Hitachi Construction Machinery Co., Ltd.

HITACHI

Annual Report 2008

Year ended March 31, 2008

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, Russia-CIS, Africa and the Middle East; Oceania and Asia; and China.

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

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

CONTENTS

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

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

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.)

HITACHI Brand Construction Machinery at Work on Job Sites Worldwide

The Hitachi Construction Machinery ("HCM") Group traces its roots back to the 1949 development by Hitachi, Ltd. of a mechanical excavator solely utilizing Japan-produced technology. After being spun off from Hitachi, Ltd., in 1970 HCM worked to apply its exceptional technical capabilities to advance state-of-the-art construction machinery, established a network of production and supply facilities in key locations around the world and augmented its global service capabilities to ensure that customer machinery could be maintained in optimal operating condition at all times. Today, the HCM Group's approximately 16,000 employees (consolidated basis, as of March 2008) are helping it become one of the world's foremost construction machinery manufacturers that supplies hydraulic excavators, wheel loaders, mini-excavators, dump trucks, cranes, forklifts and other machinery all over the world.

Medium-term Management Plan

"*SOH* 2010 – For the New Stage"

In April 2007, the HCM Group embarked upon "*SOH* 2010–For the New Stage," a medium-term management plan running through to the fiscal year ending March 31, 2011. The keywords for growth are "technology creation" and "demand creation," two challenges that have long been undertaken within HCM's operations. Based on this consistent approach, HCM is promoting various plans to build a solid market position as one of the world's leading comprehensive manufacturers of construction machinery in moving forward as a 21st century global company.

Basic Management Policies

Targets

- **HCM 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

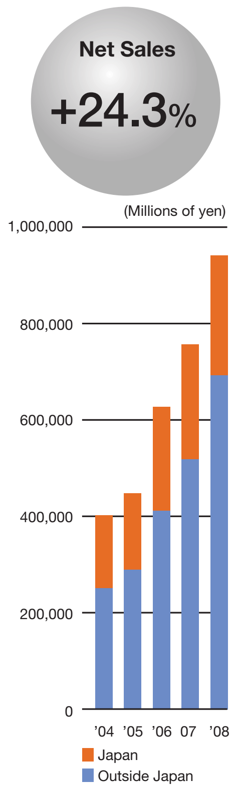
- Expanding presence in established markets
- Further strengthening position in emerging markets

Management Foundation

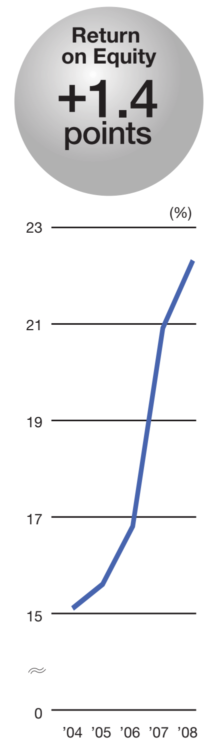
- Strengthening production worldwide
- Nurturing human resources throughout the Group
- Strengthening our financial structure

