at the end of this fiscal year. For the difference when the accounting standards were changed, the five-year prorated amount is recognized as an expense.

As for unrecognized prior service, the amount prorated for the average remaining years of service of the employees at the time when those obligations occurred is recognized starting from the fiscal year when they occurred.

As for unrecognized actuarial loss, the amount prorated for the average remaining years of service of the employees at the time in each term when such a difference occurred is recognized as an expense, starting from the term following the one when each such difference occurred.

Moreover, the Company and some of its consolidated subsidiaries changed a portion of their lump-sum retirement plans to defined contribution plans in October 2004. In line with implementation of the Defined-Benefit Corporate Pension Law, they also changed their qualified pension plans and employee pension fund plans to defined-benefit corporate pension plans.

HCM recorded ¥1,542 million in extraordinary losses through the application of Accounting Treatment for Transfers Between Retirement Benefit Plans (Article 1 of Guidelines for Application of Corporate Accounting Principles).

(g) Income on installment sales

The Company and some subsidiaries have installment sales. Income on long-term installment sales is recognized as the related installment receivables become due. Accordingly, the unrealized profit on installment sales applicable to the portion to be collected in future periods is reflected in the accompanying consolidated balance sheets as "unrealized profit on installment sales and interest."

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

(h) Standards for converting major foreign currency-denominated assets or liabilities

Foreign currency-denominated financial claims and liabilities are converted into yen according to the spot exchange rates of the closing date for accounting, and the

conversion balance is recognized as a profit or loss. The assets and liabilities of subsidiaries abroad and other entities are converted into yen according to the spot exchange rates of the closing date for accounting. Income and expenses are converted into yen according to mid-term average rates. The conversion difference is included in the adjustment account of exchange conversion.

(i) Accounting for leases

Finance leases other than those where the ownership of a leased object is to be transferred to the lessee are accounted for by a method similar to the one related to ordinary rentals.

(j) Method of major hedge accounting

①Method of hedge accounting

By deferred hedge accounting.

②Means and object of hedging

Forward exchange contracts and currency options are conducted to alleviate foreign exchange risks in overseas transactions. Interest-rate swaps are conducted according to their procurement periods to solidify the fluctuation risks of cash flows by corporate bonds, long-term loans and other instruments.

③Hedging policy

Derivatives trading in currency-related operations is designed mainly to hedge sales contracts denominated in U.S. dollars, such that it is supposed to be conducted in the range of accounts receivable denominated in foreign currency and amounts of contracts established. As for interest-related derivatives trading, the Company considers its first priority to procure corporate bonds, long-term loans and similar instruments by long-stabilized interest, so that the Company aims to solidify interest rates on levels that match the actual market rates at the time of procurement.

④Method of evaluating the effectiveness of hedging

During the period from the commencement of hedging to the point at which effectiveness is assessed, the Company compares the cumulative total of market changes in the targeted objects of hedging or cash flow changes with the cumulative total of market changes in the hedging instruments or cash flow changes. The Company then makes a decision based on the changes and other factors of the two.

(k) Other

①Consumption tax

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

②Income 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 bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(l) Per share data

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

(m) Treasury stock

Treasury stock is recorded at cost as a deduction of stockholders' equity. When the Company sells the treasury stock, the difference between the sales price and the cost of the treasury stock is accounted for as capital surplus.

(n) Impairment of fixed assets

From the year ended March 31, 2004, the Company accounted for fixed assets in accordance with "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Accounting Standards Board of Japan. The opinion requires that an impairment loss be recognized where the carrying amount of an asset exceeds undiscounted future net cash flows expected to be generated by such asset. The impairment loss is measured by the amount by which the carrying amount of the asset exceeds its recoverable amount being higher of discounted future net cash flows or net realizable value.

5. Policies concerning the valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries are valued using the all-fair-value method.

6. Policies concerning the consolidated adjustment accounts

The consolidation adjustment accounts are amortized uniformly over five years.

7. Policies concerning the appropriation of earnings, etc.

The consolidated retained earnings statement is based on appropriation of earnings of consolidated subsidiaries, as determined during the consolidated accounting period.

8. Cash and cash equivalents

In preparing the consolidated statements of cash flows, the Company considers all highly liquid investments with maturities of three months or less when purchased to be cash and cash equivalents.

