

Hitachi Construction Machinery Co., Ltd.

HITACHI

Annual Report 2007

Year ended March 31, 2007



SOH 2010—For the New Stage

To prevail amid global mega-competition and build a solid position in global markets, the Hitachi Construction Machinery Group has begun “SOH 2010—For the New Stage,” a new medium-term management plan for the fiscal year ending March 31, 2008 through the fiscal year ending March 31, 2011. The plan calls for consolidated net sales exceeding ¥1 trillion and ordinary income of more than ¥100 billion.

Hybrid rubber tired gantry crane



SCX1200-2 crawler crane



ZW220 wheel loader



EX8000 ultra-large hydraulic excavator and EH4500 ultra-large dump truck



Profile

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 1949 with the development of a mechanical excavator built exclusively with domestic Japanese technology. Over the years the Company has applied its sophisticated technological capabilities to develop state-of-the-art construction machinery. 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 the optimal operating condition of 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 70 subsidiaries and 18 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, off-road dump trucks, crawler cranes and forklifts, as well as its flagship hydraulic excavators and other equipment, the Group is committed to maximizing the level of satisfaction 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”.

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In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors; 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



Michijiro Kikawa

Shungo Dazai

We are pleased to report our financial results for the fiscal year ended March 31, 2007, and extend our deep gratitude for your continued patronage.

During the fiscal year under review, the Japanese economy sustained a mild recovery, underpinned by improved corporate earnings amid an ongoing rise in capital investment along with robust consumer spending following improvements in the employment situation. Overseas, with the exception of lower private-sector housing investment in the United States, the global economy achieved growth overall and demand for construction machinery was favorable.

Under these conditions, the HCM Group completed its “SOH 21 – Creative Value UP” medium-term management plan and worked to build a solid position in the global market for construction machinery by responding with agility to an evolving business environment. The Group also worked to execute management strategies that will form the cornerstone for transitioning to our next medium-term management plan, “SOH 2010—For the New Stage.”

As a result, HCM achieved all targets of its medium-term management plan in the fiscal year ended March 31, 2007 (the final year of the plan) in terms of consolidated results, while achieving increases in sales and profits for the fifth consecutive fiscal term as well as record-high profits for the fourth consecutive term. Interim dividends were ¥14.00 (US\$0.12) per share and year-end dividends amounted to ¥14.00 (US\$0.12) per share.

Regarding future developments, HCM believes that along with prices for raw materials, movements in both exchange and interest rates warrant close scrutiny. In the environment surrounding the construction machinery market, demand for hydraulic excavators in North America is expected to decline due to such factors as economic effects of decreases in housing investment and the emergence of home loan delinquencies.

Demand for hydraulic excavators is expected to be favorable overall in Japan, Europe, Africa and the Middle East, Australia and Asia, and China. Moreover, we foresee a continued high level of demand for mining machinery along with increased resource development globally, and heightened demand for industrial vehicles.

Amid this environment, the HCM Group will realize a plan to construct plants in Japan, including an assembly plant for ultra-large hydraulic excavators and dump trucks in addition to a hydraulic machinery component plant. A new assembly plant for hydraulic excavators, wheel loaders and dump trucks will also be built in India. The addition of these production facilities will allow the Group to respond to a global rise in demand for construction machinery while working to secure a solid market position in developed and emerging countries.

In executing the aforementioned measures, the HCM Group will work to improve corporate and shareholder value by maintaining an awareness of the importance of corporate social responsibility (CSR), working to achieve the targets of the new “SOH 2010—For the New Stage” medium-term management plan and establishing its brand power.

June 2007

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

Michijiro Kikawa
President, Chief Executive Officer and Director

Financial Highlights

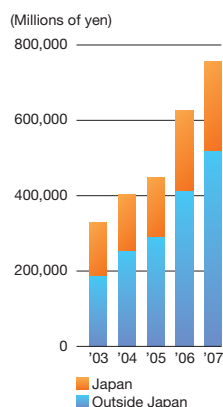
Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
For the year:			
Net sales	¥ 756,453	¥ 626,457	\$ 6,407,903
Net income	36,502	24,223	309,208
At year-end:			
Total assets	¥ 655,326	¥ 552,341	\$ 5,551,258
Shareholders' equity	184,750	157,173	1,565,015
Per share data (in yen and U.S. dollars):			
Net income	¥ 187.43	¥ 124.37	\$ 1.59
Cash dividends (declared)	28.00	18.00	0.24
Return on net sales	4.8%	3.9%	—
Return on equity	20.9%	16.8%	—
Net sales by geographic area:			
Japan	¥ 238,549	¥ 215,153	\$ 2,020,745
Outside Japan	517,904	411,304	4,387,158
The Americas	125,129	107,494	1,059,966
Europe, Africa and the Middle East	195,209	132,647	1,653,613
Oceania and Asia	126,280	103,608	1,069,716
China	71,286	67,555	603,863
Net sales by business segment:			
Construction machinery business	¥ 680,855	¥ 573,941	\$ 5,767,514
Industrial vehicle business	73,420	50,581	621,940
Semiconductor production equipment business	2,178	1,935	18,450

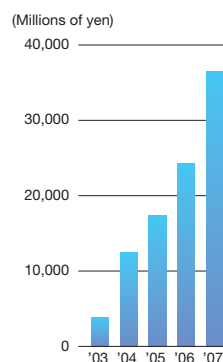
Notes

- 1: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥118.05=US\$1.00, the approximate exchange rate on March 31, 2007. See Note 3 of the Notes to Consolidated Financial Statements.
- 2: Overseas sales are sales of the Company and its consolidated subsidiaries in countries and areas other than Japan. Please note that the sales figures covering indirect sales for the Americas and Japan in the previous fiscal year reports were stated incorrectly. They have been changed to reflect the correct figures.

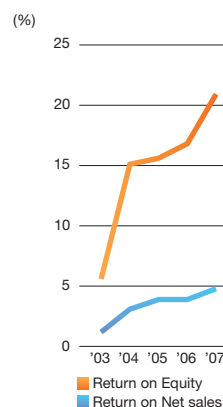
Net Sales



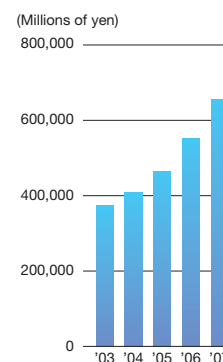
Net Income



Profitability



Total Assets





Michijiro Kikawa President, Chief Executive Officer and Director

Having achieved increases in sales and profits for the fifth consecutive fiscal term as well as record-high profits for the fourth consecutive term, what is your evaluation of the fiscal year ended March 31, 2007?

We surpassed the results of the previous fiscal year by a wide margin, and as we cleared our objectives, I would give the year under review more than 80 out of 100 if judging on points. In aiming for a perfect 100, there are two topics that need to be addressed. The first is boosting productivity to meet increasing global demand. We have significantly enhanced productivity at the Tsuchiura Works, our central production facility, and at the plant of Hitachi Construction Machinery (Europe) N.V. in Amsterdam. To further respond to increased demand, we are currently building a global structure to increase productivity. Specifically, in Japan we commenced construction of a plant for manufacturing hydraulic machinery components and have also decided to construct an assembly plant for ultra-large hydraulic excavators and dump trucks. Overseas, we have formulated concrete plans for construction of a third plant in India, and intend to upgrade plants in China and Indonesia.

The second issue is how we will go about absorbing the escalating costs of raw materials and the increasing costs of

compliance with environmental regulations. Together with working to further cut costs, including by reducing inventory, I would like to see supply chain management and efficient business operations put in place across the entire Group.

Amid enormous demand for construction machinery, where in the market do you believe the unique strengths of HCM lie?

As demonstrated by our early entry into Russia, India, China and other emerging markets overseas, taking the initiative is what led to our current success. In opening up new markets to construction machinery, it takes 10 years of sustained efforts before plans can come to fruition.

Another major characteristic to note is our business style. From development and design to manufacturing, sales and service, the HCM Group is fundamentally involved at every step along the way. This method of conducting business from “upstream” to “downstream” affords us the opportunity to hear what end-users are saying. It is not just the needs of the machine that are highlighted, but rather the needs relating to the solutions we offer. This essentially makes it easier to discern the sources of profit that exist at key points along the supply chain.

Among the strengths of the HCM Group, certainly there is state-of-the-art product technology, as represented by your flagship hydraulic excavator.

Hydraulic excavators stand out as examples of engineering excellence among construction machinery. This is reflected by the soaring demand seen in the U.S. construction market where hydraulic excavators and mini-excavators are becoming an increasingly prevalent component of product configurations, while demand for backhoe loaders and skid steer loaders is declining. This trend is being seen in emerging markets as well. Our hydraulic excavator has a huge presence in the global construction machinery market.

If you think that hydraulic excavators are tools that do nothing more than dig dirt, you might not understand their appeal. However, what if you were to consider them as robots? Whether demolishing structures or picking up items, the hydraulic excavator is really a human-operated, multi-functional robot. Taking this perspective opens up a myriad of very real possibilities.

One of the keys to advancing the field of construction machinery is the control offered by robotic technology. Another is energy conservation and environmental protection. In 2003, the Group developed a hybrid wheel loader that operates on a diesel engine and electric motor. Other efforts include development of a battery-powered electric hydraulic excavator and a forklift that runs on biodiesel fuel. These are examples of how we consider the entire lifecycle of construction machinery to reduce the level of CO₂ emissions.

Tell us about the new “SOH 2010—For the New Stage” medium-term management plan.

In formulating our current medium-term management plan, we considered how we wanted to be perceived 10 years from now, and worked to clarify what we were lacking to reach our objectives. Based on due consideration and reflection, we are striving to realize our vision under the slogan, “Hitachi Construction Machinery will be trusted by customers worldwide as a major global player.” As a first phase to realize this goal, under the “SOH 2010—For the New Stage” plan, we will work to fortify an unshakeable position among the top three construction machinery manufacturers in the global market. In the second phase following the completion of this medium-term management plan, we see our image as making a significant leap forward ahead of the top three manufacturers. In working to achieve our objectives 10 years from now, we will make annual reviews to renew our plan on a rolling basis, and work to accelerate the realization of numerical consolidated targets of net sales exceeding ¥1 trillion and ordinary income exceeding ¥100 billion.

You have previously discussed strengthening product lineups. In more concrete terms, what kind of vision do you have for this?

There has never been any intention to strengthen lineups across our full range of products. Rather, we intend to strengthen our already strong line of products, including hydraulic excavators and ultra-large hydraulic excavators, as well as to focus management resources in cultivating next core products that possess high prospects for growth, namely, wheel loaders, mini-excavators, dump trucks, cranes and forklifts. A notable example is a new dump truck model developed in cooperation with Hitachi, Ltd. Scheduled to be introduced this autumn, it uses the same AC drive system technology as Shinkansen (bullet trains). Working in tandem with ultra-large hydraulic excavators, these dump trucks can be expected to present a formidable force in the booming mining market.

What is HCM’s strategy with regard to sales and service?

It is not sufficient to simply sell products in order to raise profits in the domestic business. We must establish a value-chain axis for system selling, maintenance service, rental, used machinery and recycling, finance and distribution, as well as heighten our ability to provide solutions that efficiently utilize the functions these areas offer. Moving forward with these efforts in Japan, I would like to see our experience and track record form a proprietary business model to be established at all our locations worldwide.



The deployment of the next-generation “Global e-Service” with satellite communications is certainly attracting a great deal of attention.