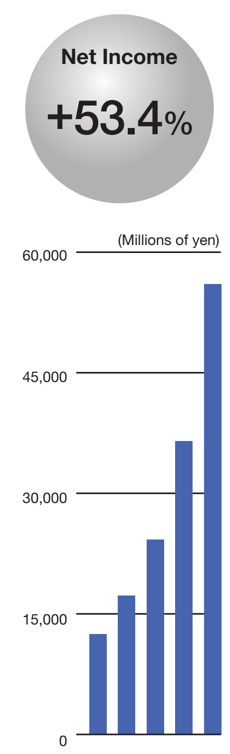
Financial Highlights

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2008 and 2007



	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
For the year:			
Net sales	**¥ 940,537**	¥ 756,453	**$ 9,387,534**
Net income	**55,985**	36,502	**558,788**
At year-end:			
Total assets	**¥ 833,096**	¥ 655,326	**$ 8,315,161**
Shareholders' equity	**310,747**	184,750	**3,101,577**
Per share data: (in yen and U.S. dollars)			
Net income	**¥ 271.00**	¥ 187.43	**$ 2.70**
Cash dividends (declared)	**42.00**	28.00	**0.42**
Return on net sales	**6.0%**	4.8%	**—**
Return on equity	**22.3%**	20.9%	**—**
Net sales by geographic area:			
Japan	**¥ 248,733**	¥ 238,549	**$ 2,482,613**
Outside Japan	**691,804**	517,904	**6,904,921**
The Americas	**88,518**	125,129	**883,501**
Europe, Russia-CIS, Africa and the Middle East	**291,942**	195,209	**2,913,884**
Oceania and Asia	**184,021**	126,280	**1,836,720**
China	**127,323**	71,286	**1,270,815**
Net sales by business segment:			
Construction machinery business	**¥ 854,846**	¥ 680,855	**$ 8,532,249**
Industrial vehicle business	**83,849**	73,420	**836,900**
Semiconductor production equipment business	**1,842**	2,178	**18,385**





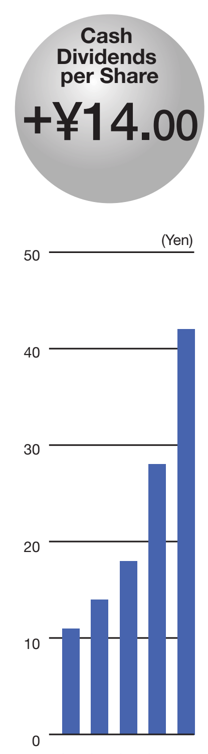
Notes

1: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥100.19=US$1.00, the approximate exchange rate on March 31, 2008. See Note 3 of the Notes to Consolidated Financial Statements.

2: Previously, 12 consolidated subsidiaries with different settlement dates than that of the parent company were accounted for based on the fiscal year consolidated financial statements for each of these companies because the difference between the settlement dates for these subsidiaries and the consolidated settlement date were within three months. However, with quarterly reporting becoming legally mandatory in Japan, beginning in the fiscal year ended March 31, 2008, HCM changed its method of consolidation on the financial statements by making provisional account settlements for the 12 subsidiaries on the settlement date of the parent company. This change was made for the purpose of unifying the settlement dates of the parent company and these consolidated subsidiaries and ensuring appropriate disclosure of consolidated financial information. The effect of this change in settlement periods on the consolidated statements of income is described in Note 7 of the Notes to Consolidated Financial Statements.

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

4: The classifications used to report net sales by business segment consist of categories used for internal management purposes. The principal products included in each classification are as follows:
Construction Machinery Business: Hydraulic excavators, mini-excavators, wheel loaders and crawler cranes
Industrial Vehicle Business: Forklifts, transfer cranes and container carriers
Semiconductor Production Equipment Business: Ultrasonic imaging inspection devices and atomic force microscopes



Interview with the President

Consolidated business performance for the fiscal year ended March 31, 2008 (period from April 1, 2007 to March 31, 2008) was favorable, with the Group posting its sixth consecutive year of higher sales and profits and its fifth consecutive year of record-high profits. HCM President, Chief Executive Officer and Director Michijiro Kikawa provides an overview of this fiscal year's financial results to shareholders and discusses how the Company's strategies and approach will proceed under the "*SOH* 2010–For the New Stage" medium-term management plan.

Michijiro Kikawa
President, Chief Executive Officer and Director

Seeking to Accelerate Growth and Make a Further Leap Forward

Please provide an overview of the fiscal year's financial results.

Despite challenges such as turmoil in the international economy arising from the subprime loan crisis in the United States and soaring prices for crude oil, steel and other raw materials, overall demand for construction machinery remained strong, particularly overseas. Against this backdrop, the HCM Group launched the "*SOH* 2010–For the New Stage" medium-term management plan, seeking to enhance the structure for increasing production capacity on a global scale and actively develop regional sales strategies for the entire Group based on the two underlying basic policies of "establishing an unshakeable position as a comprehensive manufacturer among the world's top three construction machinery manufacturers" and "realizing an industry-leading profit structure."

As a result of these measures, consolidated net sales for the period under review rose 24.3% over the previous year to ¥940,537 million (US$9,388 million), and consolidated net income rose 53.4% to ¥55,985 million (US$559 million), marking the sixth consecutive year of increased sales and profits and the fifth consecutive year of record-high profits.

