Hitachi Construction Machinery Co., Ltd.

HITACHI

Annual Report 2006

Year ended March 31, 2006

Best Solution Partner

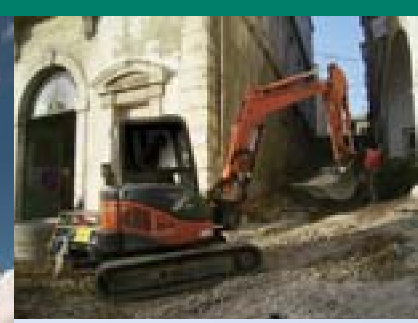
ZX330-3 medium-sized hydraulic excavator and ZW220 medium-sized wheel loader. These next-generation global models combine outstanding performance and advanced functionality in compliance with international emission and noise regulations

SCX900-2 crawler crane at work in Europe

ZX50U-2 ultra-short rear swing radius mini-excavator at work in Europe

ZX470 H-3 large-sized hydraulic excavator and AH400 articulated dump truck at work in Japan

EX8000, one of the world's largest class of hydraulic excavators, at an oil sands site in Canada



Hitachi Construction Machinery Co., Ltd. and its consolidated subsidiaries (collectively the "HCM Group") is one of the groups of companies that comprise the Hitachi Group. The HCM Group's construction machinery products emblazoned with the Hitachi brand can be seen working in towns, on roads, and at worksites around the world.

Established in 1970 when Hitachi, Ltd. spun off its construction machinery division, HCM traces its history back to more than 50 years ago to Hitachi's development of a mechanical excavator built exclusively with domestic Japanese technology. Over the years the Company has applied its sophisticated technological capabilities to advance the state of the art in construction machinery. Today it is developing global hydraulic excavator and wheel loader models that comply with the Tier III emissions regulations being phased in across Japan, North America, and Europe starting in 2006. In addition to continuously improving the quality of its products, HCM has enhanced its global service capabilities by advancing a system of production and procurement in strategic locations worldwide to ensure that customer machinery can be maintained in ideal operating condition at all times.

Based on its experience and proven track record, HCM has grown to include 67 subsidiaries and 17 affiliates. Today the Group is applying its full capabilities to consolidating its position as one of the world's top three construction machinery manufacturers. In addition to meeting diversifying customer needs by expanding its lines of wheel loaders, mini-excavators, crawler cranes, off-road dump trucks, flagship hydraulic excavators, and other equipment, the Group is committed to becoming a "Best Solution Partner" for all customers around the world by providing total construction machinery solutions.

Our Vision

"To pass on a productive environment and prosperous cities to future generations." The corporate vision of Hitachi Construction Machinery Co., Ltd. is to contribute to the creation of congenial living spaces.

1. We are active in the evolution of "machinery" and the synergy between "human" and "business" that combines to create rich living spaces, making them more comfortable, highly developed and efficient.

2. We consistently develop and provide our customers with the technology, products and services that generate new value.

3. While maintaining profitable operations, we act as a "corporate citizen having good judgment" by staying in harmony with the environment, contributing to society and participating in cultural activities, striving for a symbiotic coexistence with society.

Basic Management Policy

1. To improve the enterprise value and shareholder value of the HCM Group through a rigorous emphasis on consolidated management. To this end, Future Inspiration Value (FIV)* management is being vigorously applied throughout the group.
   *FIV is an indicator of added value to increase corporate value based on the cost of capital formulated by Hitachi and is used by all members of the Hitachi Group.

2. To establish a firm position in global construction machinery markets by strengthening alliances both in Japan and overseas in order to provide a more comprehensive lineup of products as part of the ongoing development of global operations in the five regions comprising: Japan; the Americas; Europe, Africa and the Middle East; Oceania and Asia; and China.

3. In all areas of operation, to diversify and develop as a Group supplier of total solutions encompassing both hardware and software.

To ensure the ability to achieve these objectives Group-wide, there is a strong emphasis on developing global personnel and building a global IT strategy to implement "total management," "accelerated decision-making of management" and "information management".

CONTENTS

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

In this report, "the Company" refers to Hitachi Construction Machinery Co., Ltd., while "the Group" refers to Hitachi Construction Machinery Co., Ltd., and its subsidiaries.

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

Message to Shareholders

Dear Shareholders,

We are pleased to report our financial results for the fiscal year ended March 31, 2006, and extend our gratitude for your continued patronage.

During the fiscal period under review, the Japanese economy made significant progress towards recovery with a marked increase in capital investment reflected in the general trends of improved corporate earnings, an improved employment market and a slight rise in consumer spending. Overseas, the global economy was robust overall as economic expansion continued in the United States where consumer spending remained stable, and in China where exports were strong. In Europe, too, increased exports and production provided signs of economic recovery.

In these favorable conditions, the HCM Group's business operations focused on establishing a solid earnings framework through the five-region structure, and expanding the lineup of construction machinery. These operations were guided by the basic principles of the Group's "*SOH* 21-Creative Value UP" medium-term management plan: globalization (including restructuring of domestic businesses) and achieving industry-leading profitability in construction machinery.

As a result, the HCM Group achieved its fourth consecutive year of increased revenue and profits and third consecutive year of record profits. Interim dividends were ¥8 (US$0.07) per share and year-end dividends were ¥10 (US$0.09) per share.

Looking to the future, while there are uncertainties concerning the direction of both exchange rates and the price of crude oil and raw materials, we believe the environment for construction machinery will continue to remain robust due to an expansion of private-sector capital investment in Japan, the global increase in demand for mining equipment, further expansion of markets in the United States, Asia, Russia and the Middle East, and the recovery of the Chinese market.

In moving forward, we at the HCM Group are very conscious of the importance of our corporate social responsibilities (CSR) as we work to achieve our medium-term management goals, strengthen our brand and increase both corporate and shareholder value.

In closing, to shareholders we extend our gratitude and ask for your continued understanding and support in the future.

June 2006

Michijiro Kikawa
President, Chief Executive Officer and Director

Shungo Dazai
Chairman of the Board, Representative Executive Officer and Director

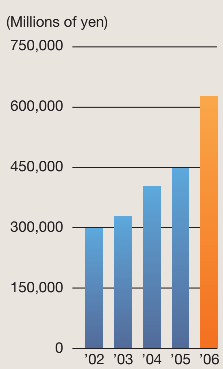
Financial Highlights

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

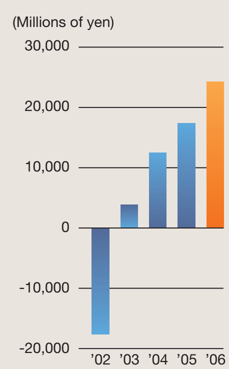
	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
For the year:			
Net sales	**¥ 626,457**	¥ 448,043	**$ 5,332,911**
Net income	**24,223**	17,325	**206,205**
At year-end:			
Total assets	**¥ 552,341**	¥ 463,812	**$ 4,701,975**
Shareholders' equity	**157,173**	131,318	**1,337,984**
Per share of common stock (in yen and U.S. dollars):			
Net income	**¥ 124.37**	¥ 91.05	**$ 1.06**
Cash dividends	**18.00**	14.00	**0.15**

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US$1.00, the approximate exchange rate on March 31, 2006. See Note 3 of the Notes to Consolidated Financial Statements.

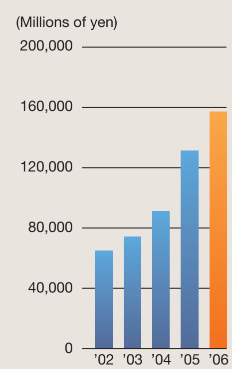
Net Sales



Net Income (Loss)



Shareholders' Equity



Michijiro Kikawa President, Chief Executive Officer and Director

Marking the debut of the Company's new executive officer team in April 2006, Michijiro Kikawa assumed the role of President, Chief Executive Officer and Director, and Shungo Dazai became Chairman of the Board, Representative Executive Officer and Director. Here the new president shares some of his thoughts on management philosophy and the future direction of HCM's business.

What will be your first goal as CEO?

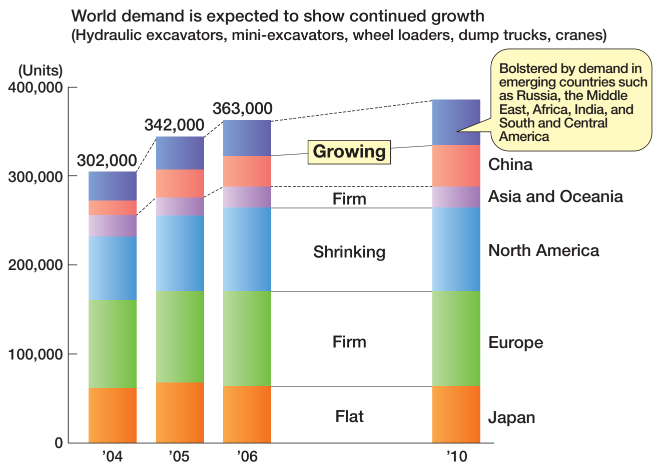
This year is the last year of the "*SOH* 21-Creative Value UP" medium-term management plan, and I feel that one of the most important responsibilities in my new role is guiding the Company through the process of adopting a new management plan. During the more than 35 years I've worked at HCM since I joined the Company in 1970, I've been involved with production technology at Tsuchiura Works, led our Chinese subsidiary, and supervised operations as an executive officer. The mission with which I have been entrusted requires me to bring all of my past experience to bear in nurturing the seeds planted by the Group to build a robust business capable of withstanding any changes that the future may hold.

What kind of objectives will the new management plan establish?

Today the global construction machinery market is benefiting from extremely favorable conditions. I believe business will remain strong until around 2010 thanks to new growth in Russia, the Middle East, Africa, India, and Central and South America, although demand will stabilize in North America and Western Europe.

Against this backdrop, our goal is to follow in the footsteps of Chairman Dazai, whose bold implementation of the "*SOH* 21-Creative Value UP" medium-term management plan included outperforming our rivals in the new global "mega-competition," establishing the best profitability in the construction machinery industry, and taking greater advantage of globalization in our operations. Our task will be to move aggressively to further consolidate our position as one of the top three construction machinery manufacturers.

Demand Trends in the Global Construction Machinery Market



What is your strategy for maintaining HCM's position as one of these top three?

If you take a close look at our Group's business model, you will see that there are gaps that still need to be addressed. I plan to improve our standing in the global market by filling in these gaps along the three axes: Products, Markets and Value Chain.

