

Hitachi Construction Machinery Co., Ltd.

HITACHI

Annual Report 2005

Year ended March 31, 2005



Aiming to Be a Global



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

Photos in this annual report may include optional equipment. Never leave the front attachment in a raised position. Make sure the front attachment is lowered to the ground before leaving the equipment unattended. (Some of the photos images in this annual report show an unmanned machine with attachments in an operating position. These were taken for demonstration purposes only and the actions shown are not recommended under normal operating conditions.)

Company that Beats the Competition

Hitachi Construction Machinery Co., Ltd. ("HCM") was established in 1970, when Hitachi, Ltd. spun off its construction machinery division. While still part of Hitachi, HCM was involved in the production of Japan's first mechanical excavator, more than 50 years ago.

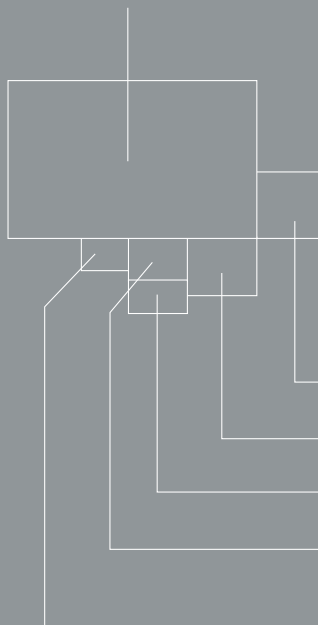
HCM and its consolidated subsidiaries (collectively, the "HCM Group") use their extensive experience and advanced technological capabilities to develop and manufacture a wide range of leading-edge construction machinery. HCM's main product line is hydraulic excavators, and the Company manufactures numerous models from small- and medium-sized excavators all the way up to 780-ton ultra-large excavators. HCM is a leader in the area of construction machinery, and has manufacturing facilities in Europe, the United States and Asia. HCM also markets mini-excavators, wheel loaders, crawler cranes, tunnel boring machines, off-road dump trucks and other products.

The HCM Group began worldwide marketing of hydraulic excavators over 30 years ago, and has developed brand power that has ensured its position as a global company. "Hitachi" brand hydraulic excavators have long been admired by customers around the world for their reliability and technological excellence, and have captured a global market share of nearly 20%. However, HCM does not merely pursue excellence in quality. The HCM Group is also raising brand value by developing component supply bases to ensure that customers' machines always perform under optimal conditions, as well as by augmenting its service structure to gain access to any work site in the world.

The 45 subsidiaries and 17 affiliates of the HCM Group are using their proven record and experience in construction machinery and similar fields to challenge themselves in new fields and create new value. The HCM Group is intent on becoming a global organization that can outmatch the global competition by providing total solutions that meet the needs of users around the world.



EX8000, one of the world's largest-class hydraulic excavator at oil-sand site in Canada



Basic Management Policy

1. To use strong and comprehensive consolidated management to improve the corporate value of the entire HCM Group. In order to achieve this, HCM is concentrating on improving its Future Inspiration Value (FIV)*, a type of value-added evaluation index of corporate value used by the Hitachi Group.

* FIV is HCM's economic value-added evaluation index in which the cost of capital is deducted from after-tax operating profit.

2. To consolidate its position in the construction machinery markets of the world using business operations based in Japan, the Americas, Europe, Africa and the Middle East, Oceania and Asia, and China, and alliances with domestic and overseas partners to offer a comprehensive lineup of products.
3. To develop its capabilities as a total solutions provider in areas other than construction machinery, as part of an ongoing diversification of its business operations.

In these endeavors, the focus throughout the HCM Group is on the fundamental precepts of "Group Management," "Ultra-high Speed Management" and "Information Management" using IT.

SCX300 crawler crane being used at a scrap yard in Japan

AH400 articulated dump truck

The LX130 wheel loader at work in New Zealand

The ZX160W wheel-drive type hydraulic excavator being used for road construction work in Belgium

ZX35 mini-excavator at work on a farm sewer ditch in the Netherlands

Dear Shareholders



Shungo Dazai

Ryuichi Seguchi

We take pleasure in reporting to our shareholders on the financial results and business activities of HCM and its consolidated subsidiaries, collectively, the HCM Group, for the fiscal year ended March 31, 2005.

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.

To address these conditions, we expanded international business in our five market regions and augmented the manufacturing structure based on the "SOH 21-Creative Value UP" medium-term management plan. We also implemented organizational reforms for our internal marketing structure and revised our domestic six-branch structure into the East Japan Division and West Japan Division.

These efforts enabled us to continue achieving record sales and income for the fiscal year ended March 31, 2005. Interim cash dividends were ¥7.00 (US\$0.07) per share, while cash dividends at the end of the term totaled ¥7.00 (US\$0.07) per share. To increase the number of its individual investors and make its stock more fluid,

HCM changed its trading unit from 1,000 shares to 100 shares on October 1, 2004.

For the current term, we project that the global economy will continue its steady recovery and the Japanese economy will pick up speed. While we will continue to monitor the stability of governments around the world in such locations as the Middle East, as well as exchange rate fluctuations caused by appreciation of the yen and revaluation of the Chinese yuan, we must seriously begin addressing rising steel prices and skyrocketing crude oil prices.

To achieve the above goals, we will remain ever conscious of our corporate social responsibility as the HCM Group and vigorously pursue our medium-term targets to raise both corporate and shareholder value.

In our endeavors, we continue to ask for the understanding and support of all shareholders.

June 2005

Ryuichi Seguchi
Chairman of the Board

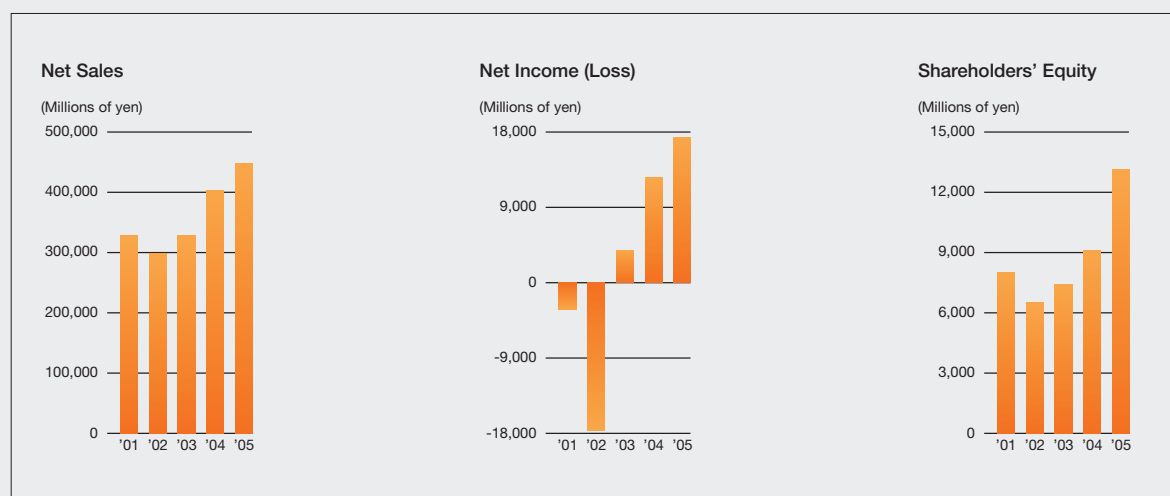
Shungo Dazai
President, Chief Executive Officer
and Director