Regarding the method of consolidation used during this fiscal year, I would like to point out that due to changes in the method of consolidation used to compile financial statements, 15 months of financial results have been included for 12 overseas consolidated subsidiaries. Restated in terms of the conventional accounting period for reference purposes, we achieved net sales of ¥903,623 million (US$9,019 million) and consolidated net income of ¥54,458 million (US$544 million).

Even without the effects of that change, we got off to a favorable start during the first year of the medium-term management plan by dramatically exceeding results versus the previous fiscal year. Given the pace at which we are growing at present, we expect to achieve the medium-term management plan targets of net sales of ¥1 trillion and ordinary income of ¥100 billion by the fiscal year ending March 31, 2009, two years ahead of schedule.

As the management plan objectives are expected to be achieved ahead of schedule, what will you focus on next?

The essence of the plan involves striking a good balance in strengthening our business foundation centered around the three areas of products, services and regions.

Regarding products, we have taken "strengthening our already strong line of products" as our primary theme. Our Group delivers products such as hydraulic excavators of overwhelming strength. We will accelerate growth by further enhancing our capabilities to develop, produce, sell and service these key products. Moreover, we will work to further increase the competitiveness of the products that will follow hydraulic excavators to add to our lineup of key products, including mini-excavators, wheel loaders, dump trucks, cranes and forklifts.

Regardless of how strong our financial results may be, we will not be complacent and instead will aim to achieve a further leap forward by continuing to review the goals of the medium-term management plan in order to earn the trust of customers worldwide as a major global player.

Even Stronger through Strong Products in Markets where HCM Has a Strong Presence: Seeking to Achieve Overwhelming Strength

What measures are you pursuing to make HCM's already strong products even stronger?

In order to establish global production capacity sufficient to accommodate robust demand, we are working to enhance our structure for increasing production in countries such as China, India and Indonesia. We are also building domestic plants for producing large and ultra-large machinery, products that boast overwhelming strength.

The Hitachinaka Works (located in Hitachinaka City, Ibaraki Prefecture) began operation in September 2007 as a base centered on manufacturing key components such as hydraulic equipment for large and ultra-large machinery. The plant is undergoing a second phase of construction, which is scheduled for completion in December 2008. Combining this new plant with the Hydraulic Plant (inside the Tsuchiura Works) and the Kasumigaura Works, we plan to build a structure capable of supplying key components for 61,000 hydraulic excavators annually by the fiscal year ending March 31, 2011.

We also established the Hitachinaka-Rinko Works at a port site near the Hitachinaka Works. In constructing the new facility as a production plant for ultra-large hydraulic excavators, ultra-large dump trucks and large hydraulic excavators, we relocated and expanded production lines previously operated by the Tsuchiura Works and other facilities. Construction of new factories for ultra-large hydraulic excavators and ultra-large dump trucks is also underway within the plant premises.

Supply and demand for resources worldwide is growing increasingly tight, and the number of mines under development is expanding rapidly. To meet this significant demand, we are moving both to reinforce production capacity for large and ultra-large machinery and to enhance our mining business by closely cooperating within the Group, an approach that is reflected in our establishment of the Mining Business Division dedicated to supporting mining customers.

Isn't HCM also working closely with the Hitachi Group on several technical development projects?

Currently we are focusing on developing electric drive construction machinery. Our plan is to develop the ultimate "eco construction machinery" in which the diesel engines for hydraulic excavators and wheel loaders are instead powered by electricity. We are already applying this electric drive technology to the development of ultra-large machinery powered by electrical generators at mines and other external sources, as well as hybrid models such as hydraulic excavators, wheel loaders and transfer cranes equipped with both diesel engines and electric motors.

The strength that enables us to move into electric drive designs is derived from belonging to the Hitachi Group. Our ability to expand the potential of construction machinery by harnessing Hitachi's electronics technologies gives us a significant advantage unrivaled by other construction machinery manufacturers.

How have you developed your business in emerging nations, where you enjoy strong sales?