In addressing product gaps, we will work aggressively to meet diversifying customer needs by broadening our lineup of flagship hydraulic excavators. For example, we plan to leverage the Group's unique capabilities in the expanding mining equipment market in Australia, Indonesia, the Americas, and other regions by introducing a highly reliable ultra-large dump truck with advanced AC drive technology, which we will provide along with some of the world's most massive ultra-large hydraulic excavators. We'll also be seeking to expand our share of the wheel loader and crawler crane markets by working with business partners and group companies to develop and sell solutions for a wide range of applications. Finally, we'll strengthen our sales capabilities and raise profitability in product areas where we have a comparatively low market share, for example in compact equipment (consisting of mini-size construction machinery of up to 3 tons).

Looking at the market gaps along these three axes, I believe the key to filling them will be to strengthen our business in high-demand markets such as Germany and France where our share remains low and increase our share in Europe, while continuing to secure a large share in the United States and Japan. Moreover, we must work aggressively to develop operations in emerging markets, such as the BRIC economies, where demand is expected to grow. To achieve these goals, we will work to create new demand by refining detailed, region-specific market development strategies — including for the domestic Japanese market — that anticipate customer needs.

At the same time, to fill gaps in our value chain, we must expand our focus beyond new equipment sales to include our service, rental, finance, logistics, and used equipment businesses. By carefully resolving issues in these areas, we will be able to create structures capable of providing total solutions for all customers, gaining access to new business opportunities.

HCM's overseas growth in recent years has been striking. How do you see the Company's domestic business?

Currently overseas sales account for about 70% of all Group revenue, and that percentage seems set to increase due to projected growth in demand. If we continue on our current track, it is possible that we will experience an imbalance between our overseas and domestic businesses.

Although brisk business overseas is a very good thing, annual decreases in the percentage of our revenue accounted for by domestic Japanese sales—the foundation of our operations—are a problem. Japanese customers are extremely demanding when it comes to product performance, including quality and delivery time, and it is no exaggeration to say that these customers prepare us for success in global competition. We must remember that Japan is the source of our growth and we will work to maintain domestic sales at 30% of revenue, even as we expand overseas sales.

Re-establishing our business model is an urgent priority if we are to revitalize our domestic business. With a domestic value chain that extends to direct sales, service, and machinery rentals, there is room for improvements in finance systems, product distribution mechanisms including used equipment, and our overall logistics.

Consolidating our rental business is another challenge. We've worked very hard to restore our rental operations to profitability, and we have finally succeeded in getting our heads above water this year thanks to efforts to slim assets and reorganize facilities. Now we need to move to a more proactive style of management while maintaining rental assets at an appropriate level.

We're also putting resources into our environmental business, for example by actively promoting our "Hi-OSS" system for efficient on-site sorting, processing, and recycling of industrial waste products, sludge, and scrap.

The ability to develop advanced technologies and knowledge under demanding conditions at home and then deploy them to our advantage in global markets is an important strategy as we pursue our goal of maintaining our position as one of the top three construction machinery manufacturers.

What are the key features of the new hydraulic excavator and wheel loader series introduced this January?

The ZAXIS-3 Series of medium- and large-sized hydraulic excavators features clean engines that comply with the Tier III emissions regulations being phased in across Japan, North America, and Europe starting in 2006, delivering world-class environmental performance and meeting 2006 European noise regulations. The new models also feature higher production, improved fuel economy, reduced lifecycle cost, and advanced IT-based machinery management, and we're confident of their success.

The ZW Series of medium wheel loaders is the fruit of a joint development program with the TCM Corporation, which became an HCM subsidiary this fiscal year. Both companies' models feature identical design and model designations throughout the world. In addition to compliance with Tier III emissions regulations, models offer dramatically improved driving performance and front-end work performance for essential wheel loader tasks such as excavating and loading.

The total global wheel loader market amounts to annual sales of 60,000 units (excluding China)* and is second in size only to the hydraulic excavator market. In October 2006, TCM Corporation will merge with Hitachi Construction Machinery Alba Co, Ltd., a manufacturer of small wheel loaders, to create a single organization capable of substantially more efficient operations due to unified production and procurement, and more effective use of management resources.

*Based on HCM research

Will the Company be undertaking any capital investment campaigns to expand its businesses?

We're planning for total investment of ¥150 billion over five years, an average of ¥30 billion each year. About 60% of this total will target production facilities as part of our drive to build a network of production and procurement facilities in strategic locations around the world. Thirty percent will be used to boost sales capabilities, and the remaining ten percent will be directed toward the development of information systems for searching and visualizing data such as global inventory conditions and consolidated management indicators.

We plan to fund this capital campaign from our operating cash flow without resorting to new borrowing or bond issues.

What does corporate brand mean to HCM?

Our Group is already recognized for designing and manufacturing the best hydraulic excavators in the world. Now I would like to take the HCM brand to the next level.

Using "Best Solution Partner" as our brand concept, we will undertake an intensive educational effort to make each employee around the world as much a part of the HCM brand as our products are. This program will have the goal of empowering our professionals to face customers with sincerity and self-confidence, making HCM a true partner that promises to contribute to their businesses by providing advanced solutions and services built on a foundation of exceptional technology.

People are the basis of all management. I believe that companies' growth is achieved by harnessing the capabilities of their employees, and my experience leading our Chinese subsidiary taught me that the enthusiasm, single-minded devotion, and sincerity of individuals are universal qualities that shine above national and cultural differences. I think our Group's greatest strength lies in a corporate culture that allows all employees to work together for a common cause. In order to foster the development of a culture that encourages communication and lets people speak their minds without reserve, we will aim to become an organization with "Enthusiasm" for shared goals and "Lively" teamwork approach, and that "Keeps its Promises" — as a company, as an organization, and as individuals.

What kind of sales objectives are you considering?

We have yet to get down to details, but I would like to see operating profit of ¥100 billion on sales of ¥1 trillion in consolidated results for the fiscal year ending March 31, 2011.

This may seem like an extremely ambitious target, but sales for the current fiscal year were ¥626,457 million (for a year-on-year increase of 39.8%). If current levels of demand continue and our efforts to grow our business pay off, I think these goals are within striking distance.

The announcement of a new medium-term management plan with final targets is scheduled for the beginning of 2007.

Do you have a closing message for shareholders?

The business environment within which our Group operates is undergoing dramatic change. We see this change as an opportunity and are committed to increasing corporate value by investing actively in our own future growth and improving results. I trust that you will, together with all our HCM shareholders, continue as always to offer your understanding and support for our efforts.

Overview by Regional Segment

Japan

Demand for new hydraulic excavators grew by 10% over the previous year due to progress in inventory adjustments and an increase in the number of disaster recovery projects. Meanwhile, HCM Group rental and service businesses generally met planned targets, and consolidated net sales were up 36% over the previous year to ¥203,425 million (US$1,732 million).

The Americas

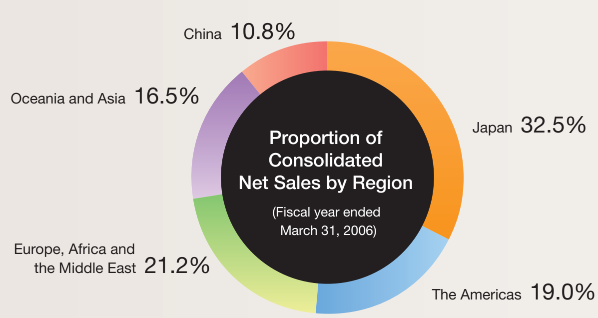
In addition to strong housing investment, factors such as repair work on aging highways and recovery-related construction in the wake of the year's powerful hurricane season drove up demand for hydraulic excavators. In addition, more efficient sales activity through our partnership with Deere & Company led to a better-than-expected increase in consolidated net sales of 30% over the previous year to ¥119,222 million (US$1,015 million).

Europe, Africa and the Middle East

Sales in Europe rose due to a strengthened and expanded network of independent agents, demand grew in Africa for mining equipment due to the active market for mineral resources, oil dollars flowed back into increased infrastructure development and plant construction in the Middle East, and demand grew in Russia on the back of resource extraction and infrastructure development. As a result, consolidated net sales rose 44% over the previous year to ¥132,647 million (US$1,129 million).

Consolidated Net Sales by Region (Millions of yen)

Years ended March 31	2006	2005
Japan	**203,425**	150,029
The Americas	**119,222**	91,490
Europe, Africa and the Middle East	**132,647**	92,304
Oceania and Asia	**103,608**	75,423
China	**67,555**	38,797



Oceania and Asia

Demand for hydraulic excavators was robust in Southeast Asia and throughout the region, with continued strong demand for mining equipment in Australia and Indonesia, leading to an increase in consolidated net sales of 37% over the previous year to ¥103,608 million (US$882 million).

China

Due to tightening of the money supply and other macroeconomic adjustments by the Chinese government, demand for hydraulic excavators in China was down 54% for the January to April 2005 period compared to the same period in the previous year. A rebound beginning in May, however, led to a 60% increase in demand for May to December 2005, and a 72% increase for January to March 2006, compared to the same periods in the previous year. This nationwide growth in demand throughout China, coupled with a continued increase in demand for mini-excavators in Shanghai and other large cities, resulted in an increase in consolidated net sales of 74% over the previous year to ¥67,555 million (US$575 million).

Note: With regard to the two Chinese subsidiaries that settle their accounts on December 31 (Hitachi Construction Machinery (China) Co., Ltd. and Hitachi Construction Machinery (Shanghai) Co., Ltd.), beginning with consolidated accounting for the fiscal year under review, actual performance through the fiscal year ending March 31 is used in order to bring reporting in line with the HCM fiscal period.

Topics

Expanded Investment in the Indian Market

HCM increased its investment ratio in Telco Construction Equipment Co., Ltd. (Telcon), a joint venture with India's Tata Motors Ltd., from 20% to 40%, reflecting the need to solidify its position in the rapidly growing Indian market, one of the BRIC economies.

Telcon has achieved a steadily improving performance and currently accounts for about 50% market share for all hydraulic excavators in the Indian market, where demand for construction machinery is growing rapidly against a backdrop of voracious demand for natural resources and increasing development of infrastructure such as roads, airports, and ports.

With India expected to develop along with China into a promising market for construction machinery, competition is forecast to intensify due to the entrance of other manufacturers into the market. We plan to emerge dominant from this competition by strengthening our relationship with Telcon and taking advantage of our increased stake in the company to introduce new product models. We also anticipate being able to take advantage of India as a global production and supply base as we move to advancing a system of production and procurement in strategic locations worldwide.