Financial Highlights

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2005 | 2004 | 2005 |
| For the year: | | | |
| Net sales | ¥ 448,043 | ¥ 402,195 | \$ 4,164,743 |
| Net income | 17,325 | 12,490 | 161,043 |
| At year-end: | | | |
| Total assets | ¥ 463,812 | ¥ 407,049 | \$ 4,311,322 |
| Shareholders' equity | 131,318 | 91,132 | 1,220,654 |
| Per share of common stock (in yen and U.S. dollars): | | | |
| Net income | ¥ 91.05 | ¥ 72.62 | \$ 0.85 |
| Cash dividend | 14.00 | 11.00 | 0.13 |

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥107.58=US\$1.00, the approximate exchange rate on March 31, 2005. See Note 3 of the Notes to Consolidated Financial Statements.





Shungo Dazai
President, Chief Executive Officer and Director

Q. You've achieved record sales and income for the second consecutive term. What is behind this favorable performance?

First of all, we were impacted by such factors as money-tightening measures and macro-economic adjustments by the Chinese government. However, overall demand was strong during the term owing to robust construction machinery markets in such areas as Asia (excluding China), the Asia Pacific region and the United States, as well as growing resource development product markets amid increasing scarcity of steel worldwide.

To address these factors, we raised market share in Europe, expanded business in new markets in such locations as Russia, India and the Middle East and bolstered sales of resource development products for Europe. Consequently, sales to overseas locations and sales at overseas subsidiaries continued to increase for the term.

In Japan, public spending continued to wane, but demand for construction machinery nevertheless recovered due to an increase in private capital investment and strong housing starts.

To attain customer satisfaction and further raise management efficiency for the HCM Group as a whole, we conducted

organizational reforms for domestic operations to consolidate our previous six-branch structure into the East Japan Division and West Japan Division. This move has enabled us to further expand the use of our RSS (Rental, Sales and Service) system to a broader sphere of operations, as well as build a corporate structure that can generate stable earnings.

Q. Business overseas for the term was favorable in the previous term, but how do you intend to proceed in the current term?

We forecast that the global construction machinery markets will remain brisk in the current term. Since demand is rapidly expanding in the BRIC alliance of the emerging nations of Brazil, Russia, India and China, we will focus particular attention on this alliance and pursue strategies tailored to each of the member countries. Overseas sales for the term represented 66.5% of net sales, up 2.6 percentage points from the previous term, but we aim to beat out the global mega-competition to raise that figure to 70% as quickly as possible.

Overseas, in the Americas, we continued to raise market share by strengthening the relationship between Deere & Company and the Group. Efforts will also be made to expand sales of ultra-large hydraulic excavators and large dump trucks in the Central and South American region, where demand is expected to rise on the back of development of mining operations.

In Europe, Africa and the Middle East, we have established an Iberian Office in Spain and are working to bolster sales and service activities for leading customers in Europe. In order to further expand sales in such high-demand, low-share countries as Germany and France, marketing will also be reinforced through such measures as releasing products tailored to each specific market and achieving penetration of the Hitachi brand. Similarly, the HCM Group's relationships will be strengthened with HM Plant Ltd. and SCAI S.p.A, which are sub-dealers in the key markets of the U.K. and Italy, respectively. Further, in the Middle East, demand is expected to rise as oil dollars are circulated into infrastructure development. In Russia, housing construction and mining is expected to spur increased demand. In South Africa, demand is increasing on the back of natural resource development in such areas as coal and gold mining. We will use these gains to further expand overall sales.

In Oceania and Asia, we are carving out a high share in the mining market through the packaged sale of ultra-large hydraulic

excavators and large dump trucks. In the term ahead, we intend to refine full maintenance contract services for purchased machinery in order to establish a solid market position in these regions.

Capitalizing on the strengths of the Group's direct marketing and service structure, efforts will be made to continue the sale of new machinery and expand sales for components, used machinery and services. Moreover, HCM will seek to bolster sales in the Indian and Vietnamese markets, where demand is expected to rise.

In China, demand for hydraulic excavators is in the process of recovering following a bottoming out in September 2004. Hitachi Construction Machinery (China) Co., Ltd., which changed its name from Hefei Hitachi Excavators Co., Ltd. in April 2005, aims to build a corporate structure that can handle demand fluctuations by carrying out businesses from multiple angles, including providing structural welding materials to factories outside China and launching production of construction cranes. Currently in China, the government's money-tightening measures are stifling demand, but we intend to aggressively pursue marketing ahead of construction for the 2008 Beijing Olympics and the 2010 Shanghai World Expo.

Q. How is performance for the Japanese market?

We intend to capitalize on the opportunity provided by the introduction of the new two-pronged operational structure in Japan to intensify organizational reforms in operations and stabilize earnings.

In the rental business, the HCM Group has been able to reduce costs and further raise profitability through efficient use of assets by utilizing the new rental system and systematic employment of Rental-Value Engineering for Customers (R-VEC), together with preservation, recovery and unified management of assets through expansion of regional equipment centers.

With respect to services, in order to provide customers with new value and raise satisfaction, more emphasis is being placed on IT-driven e-business and enhancing such contract services as value packs, which enables reduction of administrative and maintenance expenses and budgeting.

Until now, we compensated for waning business in Japan by expanding business overseas. But in the term ahead, we will take complete stock of all domestic businesses from new machinery to rentals, used machinery and after service as a means of strictly implementing profit management by thorough pursuit of optimally streamlined operations.

Q. The “SOH 21–Creative Value UP” medium-term management plan has entered its third year as of April 2005. What are the most important measures currently being pursued to achieve the targets of the plan?

The number of worldwide manufacturing bases has risen to 23. While the breakdown for hydraulic excavator assembly at domestic and overseas bases is currently 55% and 45%, respectively, we believe that these numbers will actually reverse in the near future. For that reason, we must now consider our products as being “Made by HITACHI,” rather than being “Made in Japan.”

Given this trend, we are pursuing our global *monozukuri* (product creation) strategy by cultivating excellent employees Groupwide, and by building off of this skill base, uniformly ensuring the world's best quality at all of the global manufacturing bases, pursuing worldwide cost competitiveness, and carrying out supply-chain reforms. We are promoting region-specific marketing, reinforcing our proprietary development structure and maximizing the effects of alliances in order to develop world-class products in a manner that matches the needs of customers throughout the world. In addition, we are advancing a system of production and procurement in the best locations worldwide while working to reduce costs, shorten lead times and improve cash flows by optimizing fixed expenses on a consolidated basis and increasing the efficiency of the supply chain.