In a word, we made our move ahead of the trend. Although these countries have come to be known as "emerging nations" in the last few years as a result of rapid market growth, the HCM Group has been pursuing its business in such countries as Russia, China and India for the last 10 to 20 years. With significant demand finally taking shape in these regions as anticipated, our early entry and initiative is finally translating into our current growth. Since total worldwide demand for construction machinery is expected to grow until around 2020, with growth chiefly occurring in emerging nations, we plan to further increase our market share by working to strengthen sales and service networks in emerging nations, even as we continue to bolster operations in developed countries.

Going the Distance in Capital Investment and Hedging against Risks

What can you tell us about current and planned capital investment?

HCM Group capital investment (construction base) totaled approximately ¥153,764 million (US$1,535 million) over the last three years, including this fiscal year. The issue of 19 million new shares through a public offering and private placement with Hitachi, Ltd. in August 2007 resulted in the procurement of ¥77,800 million (US$777 million) in new capital, which was allocated to this fiscal year's capital investment of ¥78,187 million (US$780 million).

Going forward, we plan to meet increasing demand worldwide both by investing globally in HCM Group production facilities and by enhancing our material and parts procurement capabilities through actively supporting domestic and overseas suppliers. We expect capital investment during the fiscal year ending March 31, 2009 to total ¥68,181 million (US$681 million).

What are you doing to reduce costs amid an expansion in the scale of business operations

Our business is subject to a variety of cost-increasing factors, including the rising cost of materials, the need to comply with environmental regulations and fluctuating exchange rates. We address these issues individually through various risk-hedging programs.

We are responding to increases in materials prices that we cannot absorb by cutting costs or via other company efforts by raising product prices. In April 2008, we implemented an average price increase of 5% to 10% for all our products in Japan. We deal with rising fixed costs by expanding quantities (production volume), and we address fluctuations in exchange rates by creating risk-hedging mechanisms that minimize potential damage.

Working to Further Improve Customer Satisfaction and to Promote Human Resources Development Globally in Making the Next Leap Forward

What strategies is the Group pursuing in the area of service to support customers?

In an effort to better satisfy customers, the entire Group is working to differentiate ourselves through our ability to provide total solutions and optimal services to a range of customers by combining distinctive services offered by HCM Group companies, including system sales, maintenance service, rentals, used machinery and parts recycling, financing and distribution.

As a means of promoting such services globally, efforts include increasing the area of coverage for our Global e-Service, which provides remote, real-time diagnostics for HITACHI brand construction machinery operating worldwide, and strengthening the global parts recycling network that enables us to meet demand for used parts recycling worldwide.

On the domestic front, we merged eight REC Group consolidated subsidiaries offering regional rental services and established Hitachi Construction Machinery REC Co., Ltd. in April 2008. By building a single corporate network with nationwide coverage, we will both streamline operations and enhance the RSS system of rental (R), service (S), and sales (S) from the customer's perspective to secure stable profits.

What are some of the training activities you're pursuing to promote the development of personnel playing an active role internationally?

Looking at the big picture worldwide, it is undeniable that as the Group has rapidly expanded its overseas operations over the course of the last few years, our body has grown even as our head remains unchanged.

In order to raise the skill level of the approximately 16,000 employees who work at manufacturing and sales facilities around the world, we must build a system for training local management staff who are well versed in the language, culture and other aspects of respective countries. At the same time, we must communicate manufacturing methods and techniques developed in Japan to global facilities in order to improve employees' technical skills and capabilities.

We opened the Kasumigaura Institute (Ami-machi, Ibaraki Prefecture) in April 2007 to serve as a base for this kind of systematic training. Here, Japanese employees can build on their specialized knowledge and technical skills while receiving foreign language training and learning how to adapt to overseas life. The institute also actively accepts trainees from overseas Group companies and dealers.

Deepening Communication with Employees and Cultivating Group Solidarity

What is your stance on promoting CSR activities?

I believe that proper management of the company is the very essence of corporate social responsibility (CSR). This belief holds that instead of asking what should be done in the interest of stakeholders, you can fulfill the desires of all stakeholders simply by doing what should be done in the course of continuing to operate the business.