Global e-Service is a system that enables the remote observation of machinery, and by using an electronic data box installed in each machine, operational information is stored as a record that can be confirmed in real time. Optimal management of machinery is achieved through the sharing of information between customers and HCM, thus raising maintenance efficiency as well as being useful in developing asset management strategies and other initiatives.

HCM may be building a global structure to enhance productivity, but what is it doing in regard to a structure for quality assurance overseas?

Under the key phrase, "Made by HITACHI," HCM has established a stringent quality assurance structure in order to secure a consistent quality level at all production bases around the world. Included in this is our positioning of product safety as a first priority. In addition to conducting product safety checks and risk assessment at the design and development stages, implementing an array of safety trials and thoroughly evaluating safety of critical components, we also work to further information sharing regarding major accidents that take place in the market.

Moreover, the HCM "Quality Gleaning*" concept calls for inspections to be carried out to identify the underlying cause of accidents or breakdowns and to thoroughly prevent recurrence. Our quality assurance activities include raising the technical level of welding, machining, assembly, coating and quality with the worldwide rollout of Global *Monozukuri* Assessment.

*** "Quality Gleaning"**

In this process analogous to that depicted in a famous painting by Millet, accidents, faults or errors for which countermeasures have already been taken are further reviewed to remove internal causes and thoroughly prevent any recurrence.

With business experiencing such rapid growth, what are your thoughts regarding risk management?

In the span of 10 or 15 years, the construction machinery industry will likely experience increased growth. We will therefore work to accelerate return on the variety of investments we will make over this time. On the other hand, given that we cannot predict when the market may fall into a recession, our aim is for a solid financial structure where the break-even point has been lowered to the degree that deficits will not be incurred even if sales drop by 30%. The fundamentals of risk management means controlling retail prices, initial costs, investments and risks associated with exchange rates at a break-even point of 70% or less.

With CSR, it seems these days that social contributions should have a fundamental connection with business activities.

I believe the biggest contribution to society a company can make is its own survival. This is also true for our customers, shareholders, employees and suppliers. Expending all efforts in order to do this is management's biggest concern. Under this assumption, I believe that, where possible, contributions to society should be made through a variety of business activities.

Are you looking at M&A or other strategies to expand HCM's business?

At present, I question if corporate acquisitions are truly efficient. To the contrary, it would be inefficient to acquire a manufacturer that has overlapping product distribution channels. The new "SOH 2010" management plan does not take any major M&As targeting construction machinery manufacturers or others into account. Rather, realizing our numerical targets is something that should be accomplished utilizing the strength of the current HCM Group.

Do you have a closing message for shareholders?

The Group is steadily moving forward with the new "SOH 2010—For the New Stage" medium-term management plan, and as a comprehensive manufacturer of construction machinery, we are striving to solidify our position as one of the world's top three construction machinery manufacturers. Together with working to expand earnings, we aim to bolster dividends to shareholders while raising market capitalization. I would like to thank all of our shareholders for their understanding of HCM Group activities and ask for your continued support.

What are your thoughts on the necessity of strengthening procurement in line with increased production?

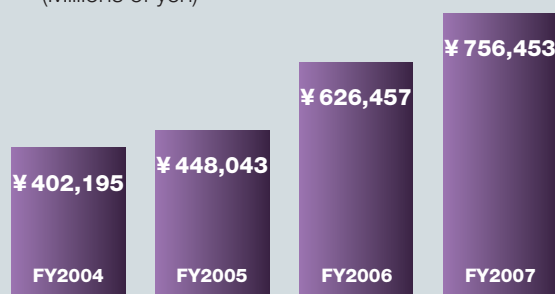
In order for the manufacturers who supply parts to more easily formulate production plans, for hydraulic excavators with an operating mass of over 10 tons manufactured at the Tsuchiura Works, we have developed a system where information on forecast orders categorized according to part type will be made public up to three years in advance. Based on this disclosed information we request the submission of an action plan from key suppliers incorporating these three-year advance forecasts. This plan is used for discussion purposes and constitutes the cornerstone with which procurement capabilities are strengthened.



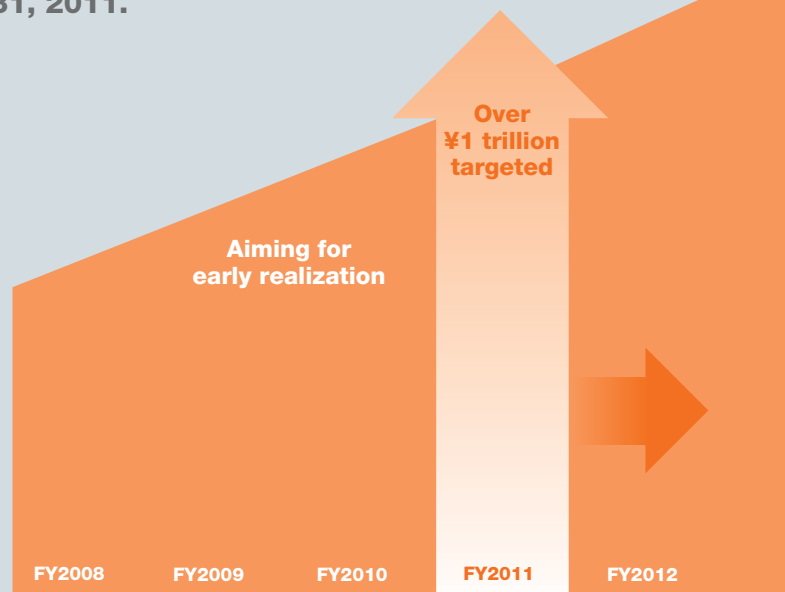
New Medium-term Management Plan “SOH 2010—For the New Stage”

In striving to establish an unshakeable position as a comprehensive manufacturer of construction machinery in the global market and in taking a significant leap forward to become a global company in the 21st century, the HCM Group has begun its new medium-term management plan, “SOH 2010—For the New Stage.” Based on the keyword phrases “technology creation” and “demand creation,” the plan runs from the fiscal year ending March 31, 2008 through the fiscal year ending March 31, 2011.

• Consolidated Net Sales (Millions of yen)



“SOH 21—Creative Value Up”
Corporate innovation activities



“SOH 2010—For the New Stage”
Moving beyond “SOH 21” and solidifying foundation

Post “SOH 2010”
Further activities

• Basic Management Policies

Targets

- Hitachi Construction Machinery will be trusted by customers worldwide as a major global player
- Realizing an industry-leading profit structure

Market Position

- To establish an unshakeable position as a comprehensive manufacturer among the world's top three construction machinery manufacturers

Management Indicator Targets

- Net sales: Exceeding ¥1 trillion
- Ordinary income: Exceeding ¥100 billion (Profit margin exceeding 10%)

• Key Points

Products

- Strengthening our already strong line of products
- Cultivating next core products with cutting-edge technology

Services

- Enhancing and strengthening the value chain

Regions

- Expanding presence in established markets
- Further strengthening position in emerging markets

Management Foundation

- Strengthening production worldwide
- Nurturing human resources throughout the Group
- Strengthening our financial structure

Products

The HCM Group will strengthen its already strong line of products, including hydraulic excavators and ultra-large hydraulic excavators, while simultaneously focusing its efforts on wheel loaders and other next core products in order to build powerful product lineups that surpass the competition.

Strengthening Our Already Strong Line of Products

Our hydraulic excavator proven to be No.1

In a June 2006 article published by *Bouw Machines*, a Netherlands-based construction machinery trade magazine, results of a performance assessment survey ranked HCM first among the top 10 producers of 20-ton hydraulic excavators in terms of both workload and fuel efficiency.

Overwhelming support for ultra-large hydraulic excavators

More than 35% share in the global mining market for hydraulic excavators over 190 tons (source: HCM Group)



ZX200-3 medium-sized hydraulic excavator



EX8000 Ultra-large hydraulic excavator

Cultivating Next Core Products with Cutting-edge Technology

Ultra-large dump trucks Sales Target: 3.5 times



EH4500 ultra-large dump truck

Mini-excavators Sales Target: Double



ZX17U-2 zero tail-swing mini-excavator

Cranes Sales Target: Double



SCX2800-2 crawler crane

Wheel loaders Sales Target: Double



ZW310 medium-sized wheel loader

Forklifts Sales Target: 1.5 times



FB15-7 forklift

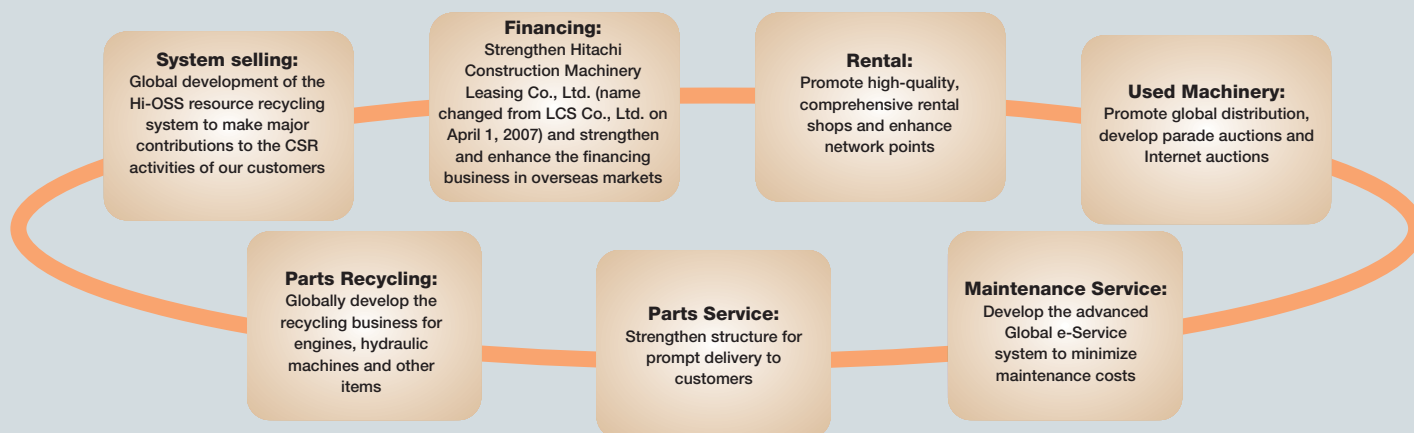
Services

The HCM Group will further strengthen an enhanced value chain to heighten customer satisfaction.

Aiming to be Our Customers' Best Partner

Covering the entire lifecycle of construction machinery, including sales, service, rental and financing, the HCM Group strives to offer our customers the best solution possible.

Best solutions offered by the HCM Group value chain



Regions

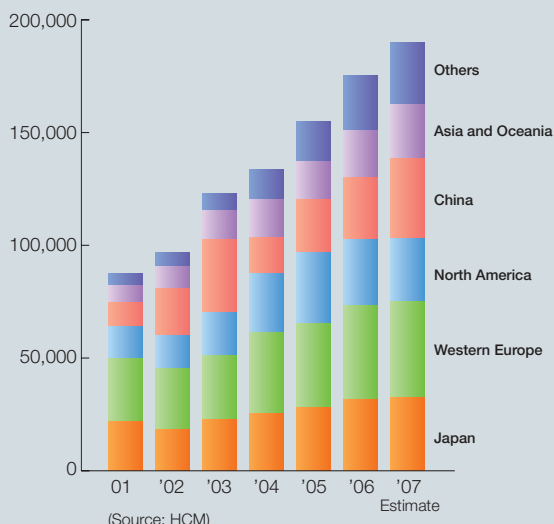
In addition to Japan, North America, Europe, Asia and other markets where the HCM Group maintains a presence, we will strengthen our competitive capabilities in areas where we already have overwhelming strength, namely, BRICs, VISTA and other areas, to further raise our market position.