Q. What are some of the potential obstacles to carrying out the above measures?

The construction machinery industry is faced with such uncertainties as skyrocketing raw materials prices following an increase in steel and crude oil prices, as well as exchange rate fluctuations. Nevertheless, demand for such construction machinery as hydraulic excavators is expected to remain brisk worldwide. These developments will also place critical importance on setting proper selling prices and reducing costs to absorb escalating materials costs, smoothly releasing products that meet the Tier (Stage) III emissions regulations taking effect in Europe and North America in January 2006, as well as raising the selling price as products become more functional.

Reducing interest-bearing debt is an important challenge for HCM, which aims to regain an "A" rating on its long-term bonds. To that end, we strove to improve the financial structure and reinforce our balance sheets through a capital increase with issuance of new shares at market price in June 2004. We are also working to shorten the number of retention days of sales credits and inventories on a consolidated basis by promoting the C Project II (Cash Flow Project II) and supply chain management (SCM). Through employing a previously introduced cash management system (CMS) that centralizes Group funds, the HCM Group is improving consolidated cash flows.

Q. What kind of brand management activities are you conducting?

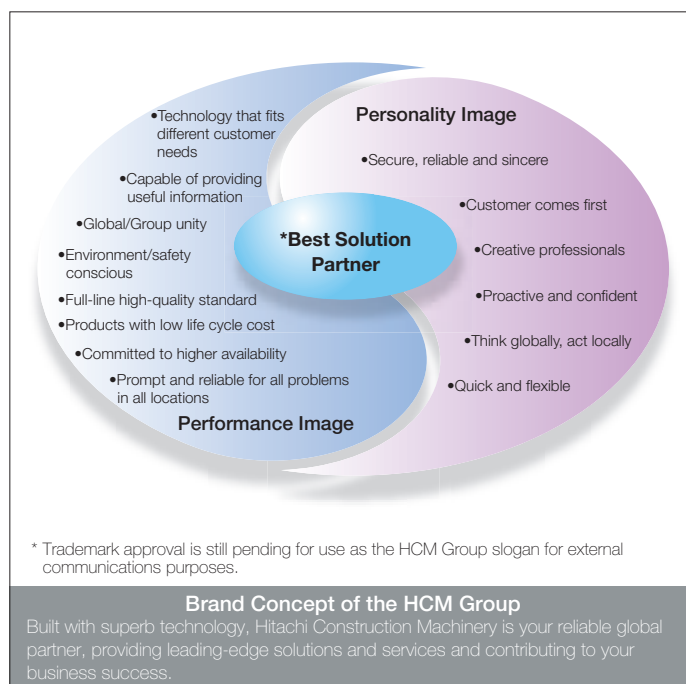
The HCM Group established a Brand Committee in June 2003 and set about studying the Group's brand image from multiple perspectives via submitting questionnaires and conducting interviews with customers and dealers from Japan, China and Europe.

The research revealed that a major challenge for the HCM Group will be to create a new brand image as a global and full-line manufacturer in contrast to our image up to now that is tied chiefly to hydraulic excavators.

Based on the results of the research, the Brand Committee formulated the Group's new brand concept as "Hitachi Construction Machinery." The desired image can be summed up as, "Hitachi Construction Machinery uses its unsurpassed technologies to provide proposals and services that are a step above the rest and contribute to improved management for global customers as a reliable partner."

To effectively capitalize on our brand image, we will employ "Best Solution Partner" as a corporate slogan for the HCM Group.

In addition, each of the divisions within the Group are acting independently to address such challenges to business expansion as developing a service structure and adapting to a full production line.

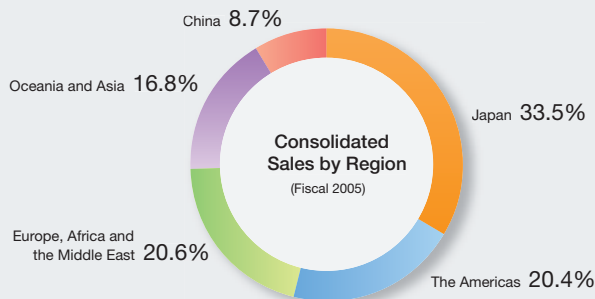


Q. Is there a final message you would like to convey to shareholders?

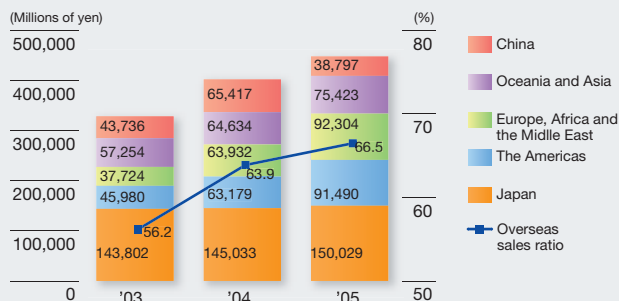
In executing the aforementioned measures, while maintaining an awareness of the critical importance of Corporate Social Responsibility (CSR), we will push ahead to attain the targets of our "SOH 21-Creative Value UP" medium-term management plan and work to increase corporate value for shareholders.

In April 2005, we established the CSR Committee. The committee will work to improve corporate value by making a cross-sectional CSR-oriented analysis of the various previously vertically structured committees and undertaking activities to raise the HCM Group's social responsibilities and improve stakeholder satisfaction. To that end, the committee will work to further promote environmental management, compliance and brand management.

Review of Operations



Trends in Consolidated Sales by Region



Overview by Regional Segment

Japan

In hydraulic excavators, although exports of used machinery to China decreased, demand for new hydraulic excavators grew 13% due to the progression of stock adjustments. The HCM Group's rental and service businesses essentially attained their targets for the fiscal year. Reflecting the preceding developments, net sales in Japan rose 3% to ¥150,029 million (US\$1,395 million).

The Americas

Growth in demand for hydraulic excavators, mini-excavators and resource development-related equipment was buoyed by robust mining and manufacturing and a high-level of housing starts. Also contributing to performance was highly effective marketing carried out via the HCM Group's partnership with Deere & Company. Consequently, net sales in the Americas exceeded forecasts, jumping 45% to ¥91,490 million (US\$850 million).

Europe, Africa and the Middle East

In Europe, sales continued to grow thanks to efforts by Hitachi Construction Machinery (Europe) N.V. to strengthen and expand its independent sales networks. Results were also favorable in Russia and the Middle East, where infrastructure development is proceeding. Moreover, we also succeeded in securing a large order for resource development-related equipment from Spain. Net sales soared 44% to ¥92,304 million (US\$858 million).

Oceania and Asia

A solid increase in sales in this region was fueled by higher sales of resource development-related equipment in such countries as Australia and Indonesia, as well as by brisk demand for hydraulic excavators throughout the entire region. Owing to these factors, net sales increased 17% to ¥75,423 million (US\$701 million).