Telcon Jamshedpur Works

Overview of the Market by Product

The HCM Group divides its businesses into three segments: the Construction Machinery Business, the Semiconductor Production Equipment Business, and the Industrial Vehicle Business (added this fiscal year due to TCM Corporation's new status as a subsidiary). Starting with the fiscal year under review, the previous Other Businesses segment has been renamed the Semiconductor Production Equipment Business.

Construction Machinery Business

Consolidated net sales in the construction machinery business rose 29% over the previous year to ¥573,941 million (US$4,886 million). To address the wide-ranging needs of the construction machinery business, the HCM Group is taking advantage of alliances with other manufacturers to strengthen core product lines and fill out its product lineup. At the same time, it is pursuing the global expansion of business by emphasizing industry-specific marketing to meet diverse customer needs.

• Construction-Related Products Business

In our flagship hydraulic excavator business, we developed and began selling new series of medium- and large-sized hydraulic excavators. In the domestic Japanese market, we worked to develop new customer segments by actively promoting industry-specific marketing for fields other than general construction. Overseas, we actively worked to address demand from housing construction and public works in the United States and infrastructure development in Asia; in Europe, we sought to improve our market position by developing and strengthening our network of distributorships. In China, we bolstered production and supply systems as part of a carefully calibrated response to dramatic changes in the market environment, including a rebound in nationwide demand for hydraulic excavators that has been unfolding since May 2005, and a sharp rise in demand for mini-excavators in urban areas.

In the wheel loader business, we enhanced the competitiveness of our product line by joining with TCM

TCM Corporation Ryugasaki Factory

Topics

Global Hydraulic Excavator and Wheel Loader Models Go On Sale

In January 2006, HCM began selling ZAXIS-3 Series medium- and large-sized hydraulic excavators (7 models ranging from 23 to 85 tons) and ZW Series medium wheel loaders (3 models ranging from 17 to 22 tons). These next-generation global models combine outstanding performance and advanced functionality in compliance with international emissions and noise regulations.

ZAXIS-3 Series

The ZAXIS-3 Series features clean engines that comply with the Tier III emissions regulations adopted in North America, Europe, and Japan in 2006, delivering world-class environmental performance and clearing 2006 European noise regulations. The new models also feature higher production, improved fuel economy, reduced lifecycle cost, and advanced IT-based machinery management.

ZX200-3 medium hydraulic excavator

Rear view camera

Multi function monitor

Improved performance

- Approx. 12% higher production (ZX200-3)
- Approx. 13% lower fuel consumption (ZX200-3 in eco mode)

Improved durability and safety

- More rugged undercarriage, larger front components, dramatically improved durability due to the use of stronger materials
- Hardened cab meeting international safety standards
- Rear view camera included as standard equipment

Enhanced service and support

- Models ship with a controller that manages chassis information and a satellite receiver as standard equipment. HCM's "Global e-Service" reduces lifecycle cost by utilizing a remote management system to provide maintenance management services based on equipment operating hours.

Corporation to develop a new series of medium-sized wheel loaders. At the same time, we worked to expand sales by promoting industry-specific marketing in each company's area of specialization, reorganizing regional strategies and sharing the use of one another's facilities.

• Resource Development-Related Products Business

The mining business showed a further increase in demand in the Americas, Oceania and Indonesia due to growing global demand for natural resources. Our ultra-large hydraulic excavators have been highly regarded not only for their digging capability but also for their outstanding durability due to well-developed after-sales service including parts repair and maintenance. In addition, aggressive pursuit of combination sales with ultra-large dump trucks led to large volume orders.

• Environment-Related Products Business

Under the Hitachi Onsite Screening & Solution (Hi-OSS) brand, HCM has been proactive in marketing to customers a system that efficiently sorts, processes and recycles industrial waste on-site.

Hi-OSS has achieved deep market penetration and contributed to the development of new customer segments with its proprietary, revolutionary and environmentally friendly system that can efficiently process industrial waste and soil contaminants without needing to transport them from the work site.

During the current fiscal year, HCM released a number of new products under the Hi-OSS brand, including a compact, track mounted screen with extraordinary maneuverability and transportability, a track mounted shredder that can chop and shred waste plastics and tires, and a track mounted wood grinder that can quickly convert material from demolished houses for reuse as wood chips.

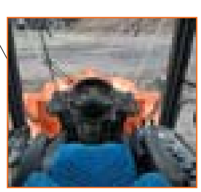
ZR900TS track mounted shredder

ZR120HC track mounted wood grinder

ZW Series

The ZW Series represents a fusion of TCM Corporation's frame and drive design and manufacturing technology with HCM's component design and hydraulic and electronic technologies. In addition to compliance with environmental standards, models offer dramatically improved driving performance and front-end work performance for basic wheel loader tasks such as excavating and loading. Both companies' models feature identical design and model designations throughout the world.

ZW220 medium wheel loader



The spacious cab is ergonomically designed with excellent visibility to reduce operator fatigue and burden

Advances made possible by joint development

- A new hydraulic circuit enables compound operations with simultaneous lift arm and bucket motion.
- A newly developed load-sensing automatic transmission shifts speeds according to vehicle load.
- Models ship with a controller that manages chassis information and a satellite receiver as standard equipment.
- An increase of about 20% in cab glass area provides a wider field of view for improved safety.
- Layout enhancements including a new engine cover and the grouping of frequently checked components into convenient clusters simplify maintenance checks.

• Product Development Business

Using hydraulic excavators as a base, HCM developed metal recyclers that efficiently break down and process various scrap metals as well as other demolition and shredding machines that meet the needs of a wide range of demolition work, from skyscrapers to timber-frame houses.

New products released included hydraulic power units for use as power sources for crawler drills, and a timber-frame house demolisher for use in urban areas and other tight spaces.

• Rental Business

At the “REC” Group, a rental company under direct management, HCM worked to improve cost structures and raise asset efficiency through application of the “R-NET 1” information network and to strengthen sales through a complementary and cooperative system with industry-specific marketing.

In the future, we will aggressively implement measures designed to expand the business's profitability, expanding the range of “Hi-OSS”-related products and rental products in areas other than general construction, further improving asset efficiency, and bolstering credit management.

• Used Machinery Business

As demand for new hydraulic excavators grew, so did demand for used machinery, particularly from Southeast Asia, China, Russia and the Middle East.

Primarily through Hitachi Construction Machinery Trading Co., Ltd., HCM offered fully inspected, highly reliable construction machinery at service centers throughout Japan and worked to meet domestic and foreign demand for used machinery not only through individual business negotiations but also through parade auctions held three times a year and monthly Internet auctions.

To further expand and strengthen the used machinery business throughout the entire group, we will newly establish a Used Equipment Planning Department and further promote the global distribution of used machinery.

• Service Business

HCM has promoted improvements in its maintenance response capability by working to strengthen its service systems for industry-specific customers in general construction and other fields alike as well as through Global e-Service, which uses satellite communications to facilitate optimal machinery maintenance by sharing machinery information between customers and HCM.

Overseas, the increase in sales of ultra-large hydraulic excavators has led to an increase in full-maintenance contracts that ensure high machinery operating rates.

• Other Software Business

Hitachi Kenki Business Frontier Co., Ltd. handles the development, sale and maintenance of computer software; LCS Co., Ltd. handles installment sales and other financing; Hitachi Kenki Logistics Technology Co., Ltd. handles logistics; Hitachi Construction Machinery Comec Co., Ltd. primarily handles materials procurement and parts receivable; and each has worked to expand its scope of business through the application of its specialized expertise.

Industrial Vehicle Business

Consolidated net sales for the industrial vehicle business were ¥50,581 million (US$431 million). TCM Corporation worked to expand its lineup of engine-driven compact forklifts and began selling a fully remodeled battery-powered three-wheeled forklift model.

In harbor-related products, TCM developed and is working to expand sales of transfer cranes capable of stacking containers five high, and expects to see increased demand for its battery-powered on-board trucks that are well-suited to ship environments.

Transfer crane (with a 5-container hoisting height)

Electric compact platform truck

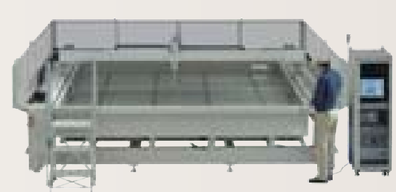
Semiconductor Production Equipment Business

Consolidated net sales in the semiconductor production equipment business fell 17% relative to the previous year to ¥1,935 million (US$16 million).

Hitachi Kenki FineTech Co., Ltd. (HKFT), responding to forecasts of expanding markets for in-vehicle semiconductors and flat panel television displays, worked to expand sales of ultrasonic imaging devices used in inspecting such products.

In new products, HKFT developed ultrasonic inspection systems including a device for inspecting fuel cell vehicle components and an ultra-large scanner for inspecting large glass substrates used in the latest eighth-generation flat panel displays. In construction machinery-related controller products, HKFT developed and began production of main controllers for the new ZAXIS-3 series of hydraulic excavators.

“UT Line”, an ultrasonic inspection system for fuel-cell vehicle parts



“FS Line”, an ultrasonic inspection system for large glass substrates used in flat panel displays

Directors and Executive Officers

As of June 26, 2006

Shungo Dazai (1)
Chairman of the Board, Representative Executive Officer and Director

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

Yasuhiko Nakaura
Executive Vice President, Representative Executive Officer and Director

Katsutoshi Arita
Executive Vice President, Executive Officer and Director

Shuichi Ichiyama
Senior Vice President, Executive Officer and Director

Morihisa Sugiyama (2)
Director

Hisashi Hosokawa (1) (2)
Outside Director

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

Reiji Tagaya (1) (2) (3)
Outside Director

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

Senior Vice President and Executive Officer	**Nobuhiko Kuwahara**
Vice President and Executive Officer	**Hiromitsu Suzuki**
Vice President and Executive Officer	**Yasuhiko Murata**
Vice President and Executive Officer	**Toshiyuki Natake**
Vice President and Executive Officer	**Mitsuo Mori**
Vice President and Executive Officer	**Mitsuji Yamada**
Vice President and Executive Officer	**Toru Sakai**
Executive Officer	**Shinichi Mihara**
Executive Officer	**Kiichi Uchibayashi**
Executive Officer	**Takayoshi Honma**
Executive Officer	**Hideo Arahata**
Executive Officer	**Terumasa Otsuka**
Executive Officer	**Toichi Hirata**
Executive Officer	**Tsutomu Mizutani**

Corporate Governance

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

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

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

Executive, Oversight, and Auditing Functions

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

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

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

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

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

Relationship with Parent Company

Hitachi, Ltd., and its group companies hold majority voting rights among HCM shareholders.