Expanding the Global Presence of “HITACHI”

China, with its surging economy, as well as Russia, India, the Middle East and other emerging markets have in recent years demonstrated skyrocketing demand for construction machinery. HCM boasts overwhelming strength in Russia and India, both of which are markets expected to present huge business opportunities. We will strengthen our regional business structure to take advantage of this outstanding chance to surpass competitor construction machinery manufacturers.



Worldwide demand for hydraulic excavators (Units)



Management Foundation

To strengthen both products and services, and to expand our presence in markets worldwide, HCM must work to further bolster its management foundation.

Boosting Annual Production Capacity of Hydraulic Excavators from 36,000 to 61,000 units

To meet growing worldwide demand for construction machinery, we are planning to construct two plants in Hitachi-Naka, Ibaraki Prefecture, one for manufacturing hydraulic machinery components as well as an assembly plant for ultra-large hydraulic excavators and dump trucks. Overseas, we are making great strides in enhancing productivity at plants in the Netherlands, China, Indonesia, and other locations.

Moreover, with booming growth in India, we have firmly decided to construct a third plant for Telco Construction Equipment Company Limited (Telcon).



Hitachi-Naka Works in Ibaraki Prefecture currently under construction

Aiming to Nurture Human Resources throughout the Group

As a means of integrating the organizational structure for human resources development in the areas of manufacturing, development, rental, sales and service (RSS), and management, as well as to strengthen and enhance training content for the entire Group, the Company opened the new Kasumigaura Institute in Ibaraki Prefecture in April 2007. The new institute aims to conduct globally oriented training with intensive courses designed to foster linguistic skills and the ability to adapt to business overseas, as well as to heighten knowledge, techniques and skills with training across a wide range of specialty fields utilizing the institute's array of facilities and programs. By actively welcoming trainees from overseas-based Group companies, as well as our dealers, it is hoped that the institute will play a key role in extending the spirit and techniques of Japan's *monozukuri* globally.



Exterior and interior views of the Kasumigaura Institute

Comprehensively Bolstering Risk Management

We are raising the level of global governance through such measures as unified exchange rate management, credit maintenance and internal controls as well as CSR, compliance and other activities to deal with escalating risk factors related to such issues as exchange rates, human resources and human rights, all of which are gaining prominence as a result of globalization.

- **Reducing consolidated break-even point (Target: 70%)**

Reduction of fixed costs (Increased productivity)

Lowering proportional costs (Strengthened procurement capabilities)

- **Raising Global Governance**

Foreign exchange management, credit maintenance, internal control system, CSR, compliance, etc.

- **Building BCP Structure**

(BCP: Business Continuity Plan)

Building a crisis management structure to respond to issues that effect the sustainable management of the Company

Overview by Regional Segment

Japan

Increased demand was buoyed by higher capital investments in the private sector and the continued progression of stock adjustments for hydraulic excavators as well as by an expansion of non-civil engineering applications such as demolition and metal scrap recycling operations. Under our RSS system that combines rental, sales and service, we progressed with the cultivation of new customers by promoting industry-specific marketing, and also concentrated on the Hitachi Onsite Screening & Solution (Hi-OSS) brand for environmental protection and resource recycling. As a result of these and other measures, net sales rose 11% to ¥238,549 million (US\$2,021 million).

The Americas

Demand was chiefly supported by private-sector capital investment in commercial and other facilities, road repairs and construction investment for highways and other structures, infrastructure rebuilding projects and resource-related applications. Conversely, lackluster housing investment after the interim period exerted an adverse effect on demand for small and medium-sized hydraulic excavators and mini-excavators. In aggregate, net sales rose 16% to ¥125,129 million (US\$1,060 million).

Europe, Africa and the Middle East

In Europe, sales grew owing to the release of such new global models as the ZAXIS-3 Series of hydraulic excavators and the ZW Series of wheel loaders. Higher demand in Germany and increased housing investment in France were also factors that led to increased sales.

In Africa, we saw robust demand for mining machinery for use in extraction of such mineral resources as iron ore, coal, gold and copper. Moreover, in addition to areas already receiving shipments, such as South Africa, large-scale orders were secured in such new markets as Zambia. A large-volume order for hydraulic excavators was also secured for construction of an expressway in Algeria.

In the Middle East, demand for hydraulic excavators and cranes continued to rise amid a boom in infrastructure development and

plant construction funded by petrodollar recycling.

In the emerging market of Russia, the single-distributor system is functioning efficiently, and we are earning even greater acclaim and maintaining a top market share thanks to our thorough after-service response and parts supply.

In these regions, net sales jumped 47% to ¥195,209 million (US\$1,654 million).

Oceania and Asia

In Oceania and Asia, although the Thai market was temporarily disrupted due to political factors, demand for hydraulic excavators was robust across the entire region. Demand for mining machinery remained brisk mainly in Australia and Indonesia. Accordingly, net sales advanced 22% to ¥126,280 million (US\$1,070 million).

China

In China, infrastructure development-fueled demand grew not only in locations along the eastern coastline but also across the entire country, and we posted record-high unit demand for a single month in March 2007, which marked the start of the spring sales season. Additionally, the new ZAXIS-3 Series of hydraulic excavators released in November 2006 received high acclaim from customers. Net sales amounted to ¥71,286 million (US\$604 million), up 6% from the previous fiscal term (January 2005 to March 2006).

Topics

Support Provided to NPO “Yutaka Na Daichi”

The HCM Group has supported landmine removal activities with the manufacture and delivery of demining equipment modeled on the Company's hydraulic excavator. Currently, 52 units are in use in landmine clearing activities in five countries worldwide, including Cambodia, Vietnam and Afghanistan.

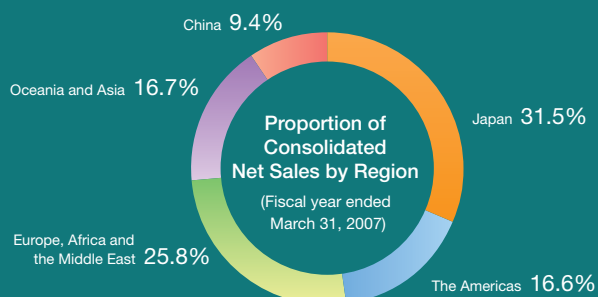
In its demining-related activities, the HCM Group wholeheartedly supports the nonprofit organization (NPO) “Yutaka Na Daichi - Good Earth Japan (GEJ)” in their efforts to assist the people of Cambodia in rehabilitating land and agricultural areas following the clearing of landmines placed due to war or conflict. GEJ, established in March 2007, aims to contribute to the creation of a safe living environment in which the country's children can always laugh and smile while they play and learn. Specifically, GEJ mainly offers support for development of agricultural areas, which includes a wide variety of activities such as agricultural training and construction of schools. The HCM Group will continue international contribution activities such as demining and support for NPOs with the aim of realizing a peaceful society.



Agricultural training and support for infrastructure development projects in Surappan village, Battambang Province, Cambodia



HCM Group demining equipment at work in Cambodia



Overview by Business Segment

Construction Machinery Business

Consolidated net sales in the construction machinery business rose 19% to ¥680,855 million (US\$5,768 million). Carrying out its business in an extensive range of construction machinery sectors, the HCM Group is strengthening its product lineup in response to diverse customer needs and is promoting a full line of products as it undertakes business globally.

• Construction-Related Products Business

In construction-related products, as full-model changes, from January 2006 we began launching new hydraulic excavators models and wheel loader models that comply with Tier III emissions regulations and that offer significant performance and functional enhancements. Through their development and release, we aim to expand domestic and overseas sales of these products as new-generation global construction-related machinery that offers distinctive features compared with previous models.

In Japan, besides targeting existing civil engineering fields, we actively cultivated new customer segments in such non-civil

engineering fields as demolition and metal scrap operations. In the United States, we worked to expand sales amid continued robust private-sector capital investment, including for commercial facilities, as well as solid demand from public works that included investment for repairs and construction of highways and other roads. In Europe, we responded to increased demand across the entire region by establishing a full line of products and upgrading and expanding our sales network, while in Africa we secured a large-volume order for 117 hydraulic excavators for the construction of an expressway in Algeria. In China, demand for construction machinery accompanying the establishment of an infrastructure, previously concentrated on the eastern coastline, is expanding to all areas of the country. In Tsingtao, we established our first directly managed sales company in China, while also expanding the range of products handled by sales agents and improving service response capabilities. In Asia, we upgraded and strengthened our sales and service structure in such emerging markets as India, which is continuing to record high economic growth, as part of our proactive response in these markets.

Regarding new products, we launched sales of two new hydraulic excavators, three new zero tail-swing mini-excavators, one new zero slew-type (tight-quarter) mini-excavator and one tracked backhoe that complies with Tier III emissions regulations.

Topics

Exhibiting at bauma 2007

In April 2007, two companies in the HCM Group exhibited at the International Trade Fair for Construction Machinery, bauma 2007. Hitachi Construction Machinery (Europe) N.V. worked jointly with a German dealer to operate an expansive 5,000-m² booth where a total of 34 units of machinery, including the EX5500 ultra-large hydraulic excavator—the largest item of any at the fair—as well as new wheel excavators, mini-excavators, wheel loaders, demining equipment, battery-powered excavators and other types of equipment were exhibited. Also participating was Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., which exhibited five different types of crawler cranes in a separate booth.

Blessed by fair weather over the seven days of the bauma event, the trade fair was a resounding success with 500,000 registered visitors—approximately 20% more than the 416,000 persons who attended in 2004—coming to talk business with the vast range of participating vendors.



Demand for cranes expanded in North America, Japan, the Middle East, Europe and Asia, in turn leading to favorable sales. In the future as well, we foresee an expansion of demand in such emerging markets as India, Russia and China.



ZX400LCH-3 medium-sized hydraulic excavator

• Resource Development-Related Products Business

In addition to the existing markets of the Americas, Australia and Indonesia, we also anticipate rising demand for mining machinery in such emerging markets as Africa, Russia, China and India, which are involved in intensified resource development. We received an order from a copper mine in Zambia for 4 electric-powered ultra-large hydraulic excavators highly acclaimed for their cost performance attained by electrification, 26 AC-driven trolley dump trucks and 1 ultra-large diesel engine hydraulic excavator.

• Environment-Related Products Business

Under the Hi-OSS brand, HCM has been proposing and working to expand sales of a system that features varying combinations of self-propelled machinery to efficiently sort, process and recycle industrial waste on-site. HCM worked to proactively cultivate a new customer base for this revolutionary and proprietary system, which can process industrial waste and soil pollutants with maximum efficiency without the need to remove them from the site.

In new products, HCM launched a track mounted crusher as part of its Hi-OSS line. Designed for high-volume, high-speed crushing of waste from building demolition sites, the new crusher offers significantly increased processing capabilities and is capable of accommodating materials ranging from concrete rubble to stone.



ZR950JC track mounted crusher



EX5500, the largest item at the show, and other equipment



• Product Development Business

HCM is developing metal recyclers and electrically driven hydraulic excavators, which are based on our hydraulic excavators, that meet diverse customer needs.