China

A sharp decline in demand due to adjustments to macro-economic policies such as money-tightening measures by the Chinese government led to a 41% decline in net sales in China to ¥38,797 million (US\$361 million). The HCM Group continues to pursue "quality management" and work to strengthen its dealer support structure, as well as make thorough efforts to recover receivables and establish a full line of products.

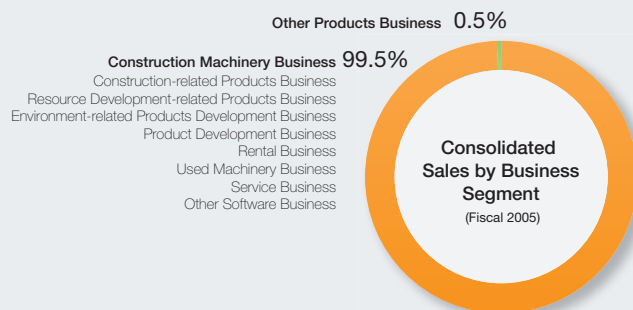
TOPICS

HCM Group Showcases Products at Bauma China 2004

At Bauma China 2004, an exhibition held in Shanghai in November 2004, HCM Group companies, Hitachi Construction Machinery (Shanghai) Co., Ltd. and Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., showcased such equipment as hydraulic excavators and crawler cranes. A total of 742 companies from 27 countries displayed products at the exhibition, which was attended by approximately 50,000 people from 102 countries. The HCM Group's display booth attracted around 10,000 people, significantly surpassing the number of visitors in 2003.



Bauma China 2004



Overview of the Market by Product

Construction Machinery Business

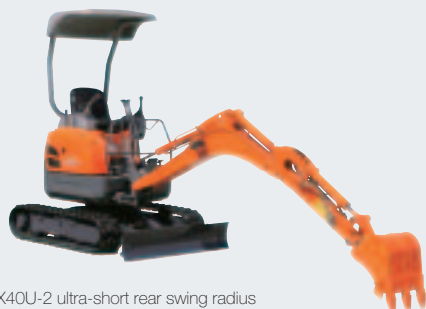
Consolidated net sales in the construction machinery business rose 11% to ¥445,680 million (US\$4,143 million). The HCM Group is focusing on market-specific marketing that responds to businesses that span a diverse range of construction machinery, as it progresses with its global business development efforts.

• Construction-related Products Business

In Japan, demand for construction-related products once again exceeded that of the previous fiscal year. Overseas, despite a sharp decline in demand in China, overall global demand was brisk, mirroring an increase in demand in the United States, Southeast Asia and other regions. Against this background, we reinforced and expanded our independent sales networks in Europe while continuing to secure a high share of sales in India and Russia – countries enjoying rapid economic growth – which underpinned growth of sales in our construction-related products business.

With regard to new products, the HCM Group released five models of ultra-short rear swing radius mini-excavators. Additionally, Hitachi Sumitomo Heavy Industries Construction Crane released one fully hydraulic crawler crane and one telescopic crawler crane.

In the wheel loader business, HCM acquired the shares of Hitachi Furukawa Construction Machinery, Ltd. and Hitachi-Furukawa Loaders Europe S.A.S. from Furukawa Co., Ltd. on October 1, 2004. Along with this acquisition, both companies became wholly owned subsidiaries and changed their names to Hitachi Construction Machinery Alba Co., Ltd. and Hitachi Construction Machinery France S.A.S., respectively. At the same time, HCM raised its stake in TCM Corporation in line with efforts to raise production efficiency, promote the HCM Group's global strategy and strengthen this business.



ZX40U-2 ultra-short rear swing radius mini-excavator

• Resource Development-related Products Business

Amid expanding demand due to brisk activities in resource development businesses spurred by a steel shortage worldwide, HCM earned high acclaim for the capabilities of its machinery, which is supported by unsurpassed technological prowess, as well as for such services as its full maintenance support program. This high evaluation was instrumental in enabling HCM to secure large bulk orders for ultra-large hydraulic excavators from Indonesia. HCM also obtained large bulk orders for ultra-large hydraulic excavators and large dump trucks from Spain, marking its full-scale entry into the European market for resource development-related products. Mirroring these developments, HCM once again recorded higher net sales in the resource development-related products business.

Regarding new products, HCM released an articulate dump truck in Japan that can operate well on uneven and unstable terrain. The 780-ton EX8000 ultra-large hydraulic excavator, which has a 40m³ bucket and is the largest class in the world, was shipped to Canada in July 2004 for excavating oil sand, and is currently operating smoothly.

Also, while constructing an additional production line for large hydraulic excavators at the Tsuchiura Works, HCM commissioned a portion of production for ultra-large hydraulic excavators to outside contractors in keeping with efforts to build a production structure that can respond to an expected increase in new orders for resource development-related products.

TOPICS

Development of 300-ton Class Ultra-large Dump Truck

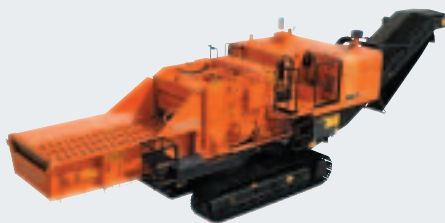
Canada-based Hitachi Construction Truck Manufacturing Ltd. has developed the EH5000 ultra-large dump truck, which has a maximum 315-ton payload capacity and is the world's largest model rigid dump truck. Incorporating such leading-edge technologies as an AC drive system, the EH5000 realizes highly efficient driving performance, high reliability and low maintenance requirements and is a complementary product for the EX8000 and EX5500 ultra-large hydraulic shovels.



EH5000 ultra-large dump truck

- **Environment-related Products Development Business**

The recycling market has expanded following the implementation of the Soil Contamination Countermeasures Law. In addressing this trend, HCM has strived to expand its customer base both by focusing on product sales as well as by offering customers such proprietary technologies as an oil-reset method in which contaminated soil at the sites of former gasoline stations is cleansed. In new products, HCM expanded its lineup with the release of one towable timber recycler as well as one self-propelled timber recycler.



ZR130HC self-propelled timber recycler

- **Product Development Business**

HCM developed and expanded sales for products chiefly building off of hydraulic excavators, and worked to meet the needs of a diverse range of customers not only in such fields as civil engineering and construction but also in demolition, metal recycling and forestry.

In new products, HCM released a floor stripper machine based on a mini-excavator design that rapidly and efficiently carries out operations for stripping away floor materials for building repairs and other work.



Floor stripper machine



Floor stripper machine in operation



EX8000 ultra-large hydraulic excavator

• Rental Business

Within the directly managed rental group REC rental companies, HCM strived to lower costs and enhance operational efficiency through centralized management of rental assets using the R-NET1 IT network in conjunction with the preservation and unified management of such assets as portable multipurpose equipment through the expansion of regional maintenance centers.

• Used Machinery Business

Amid robust demand in Southeast Asia, HCM recorded a steady increase in net sales in its used machinery business by actively holding parade and Internet auctions, mainly through Hitachi Construction Machinery Trading Co., Ltd. (HCT).