Notes to Consolidated Financial Statements

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

9. Commitment and contingent liabilities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes receivable discounted	¥ 195	¥ 0	\$ 1,813
Notes receivable endorsed	53	65	493
Loan guaranteed	9,064	8,678	84,254
Total	9,312	8,743	86,559

10. Assets pledged as collateral primarily for short-term loans and long-term loan at March 31, 2005 and 2004 were

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Buildings and structures	¥ 345	¥ 0	\$ 3,207
Property held for lease	15,519	16,956	144,255
Land	1,682	0	15,635
Total	17,546	16,956	163,097

Secured debt at March 31, 2005 and 2004 were

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current portion of long-term loan	¥ 5,070	¥ 3,565	\$ 47,128
Long-term loan	14,528	12,805	135,044
Total	19,598	16,370	182,171

11. Research and development costs

Research and development costs charged to income as incurred for the years ended March 31, 2005 and 2004 were ¥11,284 million and ¥8,079 million, respectively.

12. Cash and cash equivalents at the end of year comprised

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and bank deposits	¥ 32,522	¥ 36,848	\$ 302,305
Deposit to affiliate	17,158	5,155	159,491
Time deposits with the maturity longer than three months	(146)	(872)	(1,357)
Total	49,534	41,131	460,439

13. Lease transactions

Information relating to financial lease accounted for as operating lease is as follows (Lessee)

1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 7,873	¥ 3,446	¥ 11,319	\$ 73,182	\$ 32,032	\$ 105,214
Accumulated depreciation	4,652	769	5,421	43,242	7,148	50,390
Net leased property	3,221	2,677	5,898	29,940	24,884	54,824

	Millions of yen			Thousands of U.S. dollars		
	2004			2004		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 8,491	¥ 2,021	¥ 10,512	\$ 80,339	\$ 19,122	\$ 99,461
Accumulated depreciation	4,276	666	4,942	40,458	6,302	46,760
Net leased property	4,215	1,355	5,570	39,881	12,820	52,701

2. Obligation under finance leases

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 2,775	¥ 2,601	\$ 25,795
Due after one year	6,161	5,288	57,269
Total	8,936	7,889	83,064

The above obligations under finance leases include the related interest expenses

3. Lease payment and depreciation expense

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease payments	¥ 2,291	¥ 2,539	\$ 21,296
Depreciation expense	2,004	2,247	18,628
Interest expense	297	317	2,761

4. Calculation method of depreciation expense and interest expense

Assumed depreciation expenses are calculated by the straight-line method over a lease term assuming no residual value. Difference between the equivalent amounts of lease payments and acquisition costs of leased properties are accounted for as interest amount and paid out in the years concerned by the interest method.

5. Right and obligation under operating leases

Operating lease
(Lessee)

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 3,366	¥ 5,563	\$ 31,288
Due after one year	2,522	5,104	23,443
Total	5,888	10,667	54,731

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 2,214	¥ 2,405	\$ 20,580
Due after one year	3,432	3,113	31,902
Total	5,646	5,518	52,482

14. Investments in securities

Marketable securities

	Millions of yen			Thousands of U.S. dollars		
	2005	2005	2005	2005	2005	2005
	Acquisition cost	Book value on financial statements	Unrealized gain (loss)	Acquisition cost	Book value on financial statements	Unrealized gain (loss)
Securities with gross unrealized holding gain						
Stocks	¥ 1,950	¥ 4,062	¥ 2,112	\$ 18,126	\$ 37,758	\$ 19,632
Bond debentures	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	1,950	4,062	2,112	18,126	37,758	19,632
Securities with gross unrealized holding loss						
Stocks	13	10	(3)	121	93	(28)
Bond debentures	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	13	10	(3)	121	93	(28)
Grand Total	1,963	4,072	2,109	18,247	37,851	19,604

Non-marketable securities

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Stocks	¥ 2,036	\$ 18,925
Bond debentures	1,000	9,296
Bond debentures held to maturity	10	93
Total	3,046	28,314

Marketable Securities

	Millions of yen		
	2004	2004	2004
	Acquisition cost	Book value on financial statements	Unrealized gain (loss)
Securities with gross unrealized holding gain			
Stocks	¥ 1,605	¥ 3,356	¥ 1,751
Bond debentures	0	0	0
Others	0	0	0
Total	1,605	3,356	1,751
Securities with gross unrealized holding loss			
Stocks	331	285	(46)
Bond debentures	0	0	0
Others	0	0	0
Total	331	285	(46)
Grand Total	1,936	3,641	1,705