In new products, we made a full-model change to our long-front specification machine (20 tons to 100 tons) for demolition work, a product experiencing rising demand, and developed Japan's first 50-ton-class wheeled materials handling machine for loading operations at ports and for handling scrap. In addition, we launched sales of an emission-free electric mini-excavator as energy-efficient and environment-friendly construction machinery.

• Rental Business

At the "REC" Group, a rental company under direct management, HCM worked to raise asset efficiency and improve cost structures through utilization of the "R-NET 1" information network. At the same time, HCM also strived to expand sales by actively marketing Hi-OSS related products in addition to marketing activities that were previously being carried out up to the present. HCM also worked to raise customer satisfaction with the introduction of the REC-BIZWAY credit card for businesses. Moreover, HCM will also move into rental operations in non-civil engineering sectors, cultivate new customers and expand rental bases in high-demand regions, as we work to further expand the profitability of this business.

• Used Machinery Business

Used machinery inquiries rose mainly in Asia, China, Russia and the Middle East along with rising global demand for hydraulic excavators. Through Hitachi Construction Machinery Trading Co., Ltd., HCM offers highly reliable construction machinery, which has been fully inspected at nationwide service centers, via parade auctions and Internet auctions, as we worked to meet domestic and overseas demand for used machinery.

• Service Business

HCM is aggressively strengthening its service structure for responding to customers in specific sectors within its traditional civil engineering fields as well as in such non-civil engineering sectors as scrap processing and demolition work. Concurrently, HCM has installed satellite communication receivers as standard equipment in its construction machinery, beginning with the ZAXIS-3 Series of hydraulic excavators and the ZW Series of wheel loaders, in line with efforts to raise maintenance response capabilities through Global e-Service, which uses satellite communications to facilitate optimal machinery maintenance by sharing machinery information between customers and HCM. Additionally, HCM's full maintenance services for ultra-large hydraulic excavators for mining have earned the overwhelming trust of customers, and this business continues to see rapid growth.

• Other Software Business

As businesses supporting the HCM Group, Hitachi Kenki Business Frontier Co., Ltd. handles the development, sale and maintenance of computer software; LCS Co., Ltd. (name changed to Hitachi Construction Machinery Leasing Co., Ltd. on April 1, 2007) handles installment sales and other financing; Hitachi Kenki Logistics Technology Co., Ltd. handles logistics; and Hitachi Construction Machinery Comec Co., Ltd. primarily handles materials procurement and parts receivable. Each company has worked to expand its scope of business through the application of its specialized expertise.

Industrial Vehicle Business

Consolidated net sales were up 45% to ¥73,420 million (US\$622 million). On the international front, amid continued favorable demand for forklifts, TCM Corporation moved to further strengthen the development of its overseas operations by establishing TCM (Anhui) Machinery Co., Ltd. in China solely using Japanese capital. In Japan, TCM worked to improve sales prices and reduce costs, while expanding sales to Hitachi Group companies.

Regarding new products, TCM worked to expand its lineup of small engine-powered forklifts. In port-related products, TCM sought to expand sales by developing the country's first hybrid transfer crane, which boasts dramatically reduced emissions and improved fuel economy.

Semiconductor Production Equipment Business

Consolidated net sales increased 13% to ¥2,178 million (US\$18 million). Hitachi Kenki FineTech Co., Ltd. expanded and upgraded its testing equipment for onboard vehicle semiconductors, for which performance continued to be favorable, while also working to expand sales of atomic force microscopes to large domestic and overseas semiconductor manufacturers.

In new products, we launched sales of the Fine SAT II ultrasonic video system that features improved operability compared with previous models. For our atomic force microscopes, we developed a probe with superior durability by using a carbon nano-tube, and also developed and launched the WA3300 model for the world's highest level of measurement precision and processing speed in semiconductor measurement.



WA3300 atomic force microscope for semiconductor measurement

Directors and Executive Officers

As of June 25, 2007



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



Nobuhiko Kuwahara
Senior Vice President,
Executive Officer and Director



Shuichi Ichiyama ⁽²⁾
Director



Yoshio Kubo ^{(1) (2)}
Outside Director



Katsukuni Hisano ^{(1) (2) (3)}
Outside Director



Takeo Ueno ^{(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
Senior Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer
Vice President and Executive Officer
Executive Officer
Executive Officer
Executive Officer
Executive Officer
Executive Officer
Executive Officer
Executive Officer

Mitsuo Mori
Mitsuji Yamada
Yasuhiko Murata
Toru Sakai
Hideo Arahata
Shinichi Mihara
Kiichi Uchibayashi
Takayoshi Honma
Terumasa Otsuka
Toichi Hirata
Tsutomu Mizutani
Hitoshi Manabe
Makoto Sato
Yoshikazu Tokugawa
Hiroshi Tokushige

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 the Japanese Corporate Law as a means of strengthening corporate governance. By segregating the oversight and executive functions of the Company's leadership, this approach ensures corporate management excels in terms of fairness and transparency.

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

Executive, Oversight, and Auditing Functions

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

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

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

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

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

Relationship with Parent Company and Rationale regarding Securing Uniform Autonomy from the Parent Company

While autonomous in our business operations, as a member of a group associated with the parent company Hitachi, Ltd., HCM shares in Hitachi Group's basic philosophy and brand, and is committed to unifying its basic business policies with those of the greater group.

In light of this special relationship as a member of the Hitachi Group, HCM is able to effectively utilize the R&D capabilities, brand strengths and other management resources possessed by Hitachi and the Hitachi Group, thus contributing to raising the corporate value of HCM and the HCM Group.

Two of HCM's three outside directors come to the Company from

Hitachi, Ltd. where they serve concurrently as directors and honorary advisors, creating a situation where determination of HCM's business policies and other issues are influenced by the expression of those directors' opinions to the Board of Directors. However, we believe that HCM is able to execute autonomous business decisions as the HCM Board of Directors, which is comprised of a total of nine directors, includes six internal directors and one outside director, who has no relationship with Hitachi, Ltd. or the companies of the Hitachi Group. Furthermore, the conditions of transactions with Hitachi, Ltd. and Hitachi Group companies are decided upon rationally and based upon mutual deliberations that consider market value and other factors.

Matters relating to Listed Subsidiaries

Among HCM subsidiary companies, TCM Corporation is listed on securities exchanges in Japan. To bolster our wheel loader business, HCM works to maintain and strengthen a close and collaborative relationship with this listed subsidiary, and from this perspective, there is some influence on business activities. However, TCM is a listed company with committees, and with regard to management its autonomy is respected. Excluding matters to be taken up at the General Meeting of Shareholders, the parent company's involvement in TCM is limited, with TCM making management decisions based upon its own decision-making procedures, thus ensuring its ability to operate as an independent entity.

Internal Control System

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 concepts.

The structures and other measures to ensure that Company business is carried out in an appropriate manner have been resolved at a meeting of HCM's Board of Directors and are now being implemented in accordance with the Japanese Corporate Law.

Matters relating to Defense against Acquisition

As a company with publicly listed stock, along with maintaining business operations in accordance with the stock market and procuring capital for necessary business expansion, HCM is evaluated by shareholders, investors and the stock market. We are cognizant of the expectations directed at HCM and the HCM Group given recent assessments, and we understand that implementing management with intensity will make a significant contribution to raising our corporate value.

Although HCM conducts business operations independently, as a member of the group associated with its parent company, Hitachi, Ltd., HCM shares the Hitachi Group's basic philosophy and brand and is committed to unifying its basic business policies with those of the greater group. Furthermore, HCM is able to effectively utilize the R&D capabilities, brand strengths, and other management resources possessed by Hitachi and the Hitachi Group, thus contributing to raising the corporate value of HCM and the HCM Group.

HCM works to establish and promote its management plans and the building of a governance structure based upon these basic policies, and strives to raise corporate value and maximize the value offered to its entire spectrum of shareholders.

Six-year Summary of Selected Financial Data

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

Years ended March 31	Millions of yen, except per share data						Thousands of U.S. dollars (Note 3), except per share data
	2007	2006	2005	2004	2003	2002	2007
For the year:							
Net sales	¥ 756,453	¥ 626,457	¥ 448,043	¥ 402,195	¥ 328,496	¥ 298,766	\$ 6,407,903
Cost of sales	549,453	453,461	316,918	287,360	243,642	227,613	4,654,409
Selling, general and administrative expenses.....	128,807	114,872	92,055	82,847	68,803	73,197	1,091,122
Operating income (loss).....	78,352	57,177	40,120	32,858	16,399	(3,295)	663,719
Income (loss) before income taxes and minority interests.....	70,081	46,795	31,862	21,211	6,486	(20,903)	593,656
Net income (loss)	36,502	24,223	17,325	12,490	3,883	(17,603)	309,208
At year-end:							
Total assets	¥ 655,326	¥ 552,341	¥ 463,812	¥ 407,049	¥ 373,755	¥ 360,008	\$ 5,551,258
Working capital	98,891	99,213	96,638	67,201	61,735	38,736	837,705
Shareholders' equity.....	184,750	157,173	131,318	91,132	74,321	64,977	1,565,015
Per share data:							
Net income (loss)	¥ 187.43	¥ 124.37	¥ 91.05	¥ 72.62	¥ 25.90	¥ (122.47)	\$ 1.59
Diluted net income	186.81	124.00	90.88	70.92	24.35	—	1.58
Shareholders' equity.....	987.56	807.17	673.81	520.93	460.98	452.07	8.37
Cash dividends (declared)	28.00	18.00	14.00	11.00	7.00	0.00	0.24
Other indicators:							
Return on net sales	4.8%	3.9%	3.9%	3.1%	1.2%	—	—
Return on equity.....	20.9%	16.8%	15.6%	15.1%	5.6%	—	—
Shareholders' equity ratio	29.4%	28.5%	28.3%	22.4%	19.9%	18.0%	—
Number of employees	14,272	13,291	10,602	9,983	9,924	9,452	—
Number of shareholders	20,112	18,234	11,861	8,913	10,566	12,373	—

Management's Discussion and Analysis

Performance

HCM pushed forward with its product strategy that included a full-model change and launching sales of the new ZAXIS-3 Series of hydraulic excavators and a globally unified brand of new wheel loaders, both of which feature enhanced performance and functionality and comply with Tier III emissions regulations. This was conducted while strengthening our lineup of ultra-large hydraulic excavators and dump trucks for mining. Through these efforts, we aimed to further expand our business domains and raise our market position.

In marketing, under our RSS system that combines rental (R), sales (S) and service (S), in Japan we progressed with the cultivation of new customers by promoting industry-specific marketing and concentrated on the Hi-OSS brand (a category brand for efficient on-site processing) for environmental protection and resource recycling, as we strived to expand sales and secure earnings. Overseas, although demand in North America slowed in line with lower investment for housing construction, demand in other regions was favorable, and we actively progressed with regional strategies throughout the HCM Group, particularly in response to buoyant demand in such emerging countries as Russia, India and the Middle East nations.

Within the production structure, in view of growth in demand for construction machinery and a continued high level of production, we significantly expanded our production capacity by increasing and strengthening production facilities at the Tsuchiura Works and at the plant of Hitachi Construction Machinery (Europe) N.V. in Amsterdam. To further respond to increased demand, we are currently building a global structure for increasing productivity. Specifically, in

Japan we commenced construction of a plant for manufacturing hydraulic machinery components and have also decided to construct an assembly plant for ultra-large hydraulic excavators and dump trucks. Overseas, we have formulated concrete plans for construction of a third plant in India and intend to expand plants in China and Indonesia.