In addition to the HCT Koga Used Equipment Center for eastern Japan, HCM established the HCT Kobe Used Equipment Center on Kobe Port Island for western Japan to serve as an auction venue and distribution hub for used construction machinery.



An auction at the Kobe Used Equipment Center



Other Products Business

Consolidated net sales jumped 50% to ¥2,362 million (US\$22 million). Hitachi Kenki FineTech Co., Ltd. recorded growth in sales of ultrasonic inspection equipment and atomic force microscope equipment owing to strong demand for semiconductor production equipment.

Regarding new products, in ultrasonic imagery equipment, Hitachi Kenki FineTech released a specialty delamination sensor for multilayer ceramic chip capacitors under the Fine SAT Series of ultrasonic imagery equipment, as well as ultrasonic inspection equipment equipped with large scanners for use in delamination testing during production of large LCD televisions. In atomic force microscope equipment, in bare wafer surface texture measuring instruments, HCM also released an atomic force microscope that roughly triples resolution.



Atomic force microscope

• Service Business

In Japan, HCM made efforts to offer its value-added service packages, which provide such maintenance services and preventative measures finely tailored to customer needs as scheduled maintenance, inspection and theft prevention. Overseas, HCM earned high acclaim for its full maintenance contracts (FMC), which provide support for ultra-large hydraulic excavators that operate long hours under severe conditions, and this led to large orders for environment-related products. In addition, component supply continued to rise along with brisk demand for new machinery.

• Other Software Business

To smoothly supply components from the Tsuchiura Works to domestic and overseas production bases along with an expansion in the HCM Group's overseas businesses, Hitachi Kenki Logistics Technology Co., Ltd., which handles logistics operations, established the Tsuchiura Logistics Center, thereby strengthening its global logistics operations.

On a different front, Hitachi Kenki Business Frontier Co., Ltd., which engages in the development, sale and maintenance of computer software, and LCS Co., Ltd., which handles such financing business as installment and other sales, are developing their business by utilizing their respective specialized capabilities.

Directors and Executive Officers

As of June 28, 2005



Ryuichi Seguchi
Chairman of the Board



Shungo Dazai
President, Chief Executive Officer
and Director



Tadamichi Sakiyama
Executive Vice President,
Representative Executive Officer
and Director



Michijiro Kikawa
Executive Vice President,
Representative Executive Officer
and Director



Yasuhiko Nakaura
Senior Vice President, Executive
Officer and Director



Morihisa Sugiyama
Director



Hisashi Hosokawa
Outside Director



Kazuo Kumagai
Outside Director



Reiji Tagaya
Outside Director

Senior Vice President and Executive Officer
Senior Vice President and Executive Officer
Senior Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer
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Executive Officer

Shuichi Ichiyama
Katsutoshi Arita
Tadakatsu Tsuda
Hiromitsu Suzuki
Nobuhiko Kuwahara
Yasuhiko Murata
Toshiyuki Natake
Mitsuo Mori
Jiro Kamio
Mitsuji Yamada
Toru Sakai
Shinichi Mihara
Kiichi Uchibayashi
Takayoshi Honma
Hideo Arahata

Corporate Governance

Basic Philosophy on Corporate Governance

With the aims of raising corporate value and further improving corporate value for shareholders, the HCM Group is working to strengthen corporate governance to accelerate execution of management strategies, achieve more trustworthy and transparent management, promote global management and adapt to the new Hitachi Group management style.

Status of Measures for Corporate Governance DESCRIPTION OF CORPORATE BODIES

As a Committee System-based company, HCM completely separates the duties of oversight and execution to speed-up management decision-making and improve the effectiveness of operational oversight. The roles of the committees are as follows:

• Board of Directors

The Board of Directors is responsible for deciding basic management policies and overseeing the activities of the executive officers, while a large portion of operational decision-making authority has been delegated to the executive officers. Of the nine members of the Board of Directors, four also act as executive officers, while three members are outside directors.

The Board of Directors is comprised of the three legal bodies – the Nominating Committee, Audit Committee and Compensation Committee – with the majority of members on the committees being outside directors.

• Various Committees

The Nominating Committee is responsible for drafting proposals for appointing candidates and terminating officers for director positions at the General Shareholders Meeting.

The Audit Committee is responsible for monitoring the activities of the directors and executive officers and drafting proposals for appointing candidates and terminating independent auditors at the General Shareholders Meeting. The Audit Committee Bureau was established as an organization that specializes in assisting the work of the Board of Directors and the committees, and is staffed by one employee who is not subject to the authority of the executive officers.

The Compensation Committee is responsible for drafting proposals for determining the compensation for individual members of the Board and executive officers.

• Executive Officers

The executive officers are responsible for decision-making for and execution of day-to-day operations in accordance with the division of duties as specified by the Board of Directors. For key issues that affect the Group as a whole, discussion is deferred to an Executive Committee composed of leading executive officers for prudent decision-making after carrying out multi-faceted deliberation. Moreover, the decisions of the Executive Committee are reported to the Board.

STATUS OF INTERNAL CONTROL SYSTEM

To ensure operational efficiency and compliance, HCM is carrying out internal auditing to ascertain the status of and improve operational management. Moreover, HCM has established various committees to undertake a host of compliance activities and a Companywide compliance reporting system.

Regarding assurance of reliability in financial reporting, to monitor the corporate auditors and preserve the autonomy of the corporate auditors separate from the executive officers, the Audit Committee receives advance notice of audit plans of the corporate auditors, while actions pertaining to auditor compensation and non-auditing operations require the approval of the Audit Committee.

STATUS OF RISK MANAGEMENT STRUCTURE

HCM is undertaking such measures as the establishment of rules and guidelines within each division to handle various risks entailed in operations.

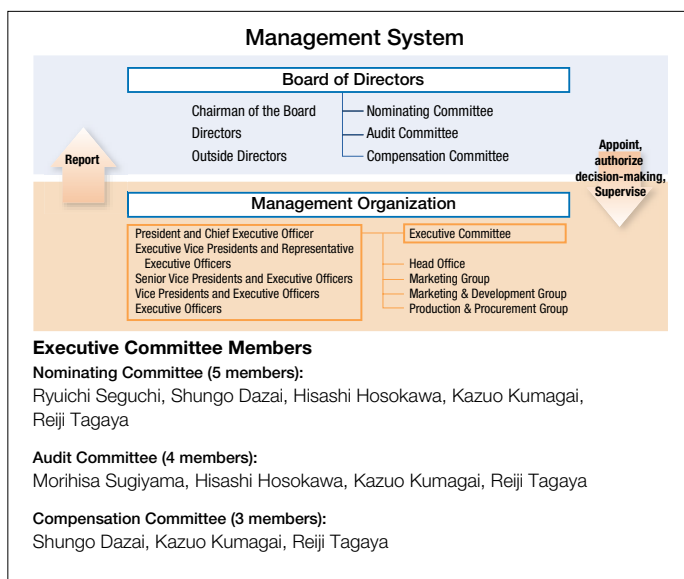
APPOINTMENT OF AUDITORS

HCM has established an environment that ensures that audits are conducted fairly and honestly by appointing Ernst & Young ShinNihon as its independent auditor and by providing accurate management information.