As an example of such efforts involving employees, we checked the HCM Group's corporate philosophy and principles against the actions of individual employees, summarized what we found by expressing it as a series of first-person declarations in a concept that we call the "Kenkijin Spirit" and published this in the form of a handbook in nine languages. Employees can use this resource to renew their understanding of the importance of the "3Cs" of Challenge, Customer, and Communication. It is my hope that we can fulfill our corporate social responsibility by having HCM Group employees around the world give expression to this spirit, which coincides with Hitachi's founding philosophy of "Harmony," "Sincerity," and "Pioneering spirit."

Wouldn't you say then that an approach geared to strengthening communication with employees is the key?

Strengthening communication with employees is essential if the Company is to realize healthy and sustainable growth.

Last year, I joined executive vice presidents Nakaura and Arita in visiting a number of domestic and overseas Group facilities to explain the medium-term management plan. I feel that this experience was extremely positive in that it deepened respective management team's understanding and engendered a sense of solidarity.

I'm planning to join the same individuals again this year to convey what it means to have the "Kenkijin Spirit." I guess you could say that my style is to communicate important matters directly.

In conclusion, do you have a message for shareholders?

The HCM Group is implementing the medium-term management plan based on the assumption of meeting its numerical targets early on, and we intend to pursue further growth in order to solidify our position as one of the world's top three comprehensive construction machinery manufacturers.

Regarding the distribution of profits to shareholders, the HCM Group remains committed to the payment of dividends linked to consolidated performance and based on the principle of stable dividends. In keeping with this policy, we increased the annual dividends per share by ¥14.00 (US$0.14) to ¥42.00 (US$0.42) for the fiscal year ended March 2008.

I look forward to your understanding of the Group's activities, and your continued support in the future.

Hitachinaka-Rinko Works

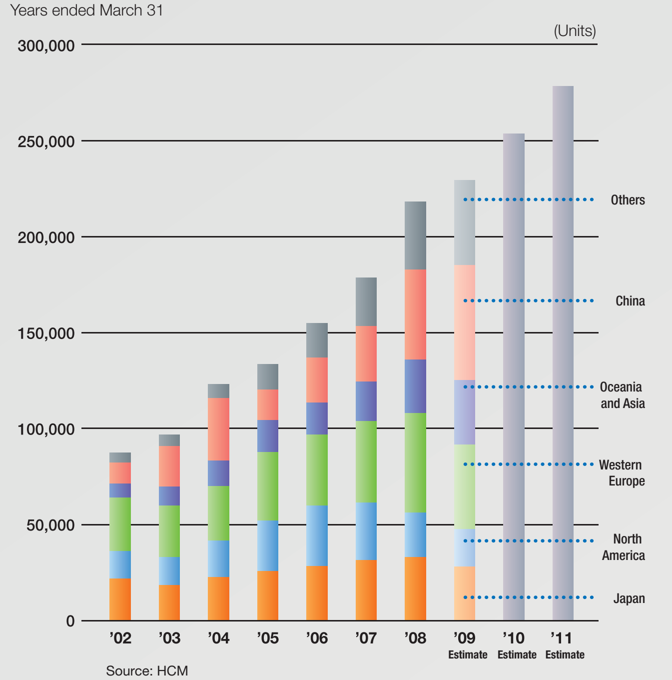
Feature – 1

Enhancing Production Capacity to Meet Worldwide Demand

Worldwide demand for hydraulic excavators has grown 2.5 times in the last six years and is expected to continue increasing, primarily in developing nations and regions such as China, other Asian countries, Australia, Russia-CIS and the Middle East. Similarly, demand for ultra-large machinery for mining, crawler cranes for construction of plants and other structures and industrial vehicles such as forklifts is also forecast to remain strong. This feature introduces the HCM Group's efforts to enhance production capacity to meet this worldwide demand.

Worldwide Demand for Hydraulic Excavators

Years ended March 31



Source: HCM

A Global Production Structure Based on a Clear Strategy

The HCM Group has a global production structure centered on Japan with plants in China, India, Indonesia, the United States, Canada, the Netherlands and France.