As a member of the group associated with its parent company Hitachi, Ltd., HCM shares in the Hitachi Group's management vision and brand and is committed to unifying its basic business policies with those of the greater group.

In light of this special relationship, two of HCM's nine Directors come to the Company from Hitachi, Ltd., allowing the Hitachi Group's overall business policies to be reflected in HCM's management by the expression of those directors' opinions to the Board of Directors.

Reflecting the Company's independence from its corporate parent, HCM's business is predicated on operational and transactional independence.

Relationship with Listed Subsidiaries

TCM Corporation is a listed subsidiary of HCM, and five of TCM's nine Directors come from HCM. Although it maintains a close and collaborative relationship with HCM and its group companies, TCM's business is predicated on operational and transactional independence in keeping with its status as a listed company, ensuring its ability to operate as an independent entity.

Status of Internal Control Systems

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

The Company's internal control systems were established as described below by the Board of Directors in accordance with Japanese Corporate Law on April 26, 2006, in order to establish structures for ensuring that executive officers' duties are discharged in keeping with applicable laws and the Company's articles of incorporation, as well as legally mandated structures necessary for ensuring that company business is carried out in an appropriate manner.

The following management systems are employed to maintain a legal compliance framework:

- Auditing departments conduct internal audits.
- A compliance reporting system has been established to allow company employees to report compliance issues to the company department with oversight.
- Training addressing laws that apply to the Company's business activities is provided using handbooks and other materials.
- Executive officers are responsible for establishing company regulations in order to spread knowledge of internal control systems and ensure their effective operation.

Records of the discharge of executive officers' duties are stored and managed in accordance with internal company regulations.

Departments responsible for dealing with risk associated with compliance, environmental issues, disasters, and quality and export control are responsible for establishing regulations and guidelines as well as for creating and distributing training manuals. When a newly emergent risk demands action, the Company moves quickly to assign an executive officer responsibility for dealing with that risk.

The following management systems are employed to ensure that executive officers can discharge their duties efficiently:

- Important matters with potential companywide significance are discussed at an Executive Committee comprised of principal executive officers and decisions are carefully made following wide-ranging discussion.
- Numerical targets for the entire company as well as individual business groups are established in the form of an annual budget. Company results are managed on the basis of this budget.
- Internal audits are performed to ensure an accurate understanding of company operations and to work for their improvement. A committee responsible for legal compliance activities has been established.
- All matters that should be reflected in financial reporting are subject to the sound implementation and verification of documented business processes.

The Company is committed to creating structures for ensuring that group business is conducted in an appropriate manner.

- The Company seeks to reflect in its company philosophy as well as in the social responsibility with which it is charged a value system that is consistent with that of the Hitachi Group. To this end the Company has established the HCM brand concept, HCM Group CSR activity guidelines, and other rules in accordance with the standards and policies of its parent company.
- The Company submits to periodic business, accounting, export control, and compliance audits by its parent company and accepts appropriate feedback based on the results.
- The Company has established policies, management regulations, and other guidelines addressing export control, environmental management, quality control, prevention of antisocial transactions, information security, and other issues, founded on the assumption of compliance with related laws. The Company has provided these regulations to subsidiaries and works with subsidiaries to ensure their compliance.
- The HCM Group is moving forward with the creation of internal control systems designed to ensure the reliability of its financial reporting, and it is committed to the sound implementation and verification of documented business processes.
- A compliance reporting system has been established to allow HCM Group employees to report compliance issues to the company department with oversight.

Six-year Summary of Selected Financial Data

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

Years ended March 31	2006	2005	2004	2003	2002	2001	2006
	Millions of yen, except per share data						Thousands of U.S. dollars (Note 3), except per share data
For the year:							
Net sales	¥ **626,457**	¥ 448,043	¥ 402,195	¥ 328,496	¥ 298,766	¥ 328,854	$ **5,332,911**
Cost of sales	**453,461**	316,918	287,360	243,642	227,613	248,432	**3,860,228**
Selling, general and administrative expenses	**114,872**	92,055	82,847	68,803	73,197	73,206	**977,884**
Operating income (loss)	**57,177**	40,120	32,858	16,399	(3,295)	9,892	**486,737**
Income (loss) before income taxes and minority interests	**46,795**	31,862	21,211	6,486	(20,903)	(1,304)	**398,357**
Net income (loss)	**24,223**	17,325	12,490	3,883	(17,603)	(3,195)	**206,205**
At year-end:							
Total assets	¥ **552,341**	¥ 463,812	¥ 407,049	¥ 373,755	¥ 360,008	¥ 372,718	$ **4,701,975**
Working capital	**99,213**	96,638	67,201	61,735	38,736	60,599	**844,582**
Shareholders' equity	**157,173**	131,318	91,132	74,321	64,977	80,141	**1,337,984**
Per share data:							
Net income (loss)	¥ **124.37**	¥ 91.05	¥ 72.62	¥ 25.90	¥ (122.47)	¥ (22.23)	$ **1.06**
Diluted net income	**124.00**	90.88	70.92	24.35	—	—	**1.06**
Shareholders' equity	**807.17**	673.81	520.93	460.98	452.07	557.55	**6.87**
Cash dividends (declared)	**18.00**	14.00	11.00	7.00	0.00	6.00	**0.15**
Other indicators:							
Return on net sales	**3.9%**	3.9%	3.1%	1.2%	—	—	**—**
Return on equity	**16.8%**	15.6%	15.1%	5.6%	—	—	**—**
Shareholders' equity ratio	**28.5%**	28.3%	22.4%	19.9%	18.0%	21.5%	**—**
Number of employees	**13,291**	10,602	9,983	9,924	9,452	9,848	**—**
Number of shareholders	**18,234**	11,861	8,913	10,566	12,373	12,546	**—**

Management's Discussion and Analysis

Performance

During the fiscal period under review the Japanese economy made marked progress toward recovery with increased capital investment against a backdrop of improved corporate earnings, an improved employment situation and a slight rise in consumer spending. Overseas, the global economy was robust overall as economic expansion continued in the United States, where consumer spending remained stable, and in China, where exports were strong. In Europe, too, increased exports and production provided signs of economic recovery.

In these favorable conditions, the HCM Group's business operations focused on establishing a solid earnings framework through the five-region structure, and expanding its lineup of construction machinery. These operations were guided by the basic principles of the Group's "*SOH* 21-Creative Value UP" medium-term management plan: globalization (including restructuring of domestic businesses) and achieving industry-leading profitability in construction machinery.

In terms of business strategy, reorganizing TCM Corporation from an equity-method affiliate to a consolidated subsidiary added momentum to our efforts to broaden our lineup of construction machinery and make wheel loaders a second mainstay of our business after hydraulic excavators.

In terms of marketing, we moved forward domestically with industry-specific sales and were aggressive in making inroads into areas other than general construction. Overseas, we worked to further expand sales in the Americas, Europe, the Middle East, Africa, Russia, Oceania and Asia. Also, to meet the rebound in demand for hydraulic excavators in China, we promoted the sale of mini-excavators, the market for which is rapidly expanding.

To meet strong growth in demand, we dramatically increased the production capacity at manufacturing centers in Japan and overseas, undertaking aggressive capital investment to rationalize production systems and advance computerization.

In addition, January through March 2006 business results for our two Chinese subsidiaries that settle their accounts on December 31 (Hitachi Construction Machinery (China) Co., Ltd. and Hitachi Construction Machinery (Shanghai) Co., Ltd.) have been included in our consolidated financial statement, thereby reflecting the post-Chinese New Year sales season in a timely manner.

As a result of these efforts, consolidated results for the HCM Group included a 39.8% increase in net sales over the previous fiscal year to ¥626,457 million (US$5,333 million) and an increase in net income of 39.8% over the previous fiscal year to ¥24,223 million (US$206 million), achieving a fourth consecutive term of increased revenue and profits and a third consecutive term of record profits.

Rising steel prices led to a 43.1% increase in the cost of sales compared with the previous fiscal year, to ¥453,461 million (US$3,860 million). The ratio of cost of sales to net sales rose by 1.7 percentage points to 72.4%. As a result, gross profit rose 30.2% to ¥172,049 million (US$1,465 million).

Due to streamlining of production systems, selling, general and administrative expenses rose 24.8% compared with the previous fiscal year to ¥114,872 million (US$978 million). The ratio of selling, general and administrative expenses to net sales decreased 2.2 percentage points to 18.3%.

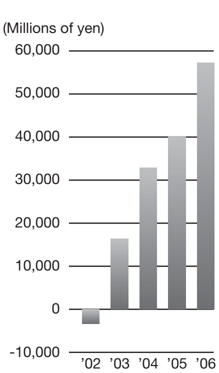
Despite the increase in cost of sales, because selling, general and administrative expenses were held in check, operating income rose 42.5% compared with the previous fiscal year to ¥57,177 million (US$487 million), exceeding the rate of increase in net sales.

Other expenses increased compared with the previous fiscal year, from ¥8,258 million (US$70 million) to ¥10,382 million (US$88 million). Key factors included a shift from a net exchange gain of ¥312 million (US$3 million) to a net exchange loss of ¥6,473 million (US$55 million) as the yen appreciated against the US dollar; an increase in loss on disposal of inventory to ¥1,150 million (US$10 million); and accounting for a ¥2,314 million (US$20 million) gain due to the termination of health insurance. In addition, reorganizing TCM Corporation as a subsidiary led to an increase in restructuring costs, which had fallen by half in the previous fiscal year, to ¥1,111 million (US$9 million).

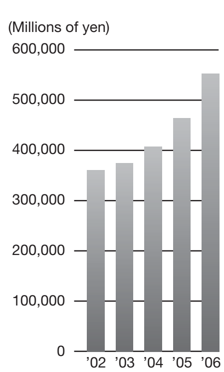
As a result of the above, income before taxes and minority interests grew by ¥14,933 million (US$127 million) over the previous fiscal year, to ¥46,795 million (US$398 million). The effective corporate tax rate after application of tax effect accounting (the nominal tax rate) decreased by 3.7 percentage points compared with the previous fiscal year, from 40.5% to 36.8%.

In aggregate, net income increased by 39.8% compared with the previous fiscal year, to ¥24,223 million (US$206 million), while net income per share increased ¥33.32 (US$0.28) to ¥124.37 (US$1.06) and ROE increased 1.2 percentage points to 16.8%.