As a result of these measures, in the period under review net sales were up 20.8% to ¥756,453 million (US\$6,048 million) and net income grew 50.7% to ¥36,502 million (US\$309 million). Moreover, HCM achieved all targets of its medium-term management plan in the fiscal year ended March 31, 2007 (the final year of the plan) in terms of consolidated results, while achieving increases in sales and profits for the fifth consecutive fiscal term as well as record-high profits for the fourth consecutive term.

The rising price of steel and other factors drove cost of sales up 21.2% from the previous period, to ¥549,453 million (US\$4,654 million), representing an 0.2 percentage point increase in the ratio of cost of sales to net sales to 72.6%. As a result, gross profit jumped 20.4% to ¥207,159 million (US\$1,755 million).

Due to streamlining of production systems and other factors, selling, general and administrative expenses rose 12.1% compared to the previous fiscal year to ¥128,807 million (US\$1,091 million). The ratio of selling, general and administrative expenses to net sales decreased 1.3 percentage points to 17.0%.

Because selling, general and administrative expenses were kept in check, operating income increased 37.0% compared to the previous fiscal year to ¥78,352 million (US\$664 million), exceeding the rate of gross profit, and moreover, with an operating income to net sales ratio of

10.4%, this was the first time 10% was surpassed.

Other expenses decreased compared to the previous fiscal year, from ¥10,382 million (US\$88 million) to ¥8,271 million (US\$70 million). Main factors for the decline included a reduction in the net exchange loss caused by the appreciating yen in the previous period, capital gains of ¥839 million (US\$7 million) resulting from the sale of the Adachi Training Center that had become obsolete with the opening of the Kasumigaura Institute, a gain of ¥1,423 million (US\$12 million) accompanying the liquidation of an overseas subsidiary and gains on the elimination of Euclid-Hitachi Heavy Equipment Ltd.'s medical insurance system. Further, with Hitachi Construction Truck Manufacturing Ltd. moving into the black, restructuring costs amounted to ¥2,191 million (US\$19 million), a jump of 97.2% from the previous fiscal year.

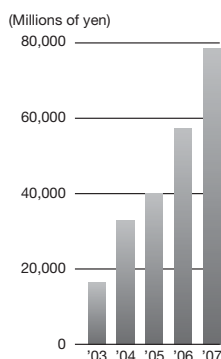
As a result of the above, income before taxes and minority interests grew 49.8% from the previous fiscal year to ¥70,081 million (US\$594 million). The effective corporate tax rate after application of tax effect accounting (the nominal tax rate) increased by 2.5 percentage points compared with the previous fiscal year, from 36.8% to 39.3%.

In aggregate, net income increased by 50.7% compared with the previous fiscal year, to ¥36,502 million (US\$309 million), while net income per share increased ¥63.06 (US\$0.53) to ¥187.43 (US\$1.59) and ROE increased 4.1 percentage points to 20.9%.

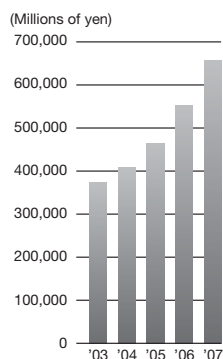
Financial Position

Current assets at the end of the fiscal year amounted to ¥439,307 million (US\$3,721 million), an increase of 20.0% from the previous fiscal

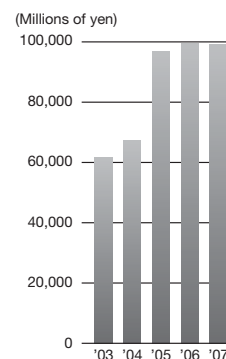
Operating Income



Total Assets



Working Capital



year-end. This was due mainly to respective increases of ¥28,827 million (US\$244 million) in notes and accounts receivable and ¥35,038 million (US\$297 million) in inventories. Fixed assets rose 15.9% from the end of the previous fiscal year to ¥216,019 million (US\$1,830 million). As a result, total assets increased 18.6% from the previous fiscal year-end to ¥655,326 million (US\$5,551 million).

Current liabilities at the end of the fiscal year amounted to ¥340,416 million (US\$2,884 million), an increase of 27.6% from the previous fiscal year-end. This was due mainly to an increase in notes and accounts payable that resulted from growth in demand for construction machinery and a continued high level of production. Long-term liabilities decreased 10.5% from the previous fiscal year-end to ¥92,501 million (US\$784 million). As a result, total liabilities increased 17.0% from the previous fiscal year-end to ¥432,917 million (US\$3,667 million).

Net assets, including minority interests, increased 22.1% from the previous fiscal year-end to ¥222,409 million (US\$1,884 million). The main increase factor was net income of ¥36,502 million (US\$309 million), while the main decrease factor was cash dividends of ¥4,673 million (US\$40 million) paid from retained earnings. As a result of the above, the equity ratio rose to 29.4% from 28.5% at the end of the previous fiscal period.

Cash Flow Analysis

Cash and cash equivalents at end of year totaled ¥41,074 million (US\$348 million), a decrease of ¥880 million (US\$7 million) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Net cash provided by operating activities totaled ¥24,101 million (US\$204 million), a

decrease of ¥13,278 million (US\$112 million) compared with ¥37,379 million (US\$317 million) in the previous year. Cash-increasing factors included income before income taxes and minority interests of ¥70,081 million (US\$594 million), up ¥23,286 million (US\$197 million) from ¥46,795 million (US\$396 million) as well as a ¥4,745 million (US\$40 million) increase in depreciation and amortization to ¥24,215 million (US\$205 million) accompanying investments to augment production facilities. In contrast, cash-reducing factors were mainly increases in such working capital categories as notes and accounts receivable, inventories, and notes and accounts payable that accompanied an expansion in sales. Although down slightly in the previous fiscal year at ¥1,976 million (US\$17 million), working capital rose sharply during the year under review to ¥26,759 million (US\$227 million). Income taxes paid during the year under review were ¥21,466 million (US\$182 million), an increase of ¥10,800 million (US\$91 million) from the previous fiscal year.

Net cash used in investing activities was ¥25,834 million (US\$219 million), an increase of ¥7,262 million (US\$62 million) from ¥18,572 million (US\$157 million) in the previous fiscal year. Key factors included a ¥9,279 million (US\$79 million) increase in acquisitions of property, plant and equipment to ¥24,336 million (US\$206 million), chiefly for capital investment to raise production at various manufacturing bases. On the other hand, there was an absence of any investment on the scale of the previous year's acquisition of investment securities of Telco Construction Equipment Co., Ltd., a joint venture of Tata Motors Ltd. of India. As a result, free cash flows, the sum of net cash provided by operating activities and cash used in investing activities, was

negative at ¥1,733 million (US\$15 million).

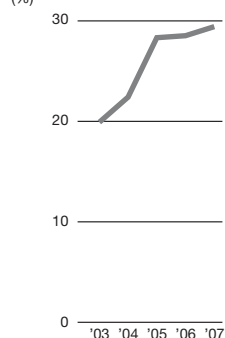
Net cash provided by financing activities increased by ¥517 million (US\$4 million), with the key factor in this rise being the procurement of funds needed for paying interest on borrowings and dividends paid to shareholders as well as a redemption of debentures and repayments of corporate debentures and long-term debt during the fiscal year.

Business and Other Risks

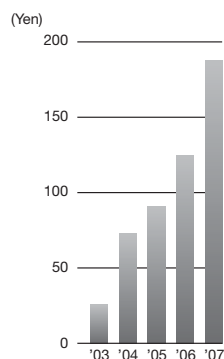
The HCM Group carries out its operations in regions throughout the world and utilizes high-level specialized technologies and information to execute its business activities. Accordingly, the HCM Group's business activities are subject to the effects of a wide range of risks. The principal risks are as follows.

- Fluctuations in product supply/demand and intensifying price competition in markets
- The ability of HCM and its subsidiaries to realize the development and timely introduction of products that utilize new technologies and realize low-cost production
- Slow responses to accelerating technological innovation
- Fluctuations in exchange rates (especially yen/dollar and yen/euro rates)
- The ability of HCM and its subsidiaries to respond to fluctuations in product supply/demand and exchange rates
- Economic and social conditions and various restrictions, including trade restrictions
- Preserving proprietary patents or securing patents from other companies
- Defects in our products and services
- Alliances with other companies in product development and other areas

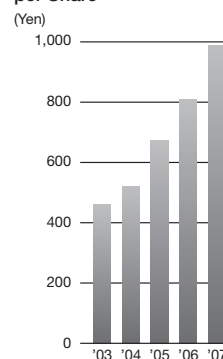
Shareholders Equity Ratio
(%)



Net Income per Share



Shareholders' Equity per Share



Consolidated Balance Sheets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
ASSETS			
Current assets			
Cash and bank deposits	¥ 41,079	¥ 37,073	\$ 347,980
Notes and accounts receivable (Notes 8 and 10)	194,180	165,353	1,644,896
Inventories	173,335	138,297	1,468,319
Short-term loans receivable	1,092	1,125	9,250
Deferred tax assets (Note 17)	18,626	15,089	157,781
Others	18,056	18,544	152,952
Less: Allowance for doubtful accounts	(7,061)	(9,493)	(59,814)
Total current assets	439,307	365,988	3,721,364
Fixed assets			
Property, plant and equipment			
Property held for lease (Note 10)	62,505	48,811	529,479
Land (Note 10)	46,297	44,312	392,181
Buildings and structures (Note 10)	85,881	78,910	727,497
Machinery and equipment	145,677	134,157	1,234,028
Construction in progress	5,503	1,931	46,616
	345,863	308,121	2,929,801
Less: Accumulated depreciation	(188,053)	(173,639)	(1,592,994)
Net property, plant and equipment	157,810	134,482	1,336,807
Intangible assets			
Software	5,938	4,329	50,301
Cost in excess of net assets acquired	—	262	—
Others	4,313	1,128	36,535
Total intangible assets	10,251	5,719	86,836
Investments and other assets			
Investments in securities (Note 14)	27,801	27,738	235,502
Long-term loans receivable	190	362	1,609
Deferred tax assets (Note 17)	3,001	5,159	25,421
Others (Note 16)	18,397	14,049	155,841
Less: Allowance for doubtful accounts	(1,431)	(1,156)	(12,122)
Total investments and other assets	47,958	46,152	406,251
Total fixed assets	216,019	186,353	1,829,894
Total assets	¥ 655,326	¥ 552,341	\$ 5,551,258
	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
LIABILITIES AND NET ASSETS			
Current liabilities			
Notes and accounts payable	¥ 159,529	¥ 129,893	\$ 1,351,368
Short-term loans (Notes 18 and 22)	72,980	49,125	618,213
Commercial Paper (Note 18)	5,000	3,000	42,355
Current portion of long-term loans (Notes 10 and 18)	14,788	21,302	125,269
Current portion of bonds (Note 18)	10,600	600	89,792
Income taxes payable	12,949	8,385	109,691
Unrealized profit on installment sales and interest	2,037	2,293	17,255
Others	62,533	52,177	529,716
Total current liabilities	340,416	266,775	2,883,659
Long-term liabilities			
Bonds (Note 18)	15,000	25,600	127,065
Long-term loans (Notes 10 and 18)	47,542	53,326	402,728
Deferred tax liabilities (Note 17)	7,332	2,633	62,109
Retirement and severance benefits (Note 16)	12,410	12,829	105,125
Others	10,217	9,009	86,548
Total long-term liabilities	92,501	103,397	783,575
Total liabilities	432,917	370,172	3,667,234
Net assets (Note 7)			
Shareholders' equity			
Common stock			
Authorized — 700,000,000 shares			
Issued: 196,095,038 shares in 2007 and 196,048,038 shares in 2006	42,636	42,626	361,169
Capital surplus	42,143	42,133	356,993
Retained earnings	102,124	70,392	865,091
Less: treasury stock, at cost: 1,278,110 shares in 2007 and 1,326,531 shares in 2006	(2,153)	(1,876)	(18,238)
Total shareholders' equity	184,750	153,275	1,565,015
Valuation and translation adjustments			
Net unrealized gain on securities (Note 14)	2,299	2,730	19,475
Deferred gain on hedging instruments	120	—	1,017
Foreign currency translation adjustments	5,224	1,168	44,252
Total valuation and translation adjustments	7,643	3,898	64,744
Stock acquisition rights (Note 21)	122	—	1,033
Minority interests	29,894	24,996	253,232
Total net assets	222,409	182,169	1,884,024
Total liabilities and net assets	¥ 655,326	¥ 552,341	\$ 5,551,258