Our basic manufacturing concept is “Made by HITACHI.” All products comply with the same high standards of quality and reliability, ensuring that customers can use HITACHI construction machinery with complete confidence regardless of the manufacturing location. We are also striving to shorten delivery times and lower costs by actively promoting efficiency across the board.

In keeping with efforts to build a system encompassing production and procurement in strategic locations around the world, we have clarified the division of responsibilities among our plants. ”Mother plants” assigned for each product play a core role in manufacturing respective products, while the Tsuchiura Works in Japan serves as our so-called “world mother plant” with responsibilities ranging from research and development to design, production and inspection for a broad range of products.

Start of Operations at Two New Domestic Plants

Based on this global production structure, the HCM Group is constructing two new plants together with increasing production by expanding and strengthening capabilities at the Tsuchiura Works and other domestic production facilities to meet higher demand worldwide.

The Hitachinaka Works, which began operation in September 2007, specializes chiefly in the manufacture of key components for large and ultra-large machinery, including the manufacture of hydraulic components that require an advanced level of technology and skills. The new plant is responsible for providing a stable supply of key components for ultra-large hydraulic excavators and ultra-large dump trucks used in applications such as mining as well as for wheel loaders, crawler cranes and other large machinery. Faced with the need to meet additional growth in demand, the Group is proceeding with Phase II of this project with completion slated for December 2008. This project is part of a plan to streamline the Group’s component production structure, for example, by progressively centralizing reduction gear operations at the Kasumigaura Works. Combined with the Hydraulic Plant (inside the Tsuchiura Works) and the Kasumigaura Works, we are building a structure capable of supplying key components for 61,000 hydraulic excavators annually by the fiscal year ending March 31, 2011.

The Group built the Hitachinaka-Rinko Works at a port site near the Hitachinaka Works. The new facility employs Japan’s innovative state-of-the-art technology and skills in the production of ultra-large machinery and other products with the powerful excavating force and high durability required for

Operation simulator at the Tsuchiura Works

Component analysis via 3D image processing conducted at the Tsuchiura Works

Automated flexible manufacturing system (FMS) line at the Hitachinaka Works use in harsh work environments. Its operations benefit from the plant's easy access to the harbor for shipment. A factory for large hydraulic excavators has begun operation, and construction of factories for ultra-large hydraulic excavators and ultra-large dump trucks is proceeding smoothly. Production lines previously operated by the Tsuchiura Works have been relocated and expanded in setting up the new facility, entailing a reorganization of the Tsuchiura Works' primary assembly lines to increase hydraulic excavator production capacity from 18,000 to 23,000 units annually.

Enhancing Production Capacity Worldwide

The HCM Group is also making steady progress in building systems for increasing production overseas. In China, the market experiencing the most striking increase in demand for hydraulic excavators, we are stepping up work to expand the Hefei Plant as well as expanding a steel plate plant and building a new distribution center at a newly acquired 280,000-m^2 site inside the same special economic zone. In putting this structure into place, we plan to quadruple our production capacity for hydraulic excavators in China from 5,000 units in 2006 to 14,500 units in 2008 and 20,000 units in 2010.

In Indonesia, a new plant for manufacturing large structural members for ultra-large hydraulic excavators began operation inside the Cibitung Plant in September 2007. Apart from supporting production of ultra-large hydraulic excavators at the Hitachinaka-Rinko Works, the new facility will help meet growing demand for mining machinery in Indonesia.

India's Telco Construction Equipment Co., Ltd. (Telcon), in which HCM holds a 40% share, is building its third plant. Demand for construction machinery has been growing rapidly in India in recent years on the back of brisk development of social infrastructure such as roads, airports and harbors, as well as strong demand for resources. We plan to meet higher demand through a variety of measures, including by providing a series of new models to Telcon, which captures an approximately 50% share of India's hydraulic excavator market.

The Group expects measures for increasing domestic and overseas production capacity to raise its overall annual production capacity for hydraulic excavators to 61,000 units by the fiscal year ending March 31, 2011, the final year of the medium-term management plan.

Pursuing New Synergies with TCM

Even as we work to increase production capacity for hydraulic excavators, a mainstay product, we are deepening our partnership with TCM Corporation (TCM), a consolidated subsidiary that manufactures and sells wheel loaders and various industrial vehicles, in an effort to realize a new level of synergy between our two companies.