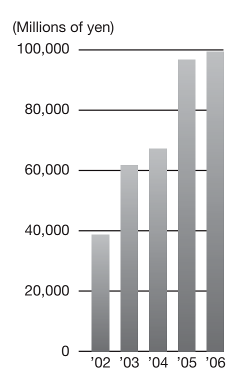
Operating Income (Loss)



Total Assets



Working Capital



Financial Position

Total assets at the end of the fiscal year under review were ¥552,341 million (US$4,702 million), an increase of ¥88,529 million (US$754 million) over the previous fiscal year. Within this figure, current assets rose ¥54,195 million (US$461 million) to ¥365,988 million (US$3,116 million).

Despite further liquidation of accounts overseas, increased sales led to a rise in notes and accounts receivable of ¥34,833 million (US$297 million) to ¥165,353 million (US$1,408 million). In addition, an increase in unit production at the Tsuchiura Works, together with an increase in orders for ultra-large hydraulic excavators due to brisk mining activity and the resulting extension of the production cycle, led to an increase in the number of retention days for inventories. As a result, inventories increased ¥23,752 million (US$202 million) to ¥138,297 million (US$1,177 million).

Capital investment totaled ¥16,185 million (US$138 million) and was directed primarily toward manufacturing equipment. Most of this investment was applied to efforts to dramatically increase the productive capacity of our main factory, the Tsuchiura Works, by reorganizing and streamlining the layout and augmenting and updating manufacturing equipment. In addition, construction was also begun on a new building at the Kasumigaura Works, where core parts are manufactured.

At consolidated subsidiaries, we have installed a new assembly line at Hitachi Construction Machinery Tierra Co., Ltd., our domestic manufacturer of mini-excavators; begun an expansion of the Hitachi Construction Machinery (Europe) factory in Amsterdam; invested in increased capacity, plant expansion and renovations to handle new models at Hitachi Construction Machinery (China) Co., Ltd.; and invested in increased capacity in areas like the United States and Indonesia.

As a result, tangible fixed assets increased by ¥30,908 million (US$263 million) to ¥134,482 million (US$1,145 million).

Total current liabilities increased by ¥51,620 million (US$439 million) to ¥266,775 million (US$2,271 million) and total long-term liabilities decreased by ¥4,717 million (US$40 million) to ¥103,397 million (US$880 million).

In addition, while raising funds by assuming ¥12,411 million (US$106 million) in long-term debt, we also allocated ¥12,735 million (US$108 million) to the retirement of bonds, ¥6,320 million (US$54 million) to the repayment of short-term debt and ¥19,780 million (US$168 million) to the repayment of long-term debt.

The net effect of the above was an increase in retained earnings, leading to a ¥25,855 million (US$220 million) increase in shareholders' equity to ¥157,173 million (US$1,338 million) and an increase in shareholders' equity ratio of 0.2 percentage points to 28.5%. Shareholders' equity per share was ¥807.17 (US$6.87), an increase of ¥133.36 (US$1.14) compared with the previous fiscal year.

Cash Flow Analysis

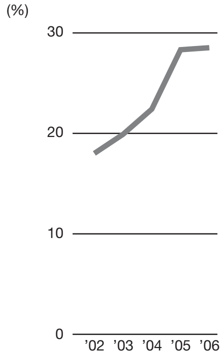
At the end of the fiscal year under review, cash and cash equivalents ("cash") totaled ¥41,954 million (US$357 million), a decrease of ¥7,580 million (US$65 million) from the end of the previous fiscal year. Factors relating to each cash flow were as follows.

Net cash provided by operating activities totaled ¥37,379 million (US$318 million), an increase of ¥29,480 million (US$251 million) compared with the previous fiscal year's ¥7,899 million (US$67 million). Key factors were an increase in income before taxes and minority interests of ¥14,933 million (US$127 million) compared with the previous fiscal year, to ¥46,795 million (US$398 million); the limiting of inventory assets, which had grown by ¥25,265 million (US$215 million) in the previous fiscal year, to an increase of ¥7,929 million (US$67 million); and a decrease in income taxes paid of ¥6,061 million (US$52 million) compared with the previous fiscal year, to ¥10,666 million (US$91 million).

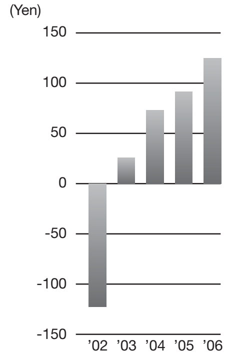
Net cash used in investing activities was ¥18,572 million (US$158 million). Key factors included outlays of ¥15,057 million (US$128 million) for the acquisition of tangible fixed assets, chiefly capital investments to increase production at various manufacturing bases, and ¥6,550 million (US$56 million) for the acquisition of investment securities, including investment in an Indian joint venture. As a result, free cash flow, the sum of net cash provided by operating activities less net cash used in investment activities, was positive at ¥18,807 million (US$160 million).

Net cash used in financial activities was ¥33,113 million (US$282 million). The key factor was an effort, against the backdrop of improved free cash flow for the fiscal year under review, to reduce interest-bearing liabilities by ¥26,424 million (US$225 million) through the retirement of bonds and a net change in short- and long-term borrowings.

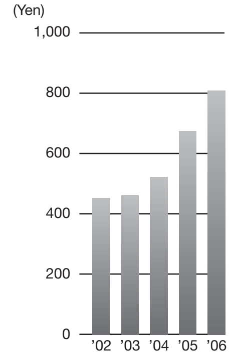
Shareholders' Equity Ratio



Net Income (Loss) per Share



Shareholders' Equity per Share



Consolidated Balance Sheets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2006**	2005	**2006**
Current assets			
Cash and bank deposits	**¥ 37,073**	¥ 32,522	**$ 315,595**
Notes and accounts receivable (Note 7)	**165,353**	130,520	**1,407,619**
Inventories	**138,297**	114,545	**1,177,296**
Short-term loans receivable	**1,125**	1,083	**9,577**
Deferred tax assets (Note 16)	**15,089**	9,716	**128,450**
Others	**18,544**	33,698	**157,862**
Less: Allowance for doubtful accounts	**(9,493)**	(10,291)	**(80,812)**
Total current assets	**365,988**	311,793	**3,115,587**
Fixed assets			
Property, plant and equipment			
Property held for lease	**48,811**	33,175	**415,519**
Land	**44,312**	32,858	**377,220**
Buildings and structures	**78,910**	62,079	**671,746**
Machinery and equipment	**134,157**	106,488	**1,142,053**
Construction in progress	**1,931**	463	**16,438**
	308,121	235,063	**2,622,976**
Less: Accumulated depreciation	**(173,639)**	(131,489)	**(1,478,156)**
Net property, plant and equipment	**134,482**	103,574	**1,144,820**
Intangible assets			
Software	**4,329**	1,781	**36,853**
Cost in excess of net assets acquired	**262**	652	**2,230**
Others	**1,128**	951	**9,602**
Total intangible assets	**5,719**	3,384	**48,685**
Investments and other assets			
Investments in securities (Note 13)	**27,738**	27,403	**236,128**
Long-term loans receivable	**362**	330	**3,082**
Deferred tax assets (Note 16)	**5,159**	10,038	**43,918**
Others (Note 15)	**14,049**	8,256	**119,596**
Less: Allowance for doubtful accounts	**(1,156)**	(966)	**(9,841)**
Total investments and other assets	**46,152**	45,061	**392,883**
Total fixed assets	**186,353**	152,019	**1,586,388**
Total assets	**¥ 552,341**	¥ 463,812	**$ 4,701,975**

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 3) 2006
Current liabilities			
Notes and accounts payable	¥ 129,893	¥ 90,692	$ 1,105,755
Short-term loans (Note 17)	49,125	42,528	418,192
Commercial Paper (Note 17)	3,000	0	25,538
Current portion of long-term loans (Notes 9 and 17)	21,302	15,461	181,340
Current portion of bonds (Note 17)	600	10,615	5,108
Income taxes payable	8,385	7,112	71,380
Unrealized profit on installment sales and interest	2,293	1,275	19,520
Others	52,177	47,472	444,173
Total current liabilities	266,775	215,155	2,271,006
Long-term liabilities			
Bonds (Note 17)	25,600	24,320	217,928
Long-term loans (Notes 9 and 17)	53,326	61,862	453,954
Deferred tax liabilities (Note 16)	2,633	725	22,414
Retirement and severance benefits (Note 15)	12,829	7,181	109,211
Others	9,009	14,026	76,692
Total long-term liabilities	103,397	108,114	880,199
Total liabilities	370,172	323,269	3,151,205
Minority interests	24,996	9,225	212,786
Shareholders' equity			
Common stock			
Authorized — 700,000,000 shares			
Issued: 196,048,038 shares in 2006			
and 195,865,038 shares in 2005	42,626	42,583	362,867
Capital surplus	42,133	42,092	358,670
Retained earnings	70,392	49,929	599,234
Net unrealized holding gain on securities (Note 13)	2,730	1,703	23,240
Foreign currency translation adjustments	1,168	(3,828)	9,943
Less: treasury stock, at cost: 1,326,531 shares in 2006 and 977,227 shares in 2005	(1,876)	(1,161)	(15,970)
Total shareholders' equity	157,173	131,318	1,337,984
Total liabilities, minority interests and shareholders' equity			
Commitments and contingent liabilities (Note 8)	¥ 552,341	¥ 463,812	$ 4,701,975

Consolidated Statements of Income

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥ 626,457	¥ 448,043	$ 5,332,911
Cost of sales	453,461	316,918	3,860,228
(Realized) unrealized profit on installment sales, net	947	(1,050)	8,062
Gross profit	172,049	132,175	1,464,621
Selling, general and administrative expenses	114,872	92,055	977,884
Operating income	57,177	40,120	486,737
Other income (expenses)			
Interest and dividend income	2,839	1,695	24,168
Equity in earnings (losses) of affiliated companies	131	(855)	1,115
Interest expenses	(3,598)	(3,666)	(30,629)
Exchange gains (losses)	(6,473)	312	(55,103)
Amortization of net retirement benefit obligation at transition (Note 15)	0	(542)	0
Restructuring costs	(1,111)	(800)	(9,458)
Losses on disposal of inventories	(1,150)	(691)	(9,790)
Gains on sales of property, plant and equipment	0	1,425	0
Losses on sales of property, plant and equipment	0	(196)	0
Gains on termination of health insurance	(2,314)	0	(19,699)
Impairment losses for fixed assets	(191)	0	(1,626)
Others, net	1,485	(4,940)	12,642
	(10,382)	(8,258)	(88,380)
Income before income taxes and minority interests	46,795	31,862	398,357
Income taxes			
current	15,853	10,418	134,954
deferred	1,353	2,488	11,518
Minority interests	5,366	1,631	45,680
Net income	24,223	17,325	206,205