PROGRESS OVER LAST YEAR TOWARD ENHANCING CORPORATE GOVERNANCE

In the fiscal year ended March 31, 2005, the Board of Directors Meeting was held 15 times while the Executive Committee met 30 times.

As part of its investor relations (IR) activities, in fiscal 2005 HCM worked to gather feedback from investors that could be implemented in management operations by holding financial results briefings (four times) as well as IR roadshows in the United States (once) and Europe (twice).



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.

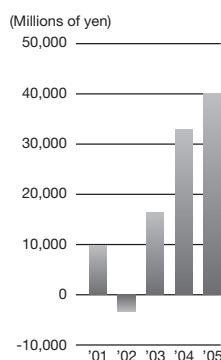
As a result of the above, income before income taxes and minority interests increased by ¥10,651 million (US\$99 million) to ¥31,862 million (US\$296 million). The nominal tax rate, which is derived by dividing income taxes by income before income taxes and minority interests, rose 10.5 percentage points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

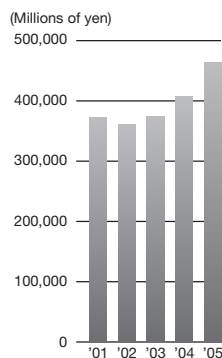
Financial Position

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

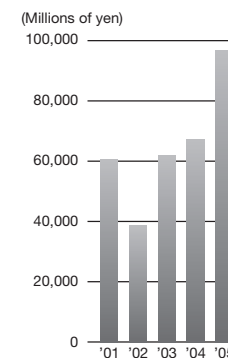
Operating Income (Loss)



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).

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.

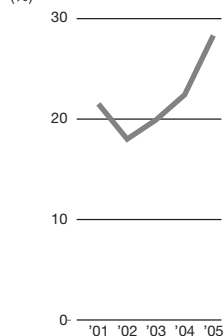
Net cash provided by operating activities totaled ¥7,899 million (US\$73 million), a decrease of ¥122 million (US\$1 million) from ¥8,021 million (US\$75 million) in the previous fiscal year. Income before income taxes and minority interests was ¥31,862 million (US\$296 million), which rose ¥10,651 million (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,

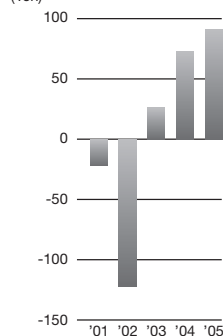
mainly in the purchase of land adjacent to the Tsuchiura Works from Hitachi, Ltd., the parent company, for a new design development facility, as well as capital investment to increase production at various manufacturing bases. Net cash used in investing activities also mainly consisted of ¥7,553 million (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.

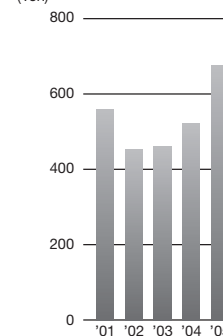
Shareholders' Equity Ratio
(%)



Net Income (Loss) per Share
(Yen)



Shareholders' Equity per Share
(Yen)



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 | 311,793 | 265,175 | 2,898,243 |
| 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 |
| | 235,063 | 220,889 | 2,185,007 |
| Less: Accumulated depreciation | 131,489 | 125,024 | 1,222,244 |
| Net property, plant and equipment | 103,574 | 95,865 | 962,763 |
| Intangible assets | 3,384 | 2,890 | 31,456 |
| 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 | 45,061 | 43,119 | 418,860 |
| Total assets | ¥ 463,812 | ¥ 407,049 | \$ 4,311,322 |

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 | 215,155 | 197,974 | 1,999,954 |
| 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 | 108,114 | 110,229 | 1,004,964 |
| Total liabilities | 323,269 | 308,203 | 3,004,918 |
| Minority interests | 9,225 | 7,714 | 85,750 |
| 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 | 131,318 | 91,132 | 1,220,654 |
| Total liabilities, minority interests and shareholders' equity | ¥ 463,812 | ¥ 407,049 | \$ 4,311,322 |
| 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) |
| | (8,258) | (11,647) | (76,762) |
| 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 | 17,325 | 12,490 | 161,043 |
| 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 | 7,899 | 8,021 | 73,424 |
| 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 | (17,133) | (8,830) | (159,258) |
| 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 | 17,594 | (1,672) | 163,543 |
| Effect of exchange rate changes on cash and cash equivalents | 43 | (622) | 400 |
| Net increase (decrease) in cash and cash equivalents | 8,403 | (3,103) | 78,109 |
| Cash and cash equivalents at beginning of year | 41,131 | 44,234 | 382,330 |
| Cash and cash equivalents at end of year (Note 12) | ¥ 49,534 | ¥ 41,131 | \$ 460,439 |

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

Securities with gross unrealized holding gain

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|------------------|------------------------------------|------------------------|---------------------------|------------------------------------|------------------------|
| | 2005 | | | 2005 | | |
| | Acquisition cost | Book value on financial statements | Unrealized gain (loss) | Acquisition cost | Book value on financial statements | Unrealized gain (loss) |
| 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

Securities with gross unrealized holding gain

| | Millions of yen | | |
|---|------------------|------------------------------------|------------------------|
| | 2004 | | |
| | Acquisition cost | Book value on financial statements | Unrealized gain (loss) |
| 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 | | |
| | Sales amount | Gains | Losses | Sales amount | Gains | Losses |
| Available-for-sales securities | ¥ 26 | ¥ 5 | ¥ 0 | \$ 242 | \$ 46 | \$ 0 |
| | Millions of yen | | | | | |
| | 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 U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| 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 U.S. dollars |
|--------------------------|-----------------|-----------|------------------------------|
| | 2005 | 2004 | 2005 |
| 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 U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| 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

Investor Information

As of March 31, 2005

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TEL: 81-3-3830-8065

FAX: 81-3-3830-8224

Establishment

October 1970

Common Stock

Authorized Number of Shares

700,000,000 shares

Issued Number of Shares

195,865,038 shares

Additional Paid-in Capital

¥42,583 million

Stock Exchange Listings

Tokyo, Osaka (#6305)

Independent Auditor

Ernst & Young ShinNihon

Stock Transfer Agent

Tokyo Securities Transfer Agent Co., Ltd.

Number of Employees

10,602 (Consolidated)

3,248 (Non-consolidated)

Number of Shareholders

11,861

Annual Meeting

The annual meeting of shareholders is usually held before the end of June in Tokyo.