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Net sales	¥ 756,453	¥ 626,457	\$ 6,407,903
Cost of sales	549,453	453,461	4,654,409
(Realized) unrealized profit on installment sales, net	(159)	947	(1,347)
Gross profit	207,159	172,049	1,754,841
Selling, general and administrative expenses	128,807	114,872	1,091,122
Operating income	78,352	57,177	663,719
Other income (expenses):			
Interest and dividend income	3,241	2,839	27,454
Equity in earnings of affiliated companies	400	131	3,388
Interest expenses	(3,949)	(3,598)	(33,452)
Exchange losses	(5,591)	(6,473)	(47,361)
Restructuring costs	(2,191)	(1,111)	(18,560)
Losses on disposal of inventories	(1,221)	(1,150)	(10,343)
Gains on sales of property, plant and equipment	839	0	7,107
Gains on termination of subsidiaries	1,423	0	12,054
Gains on termination of health insurance	0	2,314	0
Impairment losses for fixed assets	0	(191)	0
Others, net	(1,222)	1,485	(10,350)
	(8,271)	(10,382)	(70,063)
Income before income taxes and minority interests	70,081	46,795	593,656
Income taxes:			
current	20,887	15,853	176,934
prior year (Note 23)	2,363	0	20,017
deferred	4,299	1,353	36,417
Minority interests	6,030	5,366	51,080
Net income	36,502	24,223	309,208
Per share data			
Net income	¥ 187.43	¥ 124.37	\$ 1.59
Diluted net income	186.81	124.00	1.58
Cash dividends (declared)	28.00	18.00	0.24
Weighted average number of shares (thousands)	194,753	194,771	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Number of shares of common stock (thousands)	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Sub total shareholders' equity
Balance at March 31, 2005	194,888	¥ 42,583	¥ 42,092	¥ 49,929	¥ (1,161)	¥ 133,443
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						
Net change in foreign currency translation adjustments						
Balance at March 31, 2006	<u>194,721</u>	<u>¥ 42,626</u>	<u>¥ 42,133</u>	<u>¥ 70,392</u>	<u>¥ (1,876)</u>	<u>¥ 153,275</u>
Exercise of stock purchase warrant	47	10	10			20
Effect of newly consolidated subsidiaries						
Effect of affiliated company included in equity method						
Net income				36,502		36,502
Cash dividends (declared)				(4,673)		(4,673)
Net increase (decrease) in treasury stock	49			(97)	(277)	(374)
Net increase (decrease) during the fiscal year of non-shareholders' equity items						
Balance at March 31, 2007	<u>194,817</u>	<u>¥ 42,636</u>	<u>¥ 42,143</u>	<u>¥ 102,124</u>	<u>¥ (2,153)</u>	<u>¥ 184,750</u>

	Millions of yen						
	Net unrealized holding gain (loss) on securities	Deferred hedge gain	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock purchase warrant	Minority interests	Total net assets
Balance at March 31, 2005	¥ 1,703	¥	¥ (3,828)	¥ (2,125)	¥	¥	¥ 131,318
Exercise of stock purchase warrant							85
Effect of newly consolidated subsidiaries							(716)
Effect of affiliated company included in equity method							(114)
Net income							24,223
Cash dividends (declared)							(2,920)
Decrease in treasury stock							(726)
Net change in unrealized holding gain on securities	1,027			1,027			1,027
Net change in foreign currency translation adjustments			4,996	4,996			4,996
Balance at March 31, 2006	<u>¥ 2,730</u>	<u>¥ 0</u>	<u>¥ 1,168</u>	<u>¥ 3,898</u>	<u>¥ 0</u>	<u>¥ 24,996</u>	<u>¥ 182,169</u>
Exercise of stock purchase warrant							20
Effect of newly consolidated subsidiaries							
Effect of affiliated company included in equity method							
Net income							36,502
Cash dividends (declared)							(4,673)
Net increase (decrease) in treasury stock							(374)
Net increase (decrease) during the fiscal year of non-shareholders' equity items	(431)	120	4,056	3,745	122	4,898	8,765
Balance at March 31, 2007	<u>¥ 2,299</u>	<u>¥ 120</u>	<u>¥ 5,224</u>	<u>¥ 7,643</u>	<u>¥ 122</u>	<u>¥ 29,894</u>	<u>¥ 222,409</u>

	Thousands of U.S. dollars (Note 3)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub total shareholders' equity
Balance at March 31, 2006	\$ 361,084	\$ 356,908	\$ 596,290	\$ (15,892)	\$ 1,298,390
Exercise of stock purchase warrant	85	85			170
Effect of newly consolidated subsidiaries					
Effect of affiliated company included in equity method					
Net income			309,208		309,208
Cash dividends (declared)			(39,585)		(39,585)
Net increase (decrease) in treasury stock			(822)	(2,346)	(3,168)
Net increase (decrease) during the fiscal year of non-shareholders' equity items					
Balance at March 31, 2007	<u>\$ 361,169</u>	<u>\$ 356,993</u>	<u>\$ 865,091</u>	<u>\$ (18,238)</u>	<u>\$ 1,565,015</u>

	Thousands of U.S. dollars (Note 3)						
	Net unrealized holding gain (loss) on securities	Deferred hedge gain	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock purchase warrant	Minority interests	Total net assets
Balance at March 31, 2006	\$ 23,126	\$ —	\$ 9,894	\$ 33,020	\$ —	\$ 211,741	\$ 1,543,151
Exercise of stock purchase warrant							169
Effect of newly consolidated subsidiaries							
Effect of affiliated company included in equity method							
Net income							309,208
Cash dividends (declared)							(39,585)
Net increase (decrease) in treasury stock							(3,168)
Net increase (decrease) during the fiscal year of non-shareholders' equity items	(3,651)	1,017	34,358	31,724	1,033	41,491	74,249
Balance at March 31, 2007	<u>\$ 19,475</u>	<u>\$ 1,017</u>	<u>\$ 44,252</u>	<u>\$ 64,744</u>	<u>\$ 1,033</u>	<u>\$ 253,232</u>	<u>\$ 1,884,024</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 70,081	¥ 46,795	\$ 593,656
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	24,215	19,470	205,125
Impairment losses for fixed assets	0	191	0
Decrease in allowance for doubtful accounts	(2,215)	(1,205)	(18,763)
Interest and dividend income	(2,549)	(2,212)	(21,593)
Interest expenses	3,949	3,598	33,452
Equity in earnings of affiliated companies	(400)	(131)	(3,388)
Increase in notes and accounts receivable	(20,803)	(9,318)	(176,222)
Decrease in inventories	(26,285)	(7,929)	(222,660)
Purchase of property held for lease	(19,328)	(12,816)	(163,727)
Sale of property held for lease	3,809	3,506	32,266
Increase in notes and accounts payable	20,329	19,223	172,207
Gains on sales of property, plant and equipment	(3,289)	(2,154)	(27,861)
Losses on revaluation of investments in securities	4	29	34
Gains on sales of investments in securities	(31)	(395)	(263)
Other, net	(1,920)	(8,607)	(16,264)
Sub total	45,567	48,045	385,999
Income taxes paid	(21,466)	(10,666)	(181,838)
Net cash provided by operating activities	24,101	37,379	204,161
Cash flows from investing activities			
Investments in time deposits	(47)	(91)	(398)
Proceeds from time deposits	462	1,228	3,914
Acquisitions of property, plant and equipment	(24,336)	(15,057)	(206,150)
Proceeds from sale of property, plant and equipment	1,222	373	10,352
Purchase of intangible assets	(4,999)	(1,951)	(42,346)
Purchase of investments in securities	(1,127)	(6,550)	(9,547)
Proceeds from sale of investments in securities	70	872	593
Interest and dividends received	2,397	2,215	20,305
Interest and dividends received from affiliated companies	169	356	1,432
Other, net	355	33	3,007
Net cash used in investing activities	(25,834)	(18,572)	(218,838)
Cash flows from financing activities			
Net increase (decrease) in short-term loans	23,448	(6,320)	198,628
Proceeds from long-term loans	12,308	12,411	104,261
Repayments of long-term loans	(24,881)	(19,780)	(210,767)
Repayments of bonds	(600)	(12,735)	(5,083)
Interest paid	(3,996)	(3,786)	(33,850)
Dividends paid to shareholders	(4,673)	(2,920)	(39,585)
Dividends paid to minority shareholders by subsidiaries	(1,488)	(603)	(12,605)
Proceeds from issuance of common stock	20	85	169
Proceeds from issuance of common stock to minority shareholders by subsidiaries	753	1,254	6,379
Purchase of treasury stock	(841)	(906)	(7,124)
Proceeds from sale of treasury stock	467	187	3,956
Net cash provided by (used in) financing activities	517	(33,113)	4,379
Effect of exchange rate changes on cash and cash equivalents	297	1,501	2,516
Net increase (decrease) in cash and cash equivalents	(919)	(12,805)	(7,782)
Cash and cash equivalents at beginning of year	41,954	49,534	355,392
Effect of newly consolidated subsidiaries	39	5,225	330
Cash and cash equivalents at end of year (Note 12)	¥ 41,074	¥ 41,954	\$ 347,940

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 ¥118.05 = US\$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2007. 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:

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

② Securities 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

① Property, 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.

② Intangible 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 that is not due at each balance sheet date 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 translating 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 net assets.

(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 the deferral hedge accounting, which requires the unrealized gain or loss to be deferred until gain or loss relating to the hedge object is recognized.

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

(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 participate 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

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

① Consumption tax

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

② Income taxes

Deferred income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured 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. Changes in important matters that form the basis for compiling consolidated financial statements

Net Assets

Effective April 1, 2006, the Company adopted ASB Statement No.5, "Accounting Standards for Presentation of Net Assets in Balance Sheets" and the revised ASB Statement No.1, "Accounting Standards for the Company's own Shares and the Withdrawal of Legal Reserve." Under these standards, the balance sheet comprises the assets, liabilities and net assets sections. The net assets section comprises four subsections, which are shareholders' equity, valuation and translation adjustments, stock options and minority interests.

The net assets section includes items which were not included in the previously presented shareholders' equity section. The valuation and translation adjustments section includes deferred gain on hedging instruments that were previously presented as assets or liabilities. Minority interests were presented between liabilities and the previously presented shareholders' equity.

In order to conform to the 2007 presentation, the consolidated balance sheet as of March 31, 2006 and the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005 have been restated.