	Yen		U.S. dollars (Note 3)
Per share data			
Net income	¥ 124.37	¥ 91.05	$ 1.06
Net income (Diluted)	124.00	90.88	1.06
Cash dividends (declared)	18.00	14.00	0.15
Weighted average number of shares (thousands)	194,771	190,278	—

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, 2006 and 2005

		Millions of yen						
	Number of shares of common stock (thousands)	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	174,889	¥ 29,779	¥ 29,306	¥ 34,296	¥ 1,468	¥ (2,948)	¥ (769)	¥ 91,132
Exercise of stock purchase warrant	298	65	65					130
Newly issued	20,000	12,739	12,721					25,459
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 dividends (declared)				(2,588)				(2,588)
Directors' bonuses				(53)				(53)
Decrease in treasury stock	(299)		1				(392)	(391)
Net change in unrealized holding gain on securities					235			235
Net change in foreign currency translation adjustments						(880)		(880)
Balance at March 31, 2005	194,888	¥ 42,583	¥ 42,092	¥ 49,929	¥ 1,703	¥ (3,828)	¥ (1,161)	¥ 131,318
Exercise of stock purchase warrant	183	43	42					85
Effect of Newly consolidated subsidiaries				(716)				(716)
Effect of affiliated company included in equity method				(114)				(114)
Net income				24,223				24,223
Cash dividends (declared)				(2,920)				(2,920)
Decrease in treasury stock	(350)		(1)	(10)			(715)	(726)
Net change in unrealized holding gain on securities					1,027			1,027
Net change in foreign currency translation adjustments						4,996		4,996
Balance at March 31, 2006	194,721	¥ 42,626	¥ 42,133	¥ 70,392	¥ 2,730	¥ 1,168	¥ (1,876)	¥ 157,173

	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, 2005	$ 362,501	$ 358,321	$ 425,036	$ 14,497	$ (32,587)	$ (9,883)	$1,117,885
Exercise of stock purchase warrant	366	358					724
Effect of Newly consolidated subsidiaries			(6,095)				(6,095)
Effect of affiliated company included in equity method			(970)				(970)
Net income			206,205				206,205
Cash dividends (declared)			(24,857)				(24,857)
Decrease in treasury stock		(9)	(85)			(6,087)	(6,181)
Net change in unrealized holding gain on securities				8,743			8,743
Net change in foreign currency translation adjustments					42,530		42,530
Balance at March 31, 2006	$ 362,867	$ 358,670	$ 599,234	$ 23,240	$ 9,943	$ (15,970)	$1,337,984

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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 46,795**	¥ 31,862	**$ 398,357**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**19,470**	14,381	**165,744**
Impairment losses for fixed assets	**191**	0	**1,626**
Decrease in allowance for doubtful accounts	**(1,205)**	(4,238)	**(10,258)**
Interest and dividend income	**(2,212)**	(1,129)	**(18,830)**
Interest expenses	**3,598**	3,666	**30,629**
Equity in losses (earnings) of affiliated companies	**(131)**	855	**(1,115)**
Increase in notes and accounts receivable	**(9,318)**	(57)	**(79,322)**
Increase in inventories	**(7,929)**	(25,265)	**(67,498)**
Purchase of property held for lease	**(12,816)**	(9,794)	**(109,100)**
Sale of property held for lease	**3,506**	3,835	**29,846**
Increase in notes and accounts payable	**19,223**	1,322	**163,642**
Gains on sales of property, plant and equipment	**(2,154)**	(2,031)	**(18,337)**
Losses on revaluation of investments in securities	**29**	14	**247**
Gains on sales of investments in securities	**(395)**	(197)	**(3,363)**
Other, net	**(8,607)**	11,402	**(73,270)**
Sub total	**48,045**	24,626	**408,998**
Income taxes paid	**(10,666)**	(16,727)	**(90,798)**
Net cash provided by operating activities	**37,379**	7,899	**318,200**
Cash flows from investing activities			
Investments in time deposits	**(91)**	(754)	**(775)**
Proceeds from time deposits	**1,228**	1,540	**10,454**
Acquisitions of property, plant and equipment	**(15,057)**	(14,783)	**(128,177)**
Proceeds from sale of property, plant and equipment	**373**	2,913	**3,175**
Purchase of investments in securities	**(6,550)**	(7,553)	**(55,759)**
Difference between the cash balance of newly consolidated companies and investment	**0**	(1,422)	**0**
Proceeds from sale of investments in securities	**872**	615	**7,423**
Interest and dividends received	**2,215**	1,146	**18,856**
Interest and dividends received from affiliated companies	**356**	288	**3,031**
Other, net	**(1,918)**	877	**(16,328)**
Net cash used in investing activities	**(18,572)**	(17,133)	**(158,100)**
Cash flows from financing activities			
Net decrease in short-term loans	**(6,320)**	(1,462)	**(53,801)**
Proceeds from long-term loans	**12,411**	31,897	**105,653**
Repayments of long-term loans	**(19,780)**	(20,933)	**(168,384)**
Repayments of bonds	**(12,735)**	(10,600)	**(108,411)**
Interest paid	**(3,786)**	(3,613)	**(32,230)**
Dividends paid to shareholders	**(2,920)**	(2,588)	**(24,857)**
Dividends paid to minority shareholders by subsidiaries	**(603)**	(1,046)	**(5,133)**
Proceeds from issuance of common stock	**85**	24,825	**724**
Proceeds from issuance of common stock to minority shareholders by subsidiaries	**1,254**	1,500	**10,675**
Purchase of treasury stock	**(906)**	(389)	**(7,713)**
Proceeds from sale of treasury stock	**187**	3	**1,592**
Net cash provided by (used in) financing activities	**(33,113)**	17,594	**(281,885)**
Effect of exchange rate changes on cash and cash equivalents	**1,501**	43	**12,778**
Net increase (decrease) in cash and cash equivalents	**(12,805)**	8,403	**(109,007)**
Cash and cash equivalents at beginning of year	**49,534**	41,131	**421,674**
Effect of newly consolidated subsidiaries	**5,225**	0	**44,479**
Cash and cash equivalents at end of year (Note 11)	**¥ 41,954**	¥ 49,534	**$ 357,146**

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 certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, for the convenience of readers outside Japan, the consolidated financial statements, including the notes to the consolidated financial statements, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

2. Consolidation and investments in affiliates

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

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

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

3. U.S. dollar amounts

The accompanying consolidated financial statements are expressed in yen and solely for the convenience of readers have been translated into U.S. dollars at the rate of ¥117.47 = US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2006. This translation should not be construed as a representation that any amount shown could be converted into U.S. dollars.

4. Summary of significant accounting policies

(a) Investments in Securities

Securities are to be classified into one of the following two categories and accounted for as follows:

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

②Securities are classified as other securities other than held-to-maturity securities. Unrealized holding gains and losses of other securities with fair values are reported as a net amount in a separate component of shareholders' equity until realized. Other securities without fair values are carried at cost.

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

(b) Inventories

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

(c) Depreciation and amortization methods

①Property, plant and equipment

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the respective assets by the declining-balance method, except for certain buildings of the Company and domestic consolidated subsidiaries, placed in service after April 1, 1998, which are depreciated by the straight-line method.

②Intangible assets

Intangible assets are principally amortized on a straight-line basis and over the estimated useful lives of the respective assets.

(d) Allowance for doubtful accounts

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

(e) Retirement and severance benefits

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

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

(f) Income on installment sales

The Company and some subsidiaries have installment sales. Income on long-term installment sales is recognized 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 dividend income.

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

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

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

(h) Accounting for leases

Finance leases, except those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for as operating leases.

(i) Derivatives

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

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

(j) Per share data

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

(k) Treasury stock

Treasury stock is recorded at cost as a deduction of shareholders' equity. When the treasury stock is reissued as common shares, the difference between the issuance price and the cost of the treasury stock is credited or charged to capital surplus.

(l) Impairment of fixed assets

Effective April 1, 2003, the Company adopted "Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council and the related implementation guidance issued by the Accounting Standards Board of Japan. Under this standard and implementation guidance, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

(m) 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.

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

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

7. Notes receivable discounted or endorsement

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Notes receivable discounted	**¥ 33**	¥ 195	**$ 281**
Notes receivable endorsed	**134**	53	**1,141**
Total	**167**	248	**1,422**

8. Contingent liabilities
At March 31, 2005 and 2006, the company was contingently liable for guarantees given in respect of bank loans of affiliated companies and other entities amounting to ¥5,567 million and ¥9,064 million (US$47,391 thousand), respectively.

9. Assets pledged as collateral primarily for short-term loans and long-term loans at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Notes Receivable	**¥ 27**	¥ 0	**$ 230**
Buildings and structures	**397**	345	**3,380**
Property held for lease	**18,544**	15,519	**157,862**
Land	**554**	1,682	**4,716**
Total	**19,522**	17,546	**166,188**

Secured debts at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Current portion of long-term loans	**¥ 6,824**	¥ 5,070	**$ 58,091**
Long-term loans	**15,256**	14,528	**129,871**
Total	**22,080**	19,598	**187,962**

10. Research and development costs
Research and development costs charged to income as incurred for the years ended March 31, 2006 and 2005 were ¥13,130 million (US$111,773 thousand) and ¥11,284 million, respectively.