HCM on the Internet

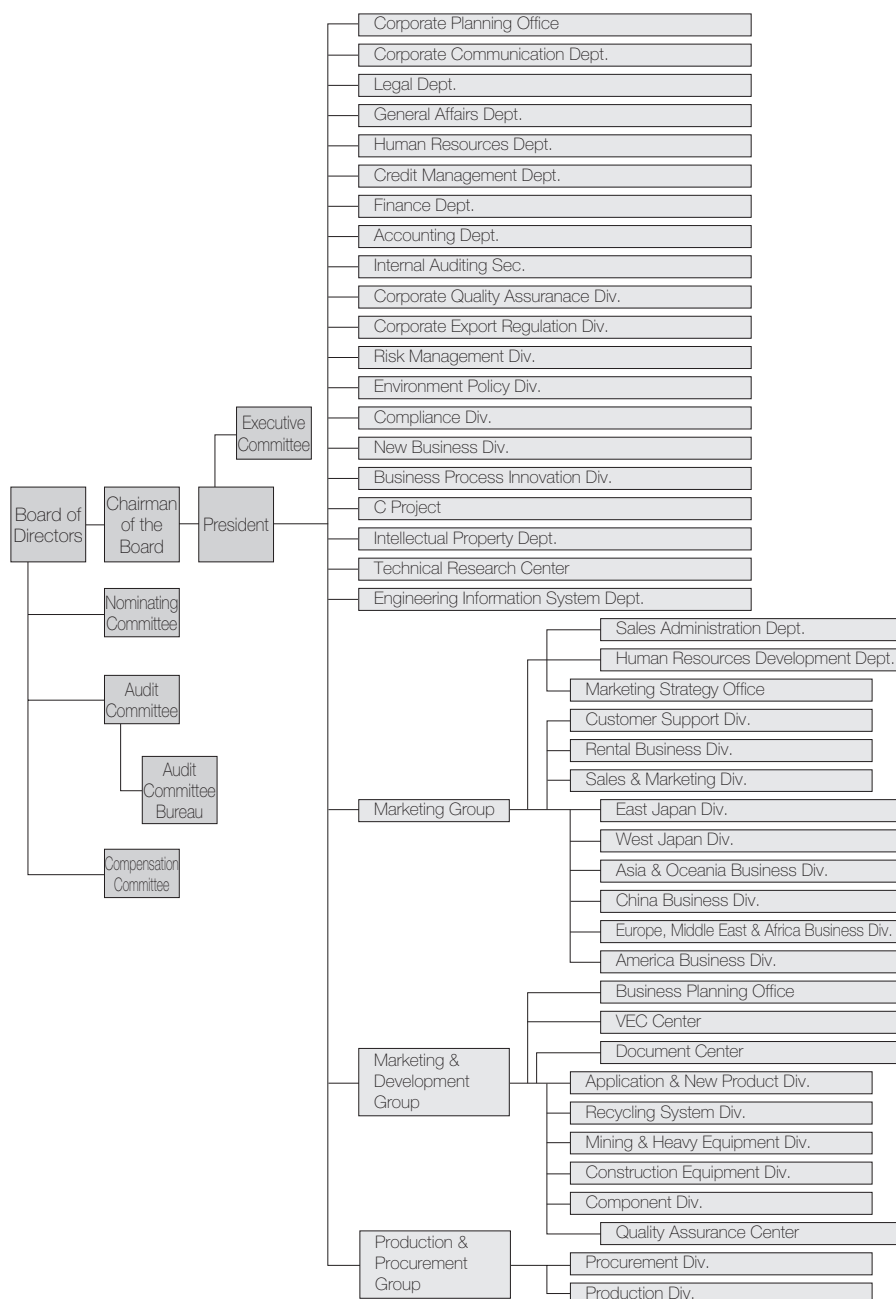
HCM's Investor Relations Home Page on the World Wide Web offers a wealth of corporate information, including the latest annual report and financial results.

•English <http://www.hitachi-c-m.com>

•Japanese <http://www.hitachi-kenki.co.jp>

Corporate Structure

As of April 1, 2005



Subsidiaries and Affiliates (Domestic)

As of June 28, 2005

| Company Name | Business Lines |
|--|--|
| Manufacturing Companies | |
| Yamagata Hitachi Construction Machinery Co., Ltd. | Manufacture of construction and road transportation machinery and parts |
| Niigata Material Co., Ltd. | Manufacture of automotive and machinery parts |
| Hitachi Construction Machinery Alba Co., Ltd. | Manufacture of wheel loaders |
| Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. | Manufacture, sales and service of cranes |
| Hitachi Kenki FineTech Co., Ltd. | Manufacture, sales and repair of semiconductor-related equipment, and non-destructive testing |
| Hitachi Construction Machinery Tierra Co., Ltd. | Manufacture, sales and service of construction and agricultural machinery |
| Tada Machinery Co., Ltd. | Manufacturing and sales of machinery parts, etc. |
| TCM Corporation* | Manufacture and sales of industrial vehicles |
| Sales & Service Companies | |
| Dynapac Hitachi Construction Machinery Co., Ltd. | Sales of road construction machinery and pavers |
| Okinawa Hitachi Construction Machinery Co., Ltd. | Sales and service of construction machinery |
| HSC Crane Service Co., Ltd. | Sales and service of cranes |
| Okumura Construction Machinery Co., Ltd.* | Sales, service and rental of construction machinery |
| Rental & Leasing Companies | |
| REC Hokkaido Co., Ltd. | Rental and leasing of construction machinery |
| REC Tohoku Co., Ltd. | Rental and leasing of construction machinery |
| REC Kanto Co., Ltd. | Rental and leasing of construction machinery |
| REC Koshin-etsu Co., Ltd. | Rental and leasing of construction machinery |
| REC Chubu Co., Ltd. | Rental and leasing of construction machinery |
| REC Kansai OKG Co., Ltd. | Rental and leasing of construction machinery |
| REC Shikoku Co., Ltd. | Rental and leasing of construction machinery |
| REC Nishi Nihon Co., Ltd. | Rental and leasing of construction machinery |
| REC Nishi Nihon Lease Co., Ltd. | Rental and leasing of construction machinery |
| Epoch Co., Ltd. | Rental and sales of construction materials |
| Green Rental Co., Ltd. | Rental and leasing of construction machinery |
| Sokuto Co., Ltd.* | Rental and leasing of construction machinery |
| Others | |
| Hitachi Kenki Business Frontier Co., Ltd. | Software development, design, production, sales and consulting services |
| Hitachi Construction Machinery Comec Co., Ltd. | Procurement of construction machinery materials and parts depot operation |
| Hitachi Kenki Logistics Technology Co., Ltd. | Packing and shipping of construction machinery and import/export business |
| Hitachi Construction Machinery Operators Training Center Co., Ltd. | Driving instruction of construction machinery |
| Hitachi Construction Machinery Trading Co., Ltd. | Sales, import/export of construction machinery, materials for civil engineering construction and daily necessities |
| LCS Co., Ltd. | Financing |
| Hitachi Kenki Loaders Co., Ltd. | Holding company |

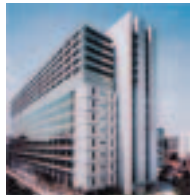
*Affiliates

Network

Domestic

Head Office

5-1, Koraku 2-chome, Bunkyo-ku,
Tokyo 112-8563, Japan
Tel: 81-3-3830-8065



Tsuchiura Works

650 Kandatsu-machi, Tsuchiura,
Ibaraki 300-0013, Japan
Tel: 81-29-831-1111



Kasumigaura Works

2200 Fukaya, Kasumigaura,
Ibaraki 300-0134, Japan
Tel: 81-29-898-2911

East Japan Division

33-25, Benten 5-chome, Soka,
Saitama 340-0004, Japan
Tel: 81-48-935-2111

West Japan Division

22, Kishihata, Ohyamazaki, Ohyamazaki-cho,
Otokuni-gun, Kyoto 618-8511, Japan
Tel: 81-75-956-2111

Worldwide

Manufacturing & Sales Companies

Hitachi Construction Machinery

(Europe) N.V.