If this standard had not been adopted and the previously presentation method for the shareholders' equity had been applied, the shareholders' equity at March 31 2007, which comprised common stock, capital surplus, retained earnings, net unrealized holding gain on securities, foreign currency translation adjustments and treasury stock, would have been ¥192,273 million (\$1,628,742 thousand).

Stock Options

Effective April 1, 2006, the Company adopted ASB Statement No. 8, "Accounting Standards for Stock Options." Under this standard, a stock option expense is recognized for the options granted to directors, executive officers and employees over the requisite service period. Until stock options are exercised or expired, the amount corresponding to the expenses is reported as "Stock Options," a separate component of net assets.

As a result of application of this standard, the stock option expenses of ¥122 million (\$1,033 thousand) was recognized as expenses. And operating income, ordinary income, and income before taxes and minority interests have each been decreased by ¥122 million (\$1,033 thousand) compared with the previous accounting treatment.

8. Notes receivable discounted or endorsement

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Notes receivable discounted	¥ 80	¥ 33	\$ 678
Notes receivable endorsed	152	134	1,288
Total	232	167	1,966

9. Contingent liabilities

At March 31, 2006 and 2007, 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 ¥6,061 million (US\$51,343 thousand), respectively.

10. Assets pledged as collateral primarily

Short-term loans and long-term loans at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Notes receivable	¥ 27	¥ 27	\$ 27
Buildings and structures	354	397	2,999
Property held for lease	19,930	18,544	168,827
Land	466	554	3,947
Total	20,750	19,522	175,773

Related debts secured with the above assets at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current portion of long-term loans	¥ 8,329	¥ 6,824	\$ 70,555
Long-term loans	17,657	15,256	149,572
Total	25,986	22,080	220,127

11. Research and development costs

Research and development costs that were charged to income as incurred and included in selling-general and administrative expenses for the years ended March 31, 2007 and 2006 were ¥13,683 million (US\$115,909 thousand) and ¥13,130 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and bank deposits	¥ 41,079	¥ 37,073	\$ 347,980
Deposits to affiliates	0	4,946	0
Time deposits with the maturity longer than three months periods	(5)	(65)	(42)
Total	41,074	41,954	347,938

Notes to Consolidated Financial Statements

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

13. Lease transactions

Information relating to finance leases accounted for as operating leases is as follows:

(Lessee)

1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 6,475	¥ 3,819	¥ 10,294	\$ 54,850	\$ 32,351	\$ 87,201
Accumulated depreciation	(3,185)	(958)	(4,143)	(26,980)	(8,115)	(35,095)
Net leased property	3,290	2,861	6,151	27,870	24,236	52,106

	Millions of yen		
	2006		
	Machinery and equipment	Others	Total
Acquisition cost	¥ 7,043	¥ 3,602	¥ 10,645
Accumulated depreciation	(3,875)	(739)	(4,614)
Net leased property	3,168	2,863	6,031

2. Lease obligation under finance leases inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	¥	¥	\$
Due within one year	3,895	3,267	32,994
Due after one year	9,571	7,677	81,076
Total	13,466	10,944	114,070

3. Lease payments, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	¥	¥	\$
Lease payments	2,537	2,283	21,491
Depreciation expense	2,192	1,978	18,568
Interest portion	343	320	2,906

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		
	2007			2007		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 8,104	¥ 0	¥ 8,104	\$ 68,649	\$ 0	\$ 68,649
Accumulated depreciation	(5,525)	0	(5,525)	(46,802)	0	(46,802)
Net leased property	2,579	0	2,579	21,847	0	21,847

2. Future lease income inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	¥	¥	\$
Due within one year	2,278	1,951	19,297
Due after one year	4,259	3,585	36,078
Total	6,537	5,536	55,375

3. Lease income, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	¥	¥	\$
Lease income	1,690	1,622	14,316
Depreciation expense	1,309	1,180	11,089
Interest portion	193	202	1,635

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
	2007	2006	2007
	¥	¥	\$
Due within one year	816	1,401	6,912
Due after one year	1,410	1,955	11,944
Total	2,226	3,356	18,856

(Lessor)

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	¥	¥	\$
Due within one year	1,788	1,938	15,146
Due after one year	3,794	3,520	32,139
Total	5,582	5,458	47,285

14. Investments in securities

Marketable securities

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities with gross unrealized holding gain						
Stocks	¥ 3,815	¥ 8,413	¥ 4,598	\$ 32,317	\$ 71,266	\$ 38,949
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	3,815	8,413	4,598	32,317	71,266	38,949
Securities with gross unrealized holding loss						
Stocks	29	25	(4)	246	212	(34)
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	29	25	(4)	246	212	(34)
Grand Total	3,844	8,438	4,594	32,563	71,478	38,915

	Millions of yen		
	2006		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities with gross unrealized holding gain			
Stocks	¥ 2,644	¥ 8,304	¥ 5,660
Debt securities	0	0	0
Others	0	0	0
Total	2,644	8,304	5,660
Securities with gross unrealized holding loss			
Stocks	174	162	(12)
Debt securities	0	0	0
Others	0	0	0
Total	174	162	(12)
Grand Total	2,818	8,466	5,648

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Stocks	¥ 2,107	\$ 17,848
Debt securities	1,000	8,471
Held-to-maturity debt securities	10	85
Other investments	6	51
Total	3,123	26,455

	Millions of yen
	2006
Stocks	¥ 2,168
Debt securities	1,000
Held-to-maturity debt securities	10
Other investments	10
Total	3,188

The proceeds from sales of marketable securities amounted to ¥39 million (US\$330 thousand) and ¥846 million with an aggregate gain of ¥31 million (US\$263 thousand) and ¥392 million for the year ended March 31, 2007 and 2006, respectively.

15. 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 the deferral hedge accounting, by major instrument types as of March 31, 2007 and 2006 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 89,421	¥ 90,278	¥ (857)	\$ 757,484	\$ 764,744	\$ (7,260)
To buy foreign currencies	3,847	3,571	(276)	32,588	30,250	(2,338)
Total	—	—	(1,133)	—	—	(9,598)
	2006					
	Notional amount	Estimated fair value	Unrealized gains (losses)			
To sell foreign currencies	¥ 68,224	¥ 69,438	¥ (1,214)			
To buy foreign currencies	10,623	10,951	328			
Total	—	—	(886)			

Notes to Consolidated Financial Statements

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

2. Interest rate swap agreement

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
Fixed payment /float receipt	¥ 2,000	¥ 2	¥ 2	\$ 16,942	\$ 17	\$ 17
	2006					
	Notional amount	Estimated fair value	Unrealized gains (losses)			
Fixed payment /float receipt	¥ 7,500	¥ (21)	¥ (21)			

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.

16. 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.

The funded status of the Company's pension plans as of March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥ (70,360)	¥ (68,539)	\$ (596,019)
Plan assets at fair value	57,957	51,898	490,953
Funded status	(12,403)	(16,641)	(105,066)
Unrecognized actuarial loss	14,671	15,301	124,278
Unrecognized prior service cost	(5,108)	(5,763)	(43,270)
Total	(2,840)	(7,103)	(24,058)
Prepaid pension cost	9,570	5,726	81,067
Retirement and severance benefits	(12,410)	(12,829)	(105,125)

Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the year ended March 31, 2007 and 2006 consisted of the following components:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 2,496	¥ 2,112	\$ 21,144
Interest cost	1,798	1,742	15,231
Expected return on plan assets	(1,532)	(1,262)	(12,978)
Amortization of unrecognized actuarial (gain) or loss	1,284	1,842	10,877
Amortization of prior service cost	(396)	(393)	(3,355)
Cost for defined contributed pension plan	1,025	1,251	8,683
Loss associated with termination of subsidiary pension plans	0	61	0
Net periodic benefit cost	4,675	5,353	39,602

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

	2007	2006
Discount rate (weighted average):	2.7%	2.7%
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.

17. Income taxes

Deductible losses recognized for liquidation of subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets	¥ 1,431	¥ 1,979	\$ 12,122
Allowance for doubtful accounts	3,318	3,107	28,107
Accrued employees bonuses	7,191	10,988	60,915
Net operating loss carryforward	9,091	6,130	77,010
Inventories	5,119	5,400	43,363
Retirement and severance benefits	458	4,805	3,880
Loss incurred by consolidated subsidiaries after initial consolidation	841	0	7,124
Unrealized gain on fixed assets	17,014	16,091	144,125
Others	44,463	48,500	376,646
Total	(15,766)	(19,203)	(133,554)
Less: Valuation allowance	28,697	29,297	243,092
Total	(7,070)	(9,049)	(59,890)
Less: Deferred tax liabilities	21,627	20,248	183,202
Net deferred tax assets			
Deferred tax liabilities			
Earnings generated in consolidated subsidiaries and affiliated companies after initial consolidation	4,855	3,141	41,127
Net unrealized holding gains on investment in other securities and others	5,137	5,433	43,515
Others	4,454	3,108	37,730
Total	14,446	11,682	122,372
Less: Deferred tax assets	(7,070)	(9,049)	(59,890)
Net deferred tax liabilities	7,376	2,633	62,482

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

(a) Short-term loans consist principally of bank loans with maturity of one year. The weighted average interest rates on short-term loans outstanding at March 31, 2007 and 2006 were 2.27% and 2.37%, respectively.

(b) Current portion of bonds at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Unsecured bonds, interest 0.97%, due 2008	¥ 600	¥ 600	\$ 5,083
Unsecured bonds, interest 1.2%, due 2007	10,000	0	84,710
	<u>10,600</u>	<u>600</u>	<u>89,793</u>

(c) Bonds at March 31, 2007 and 2006 are as follows:

Unsecured bonds, interest 10 years swap rate plus 0.5%, due 2008	3,000	3,000	25,413
Unsecured bonds, interest 1.2%, due 2007	0	10,000	0
Unsecured bonds, interest 0.97%, due 2008	0	600	0
Unsecured bonds, interest 1.22%, due 2008	10,000	10,000	84,710
Unsecured bonds, interest 1.27%, due 2010	1,500	1,500	12,706
Unsecured bonds, interest 1.39%, due 2009	500	500	4,235
	<u>15,000</u>	<u>25,600</u>	<u>127,064</u>

(d) Loans from banks and other financial institutions

Loans from banks and other financial institutions:			
Short-term loans	72,980	49,125	618,213
Commercial paper	5,000	3,000	42,355
Current portion of long-term loans included in current liabilities	14,788	21,302	125,269
Long-term loans	47,542	53,326	402,728
Total loans	<u>140,310</u>	<u>126,753</u>	<u>1,188,565</u>

19. Segment information

The Company and its subsidiaries' business segments are classified as "Construction Machinery," "Industrial Vehicle", and "Semiconductor Production Equipment."