11. Cash and cash equivalents at the end of year consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash and bank deposits	**¥ 37,073**	¥ 32,522	**$ 315,595**
Deposits to affiliates	**4,946**	17,158	**42,104**
Time deposits with the maturity longer than three months periods	**(65)**	(146)	**(553)**
Total	**41,954**	49,534	**357,146**

12. Lease transactions
Information relating to finance leases accounted for as operating leases is as follows:
(Lessee)
1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	**¥ 7,043**	**¥ 3,602**	**¥ 10,645**	**$ 59,956**	**$ 30,663**	**$ 90,619**
Accumulated depreciation	**(3,875)**	**(739)**	**(4,614)**	**(32,987)**	**(6,291)**	**(39,278)**
Net leased property	**3,168**	**2,863**	**6,031**	**26,969**	**24,372**	**51,341**

	Millions of yen		
	2005		
	Machinery and equipment	Others	Total
Acquisition cost	¥ 7,873	¥ 3,446	¥ 11,319
Accumulated depreciation	(4,652)	(769)	(5,421)
Net leased property	3,221	2,677	5,898

2. Lease obligation under finance leases inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 3,267**	¥ 2,775	**$ 27,811**
Due after one year	**7,677**	6,161	**65,353**
Total	**10,944**	8,936	**93,164**

3. Lease payments, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Lease payments	**¥ 2,283**	¥ 2,291	**$ 19,435**
Depreciation expense	**1,978**	2,004	**16,838**
Interest portion	**320**	297	**2,724**

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

(Lessor)
1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 7,451	¥ 0	¥ 7,451	$ 63,429	$ 0	$ 63,429
Accumulated depreciation	(5,213)	0	(5,213)	(44,386)	0	(44,386)
Net leased property	2,238	0	2,238	19,043	0	19,043

2. Future lease income inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 1,951	¥ 0	$ 16,608
Due after one year	3,585	0	30,518
Total	5,536	0	47,126

3. Lease income, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease income	¥ 1,622	¥ 0	$ 13,808
Depreciation expense	1,180	0	10,045
Interest portion	202	0	1,720

4. Calculation method of interest expense
Interest portion is allocated to each period using the interest method.

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 1,401	¥ 3,366	$ 11,926
Due after one year	1,955	2,522	16,643
Total	3,356	5,888	28,569

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 1,938	¥ 2,214	$ 16,498
Due after one year	3,520	3,432	29,965
Total	5,458	5,646	46,463

13. Investments in securities

Marketable securities

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
Securities with gross unrealized holding gain	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Stocks	¥ 2,644	¥ 8,304	¥ 5,660	$ 22,508	$ 70,691	$ 48,183
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	2,644	8,304	5,660	22,508	70,691	48,183
Securities with gross unrealized holding loss						
Stocks	174	162	(12)	1,481	1,379	(102)
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	174	162	(12)	1,481	1,379	(102)
Grand Total	2,818	8,466	5,648	23,989	72,070	48,081

	Millions of yen		
	2005		
Securities with gross unrealized holding gain	Acquisition cost	Carrying value	Unrealized gain (loss)
Stocks	¥ 1,950	¥ 4,062	¥ 2,112
Debt securities	0	0	0
Others	0	0	0
Total	1,950	4,062	2,112
Securities with gross unrealized holding loss			
Stocks	13	10	(3)
Debt securities	0	0	0
Others	0	0	0
Total	13	10	(3)
Grand Total	1,963	4,072	2,109

Non-marketable securities

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Stocks	**¥ 2,168**	**$ 18,456**
Debt securities	**1,000**	**8,513**
Held-to-maturity debt securities	**10**	**85**
Other investments	**10**	**85**
Total	**3,188**	**27,139**

	Millions of yen
	2005
Stocks	¥ 2,036
Debt securities	1,000
Held-to-maturity debt securities	10
Total	3,046

The proceeds from sales of marketable securities amounted to ¥846 million (US$7,202 thousand) and ¥26 million with an aggregate gain of ¥392 million (US$3,337 thousand) and ¥5 million for the year ended March 31, 2006 and 2005, respectively.

14. Derivative financial instruments

1. Forward exchange contracts

The estimated fair values of the derivative financial instruments, excluding the derivative financial instruments which are accounted for using deferral hedge accounting, by major instrument types as of March 31, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	**¥ 68,224**	**¥ 69,438**	**¥ (1,214)**	**$ 580,778**	**$ 591,113**	**$ (10,335)**
To buy foreign currencies	**10,623**	**10,951**	**328**	**90,432**	**93,224**	**2,792**
Total	**—**	**—**	**(886)**	**—**	**—**	**(7,542)**

	2005		
	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 60,694	¥ 62,703	¥ (2,009)
To buy foreign currencies	6,346	6,203	(143)
Total	—	—	(2,152)

2. Interest rate swap agreement

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
Fixed payment /float receipt	**¥ 7,500**	**¥ (21)**	**¥ (21)**	**$ 63,846**	**$ (179)**	**$ (179)**

	2005		
	Notional amount	Estimated fair value	Unrealized gains (losses)
Fixed payment /float receipt	¥ 7,000	¥ (64)	¥ (64)

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

15. Retirement and severance benefits

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

During the year ended March 31, 2005, the Company and certain domestic consolidated subsidiaries implemented defined contribution plans allowing employees to transfer a portion of their unfunded defined benefit pension plans to the new defined contribution plans. As a result of the implementation of these defined contribution plans, in accordance with "Accounting Treatment for the Transfer among the Retirement and Severance Benefit Plan" (Accounting Standard Board Guidance No. 1) issued by the Accounting Standards Board of Japan, income before income taxes and minority interests decreased for the year ended March 31, 2005 by ¥1,542 million.

The funded status of the Company's pension plans as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ (68,539)**	¥ (57,757)	**$ (583,460)**
Plan assets at fair value	**51,898**	39,156	**441,798**
Funded status	**(16,641)**	(18,601)	**(141,662)**
Unrecognized actuarial loss	**15,301**	19,977	**130,254**
Unrecognized prior service cost	**(5,763)**	(6,182)	**(49,059)**
Total	**(7,103)**	(4,806)	**(60,467)**
Prepaid pension cost	**5,726**	2,375	**48,744**
Retirement and severance benefits	**(12,829)**	(7,181)	**(109,211)**

Net periodic benefit costs for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the year ended March 31, 2006 and 2005 consisted of the following components:

	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Service cost	**¥ 2,112**	¥ 1,879	**$ 17,979**
Interest cost	**1,742**	2,033	**14,829**
Expected return on plan assets	**(1,262)**	(989)	**(10,743)**
Participant contributions	**0**	(59)	**0**
Amortization of net retirement benefit obligation at transition	**0**	542	**0**
Amortization of unrecognized actuarial (gain) or loss	**1,842**	1,720	**15,681**
Amortization of prior service cost	**(393)**	(188)	**(3,346)**
Cost for defined contributed pension plan	**1,251**	872	**10,650**
Loss associated with termination of subsidiary pension plans	**61**	800	**519**
Loss on revision of retirement benefit system	**0**	1,542	**0**
Net periodic benefit cost	**5,353**	8,152	**45,569**

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

	2006	2005
Discount rate (weighted average):	**2.7%**	2.6%
Expected rate of return on plan assets:	**2.5%**	2.5%

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

16. Income taxes

Reconciliations between the normal income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

	2006
Effective income tax rate	36.8
Expense not deductible for tax purposes	(1.0)
Equity in losses of affiliated companies	0.1
Differ in tax rate of foreign subsidiaries	8.4
Devided from subsidiaries and affiliated companies	(10.4)
Other	6.6
Normal income tax rate	40.5

	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Deferred tax assets			
Accrued employees bonuses	**¥ 3,107**	¥ 2,173	**$ 26,449**
Net operating loss carryforward	**10,988**	10,967	**93,539**
Inventories	**6,130**	4,265	**52,184**
Retirement and severance benefits	**5,400**	3,323	**45,969**
Loss incurred by consolidated subsidiaries after initial consolidation	**4,805**	7,748	**40,904**
Others	**18,070**	12,512	**153,827**
Total	**48,500**	40,988	**412,872**
Less: Valuation allowance	**(19,203)**	(17,350)	**(163,472)**
Total	**29,297**	23,638	**249,400**
Less: Deferred tax liabilities	**(9,049)**	(3,884)	**(77,032)**
Net deferred tax assets	**20,248**	19,754	**172,368**
Deferred tax liabilities			
Earnings generated in consolidated subsidiaries and affiliated companies after initial consolidation	**3,141**	2,114	**26,738**
Net unrealized holding gains on investment in other securities and others	**5,433**	1,609	**46,250**
Others	**3,108**	886	**26,458**
Total	**11,682**	4,609	**99,446**
Less: Deferred tax assets	**(9,049)**	(3,884)	**(77,032)**
Net deferred tax liabilities	**2,633**	725	**22,414**

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

(a) Short-term loans consist principally of bank loans with the maturity of one year.The weighted average interest rates on short-term loans outstanding at March 31, 2006 and 2005 were 2.37% and 4.58%, respectively.

(b) Current portion of bonds at March 31, 2006 and 2005 are as follows:

	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Unsecured bonds, interest 2.425%, due 2005	**¥ 0**	¥ 10,000	**$ 0**
Unsecured bonds, interest 0.97%, due 2008	**600**	600	**5,108**
Unsecured bonds, interest 1.28%, due 2014	**0**	15	**0**
	600	10,615	**5,108**

(c) Bonds at March 31, 2006 and 2005 are as follows:

	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Unsecured bonds, interest 10 years swap rate plus 0.5%, due 2008	**3,000**	3,000	**25,539**
Unsecured bonds, interest 1.2%, due 2007	**10,000**	10,000	**85,128**
Unsecured bonds, interest 0.97%, due 2008	**600**	1,200	**5,107**
Unsecured bonds, interest 1.22%, due 2008	**10,000**	10,000	**85,128**
Unsecured bonds, interest 1.28%, due 2014	**0**	120	**0**
Unsecured bonds, interest 1.27%, due 2010	**1,500**	0	**12,769**
Unsecured bonds, interest 1.39%, due 2007	**500**	0	**4,257**
	25,600	24,320	**217,928**

(d) Loans from banks and other financial institutions

	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Loans from banks and other financial institutions:			
Short-term loans	**49,125**	42,528	**418,192**
Commercial paper	**3,000**	0	**25,538**
Current portion of long-term loans included in current liabilities	**21,302**	15,461	**181,340**
Long-term loans	**53,326**	61,862	**453,954**
Total loans	**126,753**	119,851	**1,079,024**

18. Segment information

The Company and its subsidiaries' business segments are classified as "Construction Machinery," "Industrial Vehicle", and "Semiconductor Production Equipment."
The reporting of information about business segments was redefined since fiscal 2006, because TCM corporation and its subsidiaries became consolidated subsidiaries.
Therefore, the Company changed its reportable business segments in a manner that can be evaluated more appropriately.
Consequently, the "Industrial Vehicle" segment was newly added from this fiscal year.
As a result of these changes, the Company has reclassified business segment information of the prior period to conform to the 2006 presentation.