Non-marketable securities

	Millions of yen
	2004
Stocks	¥ 1,619
Bond debentures	1,000
Total	2,619

Sales amount of available-for-sales securities and related gain and losses for year ended March 2005 and 2004 are as follows

	Millions of yen			Thousands of U.S. dollars		
	2005	2005	2005	2005	2005	2005
	Sales amount	Gains	Losses	Sales amount	Gains	Losses
Available-for-sales securities	¥ 26	¥ 5	¥ 0	\$ 242	\$ 46	\$ 0

	Millions of yen		
	2004	2004	2004
	Sales amount	Gains	Losses
Available-for-sales securities	¥ 47	¥ 2	¥ 14

Notes to Consolidated Financial Statements

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

15. Retirement and severance benefits

For use as defined benefit pension plans, the Company employs defined-benefit corporate pension plans, lump-sum retirement plans and defined contribution plans. Moreover, some consolidated subsidiaries use qualified pension plans and lump-sum retirement plans, and at designated times, make additional severance payments upon retirement of employees and similar occasions.

The Company and some of its consolidated subsidiaries changed a portion of their lump-sum retirement plans to defined contribution plans in October 2004. In line with implementation of the Defined-Benefit Corporate Pension Law, they also changed their qualified pension plans and employee pension fund plans to defined-benefit corporate pension plans.

1. The funded status of the Company's pension plans as of March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ (57,757)	¥ (72,831)	\$ (536,875)
Plan assets at fair value	39,156	40,659	363,971
Funded status	(18,601)	(32,172)	(172,904)
Unrecognized transition difference	0	613	0
Unrecognized actuarial loss	19,977	22,906	185,694
Unrecognized prior service cost	(6,182)	(28)	(57,464)
Total	(4,806)	(8,681)	(44,674)
Accounts recognized in the balance sheets consist of current assets-other	2,375	310	22,076
Retirement and severance benefits	(7,181)	(8,991)	(66,750)

2. Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the year ended March 31, 2005 and 2004 consisted of the following components:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 1,879	¥ 2,681	\$ 17,466
Interest cost	2,033	2,536	18,898
Expected return on plan assets	(989)	(2,093)	(9,193)
Participant contributions	(59)	(276)	(549)
Amortization of transition difference	542	919	5,038
Recognized actuarial (gain) or loss	1,720	2,600	15,988
Amortization of prior service cost	(188)	(2)	(1,748)
Cost for defined contributed pension plan	872	146	8,106
Loss associated with termination of subsidiary pension plans	800	0	7,436
Gain on the transfer of the substitutional portion of employee pension fund liabilities to Japanese Government	0	(949)	0
Loss on revision of retirement benefit system	1,542	0	14,334
Net periodic benefit cost	8,152	5,562	75,776

3. Actuarial assumption and the basis used in accounting for Company's plans are principally as follows:

Discount rate is 2.6 % (weighted average).

Expected rate of return on plan assets is 2.5%.

The transition difference arising from adoption of new accounting standard for retirement benefit is amortized over 5 years.

Actuarial loss is amortized using the straight-line method over 10 to 23 years, which is within the estimated average remaining service years of employees. Unrecognized prior service cost is amortized using the straight-line method over 10 to 23 years, which is within the estimated average remaining service years of employees.

16. Deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets			
Accrued employees bonuses	¥ 2,173	¥ 2,081	\$ 20,199
Net operating loss carryforward	10,967	12,064	101,943
Intercompany profit	4,265	4,475	39,645
Retirement and severance benefits	3,323	3,463	30,888
Loss incurred by consolidated subsidiaries after initial consolidation	7,748	9,683	72,021
Others	12,512	9,363	116,304
Total	40,988	41,129	381,000
Less: Valuation allowance	(17,350)	(15,710)	(161,275)
Total	23,638	25,419	219,725
Less: Deferred tax liabilities	(3,884)	(3,515)	(36,104)
Net deferred tax assets	19,754	21,904	183,621
Deferred tax liabilities			
Earnings generated in consolidated subsidiaries and affiliated companies after initial consolidation	2,114	1,568	19,651
Others	2,495	2,546	23,192
Total	4,609	4,114	42,843
Less: Deferred tax assets	(3,884)	(3,515)	(36,104)
Net deferred tax liabilities	725	599	6,739

17. Short-term debt and long-term debt

(a) Short-term loan consist principally of one year notes issued by the Company to banks. The weighted average interest rate on short-term loan outstanding at March 31, 2005 and 2004 were 4.58% and 4.47%, respectively.