Business segment information

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net sales:			
Construction Machinery	¥ 680,883	¥ 573,960	\$ 5,767,751
Industrial Vehicle	73,420	50,581	621,940
Semiconductor Production Equipment	3,480	2,958	29,479
Elimination	(1,330)	(1,042)	(11,266)
Consolidated total	<u>756,453</u>	<u>626,457</u>	<u>6,407,904</u>
Operating income:			
Construction Machinery	75,249	56,070	637,433
Industrial Vehicle	5,298	2,963	44,879
Semiconductor Production Equipment	430	26	3,643
Elimination	(2,625)	(1,882)	(22,236)
Consolidated total	<u>78,352</u>	<u>57,177</u>	<u>663,719</u>

Notes:

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

Segment information by geographic area for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net sales:			
Domestic (inside Japan)	¥ 594,650	¥ 476,069	\$ 5,037,272
Outside Japan			
Asia	107,582	102,349	911,326
Europe	163,953	113,578	1,388,844
Americas	100,879	86,381	854,545
Other Areas	82,706	66,029	700,601
Elimination	(293,317)	(217,949)	(2,484,684)
Consolidated total	<u>756,453</u>	<u>626,457</u>	<u>6,407,904</u>
Operating income:			
Domestic (inside Japan)	43,442	24,308	367,997
Outside Japan			
Asia	13,025	12,570	110,335
Europe	11,643	8,103	98,628
Americas	11,674	11,426	98,890
Other Areas	5,669	3,466	48,022
Elimination	(7,101)	(2,696)	(60,152)
Consolidated total	<u>78,352</u>	<u>57,177</u>	<u>663,720</u>

Notes:

- Net sales above include inter-segment sales.
- The countries included in each segment are as follows:
 - Asia: China, Indonesia, Singapore, Thailand and Malaysia
 - Europe: The Netherlands and France
 - Americas: The United States and Canada
 - Other: New Zealand, Australia and South Africa

Notes to Consolidated Financial Statements

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

Overseas sales by geographic area for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Americas	¥ 125,129	¥ 107,494	\$ 1,059,966
Europe, Africa, the Middle East	195,209	132,647	1,653,613
Australia, New Zealand, Other areas of Asia, except China	126,280	103,608	1,069,716
China	71,286	67,555	603,863
Total	517,904	411,304	4,387,158

Notes:

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

20. 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, 2007 and 2006 represent dividends resolved during those years. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥14 (US\$0.12) per share totaling ¥2,725 million (US\$23,083 thousand) for the second half of the year, subsequently proposed by the Board of Directors in respect of the year ended March 31, 2007.

21. Stock option

The stock option expenses of ¥122 (US\$1,033 thousand) million was recognized as expenses for the years ended March 31, 2007.

The detail information for stock option

1) Stock Option Information

Company name		Hitachi Construction Machinery Co., Ltd.							TCM Corporation
Number of grantees		17 Directors 17 Employees	8 Directors 13 Executive Officers 13 Employees	8 Directors 36 Employees 28 Subsidiary Directors	8 Directors 14 Executive Officers 25 Employees 28 Subsidiary Directors	8 Directors 15 Executive Officers 29 Employees 27 Subsidiary Directors	9 Directors 15 Executive Officers 25 Employees 32 Subsidiary Directors	9 Directors 14 Executive Officers 22 Employees 30 Subsidiary Directors	9 TCM Directors 12 TCM Executive Officers 185 TCM Employees 19 TCM Subsidiary Directors
Number of options granted (common stock, shares)		241,000	242,000	416,000	454,000	488,000	504,000	305,000	755,000
Granted date		August 4, 2000	August 8, 2001	August 1, 2002	August 7, 2003	August 6, 2004	August 8, 2005	August 8, 2006	September 8, 2006
Exercise period	from	July 1, 2002	July 1, 2003	July 1, 2004	July 1, 2005	July 1, 2006	July 1, 2007	July 29, 2008	August 26, 2008
	To	June 28, 2010	June 28, 2011	June 27, 2012	June 26, 2013	June 29, 2014	June 28, 2015	June 26, 2016	June 27, 2016

2) Changes in stock option during fiscal year

1. Numbers of stock option

Company name		Hitachi Construction Machinery Co., Ltd.							TCM Corporation
Before vested									
Beginning of the fiscal year		—	—	—	—	488,000	504,000	—	—
Granted		—	—	—	—	—	—	305,000	755,000
Expired		—	—	—	—	—	—	—	—
Vested		—	—	—	—	488,000	—	—	—
Outstanding		—	—	—	—	—	504,000	305,000	755,000
After vested									
Beginning of the fiscal year		5,000	10,000	97,000	301,000	—	—	—	—
Vested		—	—	—	—	488,000	—	—	—
Exercised		—	5,000	42,000	164,000	199,000	—	—	—
Expired		—	—	—	—	—	—	—	—
Ending of the fiscal year		5,000	5,000	55,000	137,000	289,000	—	—	—

2. Price information

Company name		Hitachi Construction Machinery Co., Ltd.							TCM Corporation
Exercise price		¥ 569	¥ 445	¥ 416	¥ 1,222	¥ 1,337	¥ 1,571	¥ 2,753	¥ 393
Average stock prices during exercise period		—	¥ 2,621	¥ 2,962	¥ 2,804	¥ 2,956	—	—	—
Fair value at the grant date		—	—	—	—	—	—	¥ 877	¥ 148
Exercise price		US\$4.82	US\$3.77	US\$3.52	US\$10.35	US\$11.33	US\$13.31	US\$23.32	US\$3.33
Average stock prices during exercise period		—	US\$22.20	US\$25.09	US\$23.75	US\$25.04	—	—	—
Fair value at the grant date		—	—	—	—	—	—	US\$7.43	US\$1.25

The valuation method of fair value of stock option during this period.

- 1) The calculation formula : The Black Scholes
- 2) The basis and assessment for stock option

	Hitachi Construction Machinery Co., Ltd.	TCM Corporation
Stock price volatility	42%	43%
Estimated remaining period	6 Year	6 Year
Estimated dividend	¥18 (US\$0.15)	¥4 (US\$0.03)
Risk free rate in HCM	1.50%	1.34%

- Note : 1) The daily historical average price for 6 years
2) We estimated the period at the middle of exercise period.
3) The actual results of prior year
4) The estimated rate of Japanese Government Bond

The estimation method for number of options to vest.

Basically we only consider actual expired number, because we have no rational method for estimate for future lapse.

22. Related party transactions

As of March 31, 2007, Hitachi, Ltd. the parent company of Hitachi Construction Machinery Co., Ltd. holds 51.3% of the Company's total number of shares issued and 51.3% (including indirect shareholdings) of the total number of shares with voting rights. Hitachi, Ltd. oversees numerous affiliated companies, and engages in a wide variety of operations covering the manufacture, sale and service of products.

The Company and its Group companies are part of the power and industrial systems in business segment of Hitachi, Ltd.. The Company maintains close cooperative relationship with Hitachi, Ltd. and Hitachi Group companies.

The following are summaries of the major transactions with Hitachi, Ltd., and the Company have transactions with other subsidiaries and affiliated companies of Hitachi, Ltd.

Transactions with Hitachi, Ltd.	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash deposit transaction	27,935	10,842	10,842
Cash borrowing transaction	108,065	103,162	103,162

Balances with Hitachi, Ltd.	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Short term loan as of March 31	5,976	—	50,623
Short term lending as of March 31	—	4,158	—

23. Prior year tax payment

Income taxes - prior year of ¥2,363 million (US\$20,017 thousand) represents additional taxes paid as a result of filing an amended tax return.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors

Hitachi Construction Machinery Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hitachi Construction Machinery Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 7 to the consolidated financial statements, in the year ended March 31 2007, Hitachi Construction Machinery Co., Ltd. and consolidated subsidiaries adopted Accounting Standards Board of Japan statement "Accounting Standards for Presentation on Net Assets in the Balance Sheets."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 Shinjoh

June 25, 2007

Global Network

As of June 25, 2007

Major Consolidated Subsidiaries and Affiliates *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.
- Yungtay-Hitachi Construction Machinery Co., Ltd.*

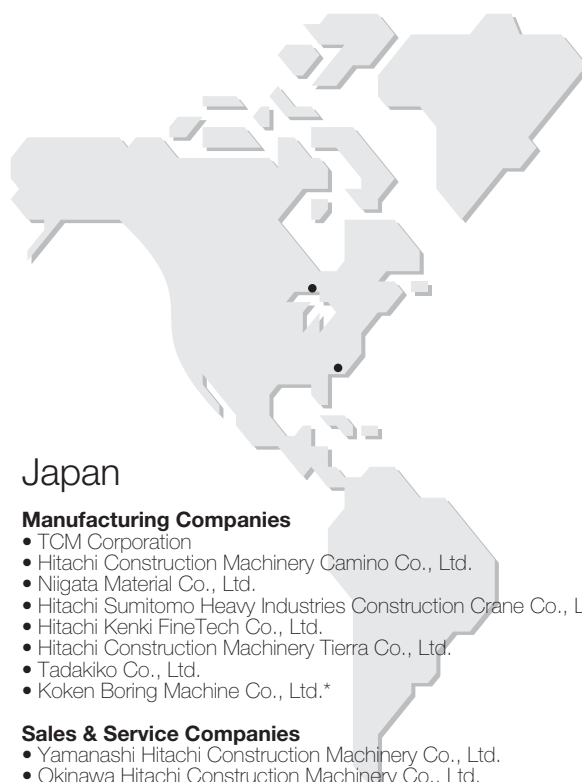
The Americas

Manufacturing & Sales Companies

- Hitachi Construction Truck Manufacturing Ltd.
- Deere-Hitachi Construction Machinery Corporation*

Other

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



Japan

Manufacturing Companies

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

Sales & Service Companies

- Yamanashi Hitachi Construction Machinery Co., Ltd.
- 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.
- Hitachi Construction Machinery Leasing 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

Liaison Offices

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

Investor Information

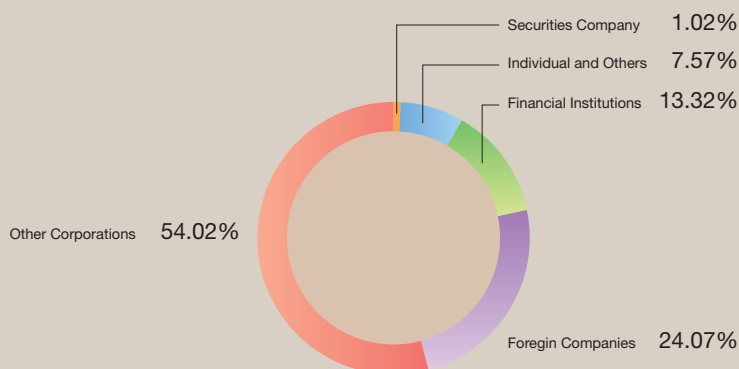
As of March 31, 2007

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 196,095,038
Paid-in Capital:	¥42,635,657,620
Stock Exchange Listings:	Tokyo, Osaka (#6305)
Independent Auditor:	Ernst & Young ShinNihon
Stock Transfer Agent:	Tokyo Securites Transfer Agent Co., Ltd.
Number of Shareholders:	21,422
Number of Employees:	14,272 (Consolidated) 3,311 (Non-consolidated)
Annual Meeting:	The annual meeting of shareholders is usually held before the end of June in Tokyo.

Major Shareholders

	Thousands of Shares	%
Hitachi, Ltd.	98,081	50.02
Japan Trustee Services Bank, Ltd.	7,910	4.03
The Master Trust Bank of Japan, Ltd.	5,654	2.88
Trust & Custody Services Bank, Ltd.	3,984	2.03
Goldman Sachs International	1,847	0.94
State Street Bank and Trust Company 505103	1,823	0.93
Bank of Ireland Non-Treaty	1,797	0.92
The Nomura Trust and Banking Co., Ltd.	1,656	0.84
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	1,539	0.78
Chase Bank (Ireland) plc. Dublin	1,478	0.75

Composition of HCM's Shareholders



Hitachi Construction Machinery Co., Ltd.

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

TEL : 81-3-3830-8065

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