Business segment information

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net sales:			
Construction Machinery	¥ 573,960	¥ 445,702	$ 4,886,014
Industrial Vehicle	50,581	0	430,586
Semiconductor Production Equipment	2,958	3,225	25,181
Elimination	(1,042)	(884)	(8,870)
Consolidated total	626,457	448,043	5,332,911
Operating income:			
Construction Machinery	56,070	39,850	477,314
Industrial Vehicle	2,963	0	25,224
Semiconductor Production Equipment	26	212	220
Elimination	(1,882)	58	(16,021)
Consolidated total	57,177	40,120	486,737

Notes:
1) The business segments are classified based on similarity of products.
2) The principal products and services of segments are as follows:
① Construction Machinery : Excavators, Mini Excavators, Wheel Loaders and Cranes & Foundation Machines
② Industrial Vehicle : Forklift trucks, transfer crane and container carrier
③ Semiconductor Production Equipment : Ultrasonic inspection equipment and atomic force microscope equipment

Segment information by geographic area for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net sales:			
Domestic (inside Japan)	¥ 476,069	¥ 355,673	$ 4,052,686
Outside Japan			
Asia	102,349	64,744	871,278
Europe	113,578	80,914	966,868
Americas	86,381	55,844	735,345
Other Areas	66,029	51,496	562,093
Elimination	(217,949)	(160,628)	(1,855,359)
Consolidated total	626,457	448,043	5,332,911
Operating income:			
Domestic (inside Japan)	24,308	18,633	206,929
Outside Japan			
Asia	12,570	6,537	107,006
Europe	8,103	4,066	68,979
Americas	11,426	7,380	97,268
Other Areas	3,466	2,221	29,506
Elimination	(2,696)	1,283	(22,951)
Consolidated total	57,177	40,120	486,737

Notes:
1) Net sales above include inter-segment sales.
2) The countries included in each segment are as follows:
① Asia: China, Indonesia, Singapore. Thailand and Malaysia
② Europe: The Netherlands and France
③ Americas: The United States and Canada
④ Other: New Zealand, Australia and South Africa
3) Because of the increasing importance of Americas as a business segment, due to the change in the sales strategy in this area, the Company changed its reportable segments in a manner that can be evaluated more appropriately.

Overseas sales by geographic area for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Americas	¥ 119,222	¥ 91,490	$ 1,014,915
Europe, Africa, the Middle East	132,647	92,304	1,129,199
Australia, New Zealand, Other areas of Asia, except China	103,608	75,423	881,995
China	67,555	38,797	575,083
Total	423,032	298,014	3,601,192

Notes:
1) Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.

19. Legal reserve and cash dividends

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

Cash dividends during the years ended March 31, 2006 and 2005 represent dividends resolved during those years. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥10.0 (US$0.09) per share totaling ¥1,947 million (US$16,574 thousand), subsequently proposed by the Board of Directors in respect of the year ended March 31, 2006.

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, 2006 and 2005, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 26, 2006

Global Network

As of June 26, 2006

Major Consolidated Subsidiaries and Affiliates

Europe, Africa and the Middle East

Manufacturing & Sales Companies
- Hitachi Construction Machinery (Europe) N.V.
- Hitachi Construction Machinery France S.A.S.

Sales & Service Companies
- Hitachi Construction Machinery Southern Africa Co., Ltd.
- SCAI S.p.A.*
- Heavy Construction Machinery Ltd.*

China

Manufacturing & Sales Companies
- Hitachi Construction Machinery (China) Co., Ltd.

Sales & Service Companies
- Hitachi Construction Machinery (Shanghai) Co., Ltd.
- Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai) Co., Ltd.

Oceania and Asia

Manufacturing & Sales Companies
- PT. Hitachi Construction Machinery Indonesia
- PT. Shibaura Shearing Indonesia*
- Telco Construction Equipment Co., Ltd.*

Sales & Service Companies
- Hitachi Construction Machinery (Thailand) Co., Ltd.
- Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
- Hitachi Construction Machinery (Malaysia) Sdn. Bhd.
- PT. Hexindo Adiperkasa Tbk
- Hitachi Construction Machinery (Australia) Pty., Ltd.
- CablePrice (NZ) Limited
- Yungtay-Hitachi Construction Machinery Co., Ltd.*

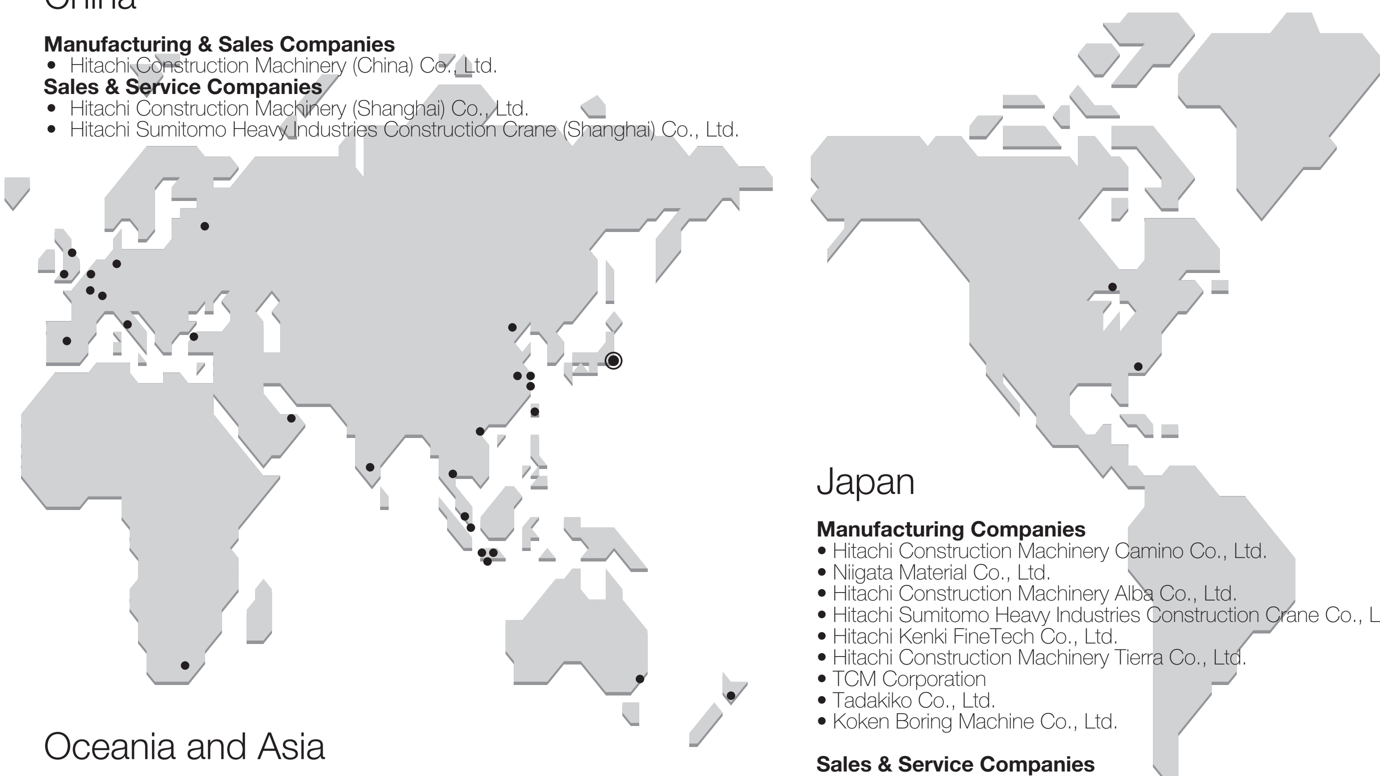
*Affiliates

The Americas

Manufacturing & Sales Companies
- Hitachi Construction Truck Manufacturing Ltd.
- Deere-Hitachi Construction Machinery Corporation*

Other
- Hitachi Construction Machinery Holding U.S.A. Corp.

*Affiliates



Japan

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

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

Rental & Leasing Companies
- REC Hokkaido Co., Ltd.
- REC Tohoku Co., Ltd.
- REC Kanto Co., Ltd.
- REC Koshin-etsu Co., Ltd.
- REC Chubu Co., Ltd.
- REC Kansai OKG Co., Ltd.
- REC Shikoku Co., Ltd.
- REC Nishi Nihon Co., Ltd.
- Sokuto Co., Ltd.*
- Okumura Kikai Co., Ltd.*

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

*Affiliates

Liaison Offices

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

Investor Information

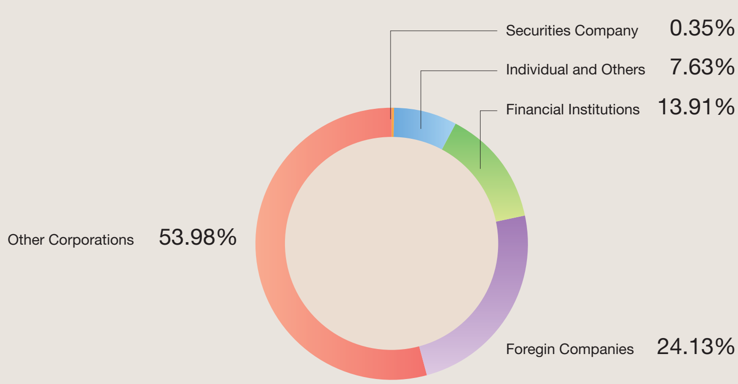
As of March 31, 2006

Company Name:	Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha)
Head Office:	5-1, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8563, Japan Tel. 81-3-3830-8065 Fax. 81-3-3830-8224
Date of Establishment:	October 1, 1970
Major Operations:	Manufacturing, sales and service of construction machinery, transportation machinery, and other machines and devices
Common Stock:	Number of Shares Authorized 700,000,000 Number of Shares Issued 196,048,038 Paid-in Capital ¥42,625,806,620
Stock Exchange Listings:	Tokyo, Osaka (#6305)
Independent Auditor:	Ernst & Young ShinNihon
Stock Transfer Agent:	Tokyo Securites Transfer Agent Co., Ltd.
Number of Shareholders:	18,234
Number of Employees:	13,291 (Consolidated) 3,253 (Non-consolidated)
Annual Meeting:	The annual meetng of shareholders is usually held before the end of June in Tokyo.

Major Shareholders

	Thousands of Shares	%
Hitachi, Ltd.	98,081	50.03
Japan Trustee Services Bank, Ltd.	7,702	3.93
The Master Trust Bank of Japan, Ltd.	6,576	3.35
The Bank of New York Treaty Jasdec Account	4,962	2.53
Trust & Custody Services Bank, Ltd.	3,207	1.64
Chase Bank (Ireland) plc. Dublin	2,048	1.04
The Nomura Trust and Banking Co., Ltd.	1,815	0.93
PPH for Fidelity Japan Small Company Fund	1,751	0.89
Goldman Sachs International	1,749	0.89
The Chase Manhattan Bank NA London S L Omnibus Account	1,731	0.88

Composition of HCM's Shareholders



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