*Head Office

Souvereinstraat 16, 4903 RH Oosterhout
P.O. Box 404, 4900 AK Oosterhout,
The Netherlands
Tel: 31-162-484400



*Amsterdam Factory

Sicilieweg 5, 1045 AT Amsterdam
P.O. Box 59239, 1040 KE Amsterdam,
The Netherlands
Tel: 31-20-4476700



Hitachi Construction Machinery

France S.A.S.

35 rue Roger Salengro,
BP211-69742, Genas Cedex, France
Tel: 33-4-7223-2828

Hitachi Construction Truck

Manufacturing Ltd.

200 Woodlawn Road West, Guelph,
Ontario, N1H 1B6, Canada
Tel: 1-519-823-2000



Hitachi Construction Machinery

(China) Co., Ltd.

P.O. Box 8, New City South Hefei, Anhui
231202, The People's Republic of China
Tel: 86-551-381-1060



PT. Hitachi Construction

Machinery Indonesia

*Bekasi Factory

Jalan Raya Bekasi KM 28.5,
Rawapanggung Bekasi 17133-West Java,
Indonesia
Tel: 62-21-884-2827



*Cibitung Factory

Jalan Raya Cibitung KM 48.8,
Cibitung Bekasi 17520-West Java,
Indonesia
Tel: 62-21-890-0515

Deere-Hitachi Construction

Machinery Corporation

P.O. Box 1187, 1000 Deere Hitachi Road,
Kernersville, NC 27285, U.S.A.
Tel: 1-336-996-8100



Telco Construction Equipment

Co., Ltd.

Jubilee Building, 45 Museum Road,
Bangalore 560025, India
Tel: 91-80-25583346

Sales & Service Companies

Hitachi Construction Machinery

(Shanghai) Co., Ltd.

No. 65 TaiGu Road,
Wai Gao Qiao Free Trade Zone,
Pudong New District, Shanghai 200131,
The People's Republic of China
Tel: 86-21-58668686



Hitachi Sumitomo Heavy Industries

Construction Crane (Shanghai) Co., Ltd.

2-F, No.185 TaiGu Road,
Wai Gao Qiao Free Trade Zone,
Pudong New District, Shanghai 200131,
The People's Republic of China
Tel: 86-21-58680941

Hitachi Construction Machinery

(Thailand) Co., Ltd.

46/79, 46/81-82, 17th Floor Nation Tower,
Moo 10, Bangna-Trad Road, Bangna,
Bangkok 10260, Thailand
Tel: 66-2-325-1011

Hitachi Construction Machinery

(Singapore) Pte., Ltd.

2 Pioneer Walk, Singapore 627856
Tel: 65-6265-2377



PT. Hexindo Adiperkasa Tbk

Pulo Gadung Industrial Estate,
Jl. Pulo Kambing II Kav. I-II No.33,
Jakarta 13930, Indonesia
Tel: 62-21-461-1688



Hitachi Construction Machinery

(Australia) Pty., Ltd.

Building 3, 1 Foundation Place, Greystanes
NSW 2145, Australia
Tel: 61-2-8863-4800

CablePrice (NZ) Limited

3 Tunnel Grove, Gracefield,
P.O. Box 38-040, Wellington Mail Centre,
New Zealand
Tel: 64-4-568-4289



Hitachi Construction Machinery

Southern Africa Co., Ltd.

Cnr. Atlas & Paul Smit St.,
Boksburg North, P.O. Box 6331,
Dunswart, 1508, South Africa
Tel: 27-11-841-7700



Hitachi Construction Machinery

(Malaysia) Sdn. Bhd.

Lot 7, Jalan SS 13/2,
Subang Jaya Industrial Estate,
47500 Petaling Jaya Selangor Darul Ehsan,
Malaysia
Tel: 60-3-5632-4131



Yungtay-Hitachi Construction

Machinery Co., Ltd.

No.11-3, Lane17, Section 3, Nansan Road,
Luchu Hsiang,
Taoyuan, Taiwan
Tel: 886-3-3240088

SCAI S.p.A.

21, Via Don Fulvio Scialba 06080
Ospedalicchio Bastia Umbra (PG), Italy
Tel: 39-75-801-501



HM Plant Ltd.

Monkton Business Park North,
Hebburn Tyne and Wear, NE31 2JZ,
United Kingdom
Tel: 44-191-430-8400

Overseas Liaison Offices

HCM China Office

Room No.2018 Beijing Fortune Bldg.
No.5 Dong San Huan Bei Lu
Chao Yang District, Beijing 100004,
The People's Republic of China
Tel: 86-10-6590-8727

HCME Germany Office

C/O Regus Eurohaus,
Lyoner Strasse 24-26,
60528 Frankfurt am Main,
Germany
Tel: 49-69-677-33149

HCME France Office

C/O Regus Business Center,
13 Rue Camille Desmoulins,
Issy-Les-Moulineaux 92441, France
Tel: 33-1-5804-2572

HCME Iberia Office

C/O Regus Business Center,
Calle Lopez de Hoyos 35-1
Madrid 28002, Spain
Tel: 34-91-745-99-62

HCME Russia-CIS Office

26-28, Denisovsky Pereulok 5th Floor,
Moscow, 105005 Russia
Tel: 7-095-933-5133

HCME UK Office

Redbridge House, Lower Bristol Road,
Bath, BA2 3EW, United Kingdom
Tel: 44-1225-402302

HCME Middle East Center

P.O. Box 61052, Lob 15-322,
Jebel Ali Free Zone,
Dubai, U.A.E.
Tel: 971-4-8818221

HCME Middle East Center

Istanbul Office

Kore Sehiti Caddesi No.35
Onurgil Is Merkezi,
Daire 4 34394 Zincirlikuyu, Istanbul, Turkey
Tel: 90-212-275-3322

Hitachi Construction Machinery Co., Ltd.

5-1, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8563, Japan

TEL : 81-3-3830-8065

URL <http://www.hitachi-c-m.com>