In our wheel loader business, in an effort to unify global management we have made Hitachi Construction Machinery

Large hydraulic excavator assembly line at the Hitachinaka-Rinko Works

EX8000, one of the world's largest class ultra-large hydraulic excavators, and ultra-large dump truck at an iron mine

France S.A.S., a subsidiary that manufactures and sells wheel loaders in Europe, a subsidiary of TCM. We have also consolidated the company's drive unit operations into HCM as part of efforts to increase our ability to develop and manufacture key wheel loader-related components. In addition to offering production and procurement support to stabilize production volumes of global models that comply with Tier III emissions regulations, HCM will work together with TCM to develop models that comply with Tier IV emissions regulations. Through these measures we are seeking to achieve consolidated net sales of ¥100 billion and a global market share of at least 10% for our wheel loader business.

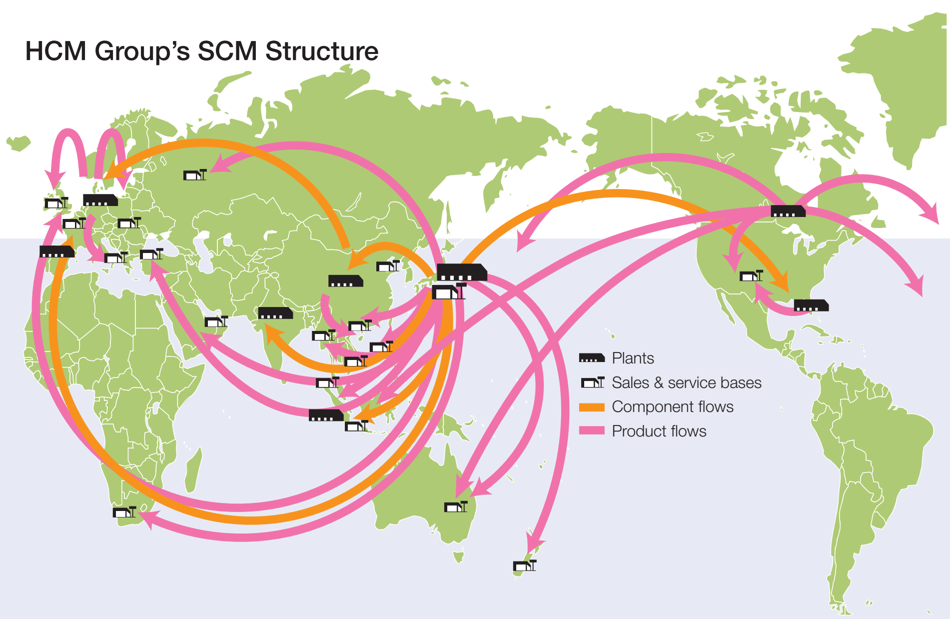
In our forklift business, TCM established TCM (Anhui) Machinery Co., Ltd. as a manufacturing and sales subsidiary in China to accommodate rapidly expanding demand in developing nations. The new company began manufacturing in July 2008 at a newly built plant located adjacent to Hitachi Construction Machinery (China) Co., Ltd. Along with producing the latest models ranging from 1.5-ton class (loading capacity) to 10-ton class (loading capacity) machinery, models designed exclusively for the Chinese market and cast parts will be produced. We have set production targets in China of 7,000 units for 2010, objectives that we intend to reach by leveraging the mutual strengths of our management resources.

Pursuing Ongoing Improvements through Computerization

In tandem with developing a global structure for increasing production, the HCM Group is also working to build a sophisticated supply chain management (SCM) system to achieve additional inventory reductions, ensure a stable supply of products for customers and realize an industry-leading profit structure. We are using a global database capable of visualizing worldwide inventory conditions in real time to quickly detect fluctuations in demand and apply them to production plans, shorten lead times from when orders are received to product delivery and establish a more efficient distribution system. Thanks to policies such as these, inventory has fallen below 80 days.