(b) Long-term debt at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Unsecured bonds, interest 2.575%, due 2004	¥ 0	¥ 10,000	\$ 0
Unsecured bonds, interest 2.425%, due 2005	10,000	10,000	92,954
Unsecured bonds, interest 10 years swap rate plus 0.5%, due 2008	3,000	3,000	27,886
Unsecured bonds, interest 1.2%, due 2007	10,000	10,000	92,954
Unsecured bonds, interest 0.97%, due 2008	1,800	2,400	16,732
Unsecured bonds, interest 1.22%, due 2008	10,000	10,000	92,954
Unsecured bonds, interest 1.28%, due 2014	135	0	1,255
	34,935	45,400	324,735
Loans from banks and other financial institutions maturing: 2005-2019 interest approximately 1.66%	77,323	65,385	718,749
Total	112,258	110,785	1,043,484
Less: Current portion included in current liabilities	(26,076)	(22,440)	(242,387)
Long-term debt	86,182	88,345	801,097

18. Segment information

A summary of the sales and operating income by geographic area for the years ended March 31, 2005 and 2004 is as follows:

The Company and its consolidated subsidiaries operate in one industry segment, construction machinery, which includes manufacturing, sales and rental.

Accordingly, we omit the disclosure of industrial segment information operating income.

Segment information by geographic area for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Net sales:			
Domestic (inside Japan)	¥ 355,673	¥ 317,398	\$ 3,306,126
Outside Japan			
Asia	64,744	72,332	601,822
Europe	80,914	53,484	752,129
Other Areas	106,506	59,281	990,017
Elimination	(159,794)	(100,300)	(1,485,351)
Consolidated total	448,043	402,195	4,164,743
Operating income:			
Domestic (inside Japan)	18,633	18,887	173,201
Outside Japan			
Asia	6,537	10,552	60,764
Europe	4,066	1,229	37,795
Other Areas	9,670	4,965	89,887
Elimination	(1,214)	(2,775)	(11,285)
Consolidated total	40,120	32,858	372,932

Notes:

- Segment net sales figures include inter-segment transactions.
- The countries included in each segment are as follows:
 - Asia: China, Indonesia, Singapore and Thailand
 - Europe: The Netherlands and France
 - Other: New Zealand, Australia, South Africa, the United States and Canada
- Given the increasing importance of Europe as a business segment, it has been listed as an individual segment as of the period under review. Consequently, the figures for the previous fiscal year are displayed retroactively.

Overseas sales by geographic area for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Americas	¥ 91,490	¥ 63,179	\$ 850,437
Europe, Africa, East Asia	92,304	63,932	858,003
Australia, New Zealand, Other areas of Asia, except China	75,423	64,634	701,088
China	38,797	65,417	360,634
Total	298,014	257,162	2,770,162

Notes:

- Due to a change in composition of overseas net sales, especially given the increased contribution of China and Europe, the segment categories were revised from the period under review to correspond with the existing management structure of the Group. Consequently, the figures for the previous period and the previous fiscal year are displayed retroactively.
- Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.

19. Subsequent events

At a meeting of the board of directors held on April 27, 2005, a resolution was passed to amend HCM's scope of consolidation for the purpose of changing TCM Corporation from an equity-method affiliate to a consolidated subsidiary. This resolution was based on the assumption that a measure to revise the articles of incorporation would be approved at TCM Corporation's ordinary general meeting of shareholders scheduled for June 29, 2005, and that TCM Corporation will then shift to a "company with committees" system, and that also a measure to elect directors will be approved in its original draft form.

Under approximate calculations, the expected effects of this change on HCM's consolidated financial statements for the fiscal year ending March 31, 2006 will be to increase total assets and net sales by ¥60,000 million, respectively.

INDEPENDENT AUDITORS' REPORT

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Construction Machinery Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 19 to the consolidated financial statements, at a meeting of the board of directors held on April 27, 2005, a resolution was passed to amend HCM's scope of consolidation for the purpose of changing TCM Corporation from an equity-method affiliate to a consolidated subsidiary.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 Shinrihō

June 29, 2005