While worldwide demand for construction machinery is expected to remain strong overall, there is also cause for concern regarding surging prices for steel and other raw materials as well as the impact of the Sichuan earthquake in 2008 on the Chinese economy. The HCM Group plans to remain vigilant in monitoring these trends by centralizing and sharing global information while continuing to pursue improvements in manufacturing in keeping with the basic concept of "Made by HITACHI."

HCM Group's SCM Structure



ZW310 wheel loader at work in France

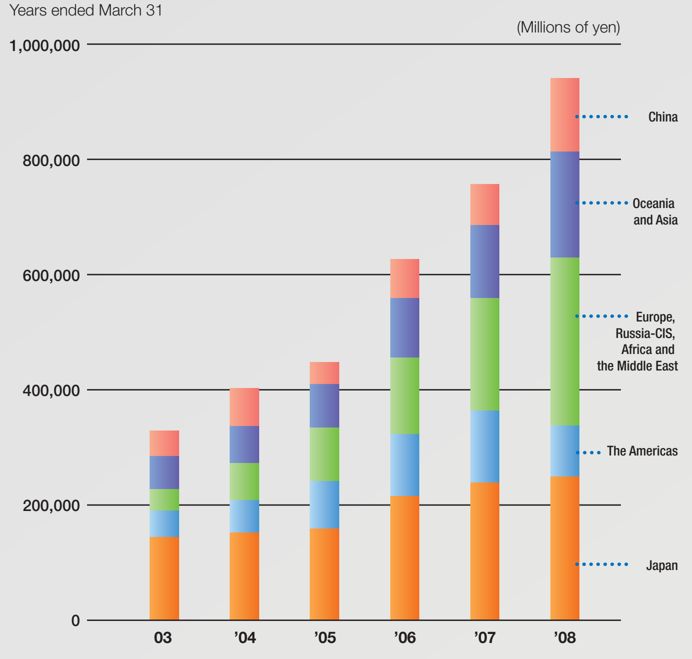
Head office of Hitachi Construction Machinery (Malaysia) Sdn. Bhd.

Feature –2

Deepening Globalization to Respond to Customer Needs Worldwide

The HCM Group is developing its businesses globally through a five-region system consisting of Japan, the Americas, Europe, Russia-CIS, Africa and the Middle East, Oceania and Asia, and China. We have expanded sales worldwide by skillfully leveraging this portfolio and pursuing a management strategy that seeks to strike a balance among the five regions rather than relying on demand from a single area. This feature introduces some of the activities that support the HCM Group's global businesses.

Consolidated Net Sales of HCM Group by Regional Segment
Years ended March 31



Different Regions, Different Construction Machinery Needs

Construction machinery customers represent a broad range of industries and diverge greatly in the products and services they require. In addition to working to strengthen their sales and service structures, for example, by deepening their relationships with dealers, the HCM Group's sales and service companies provide detailed customer feedback to the development and production departments. This information is employed in designing and manufacturing products that meet a variety of customer needs.

In China, sales volumes of hydraulic excavators for infrastructure construction and resource extraction applications such as mining are growing. Hitachi Construction Machinery (Shanghai) Co., Ltd. is helping approximately 30 dealers enhance their sales capabilities in an effort to secure new customer segments by introducing Hi-STEP, a sales management system for identifying customers that are likely to make new purchases based on past transaction data.

In Russia-CIS, the combination of a large territory and harsh natural environment make securing distribution facilities a critical part of the Group's operations. Hitachi Construction Machinery (Europe) N.V., which handles sales and service in the region, is establishing a strong distribution network, including for the supply of components, by working with a preeminent dealer to build a network of dealers with 3,000 employees and 97% market coverage.

Lifelong Protection of Construction Machinery with Global e-Service

In addition to these efforts to strengthen sales and service structures, the HCM Group offers Global e-Service. This systemized service provides protection for HITACHI construction machinery operating worldwide by means of a communications network, enabling the Group to offer management and support services throughout the product lifecycle from manufacture and sale to disposal.

This Internet-searchable system gathers integrated data ranging from basic information such as product location and date of manufacture and sale to daily operating information. This data is extremely useful to Group departments, dealers and customers alike and serves as a valuable resource. For example, it simplifies customer operations and machine management, increasing work efficiency and reducing downtime. It also provides information that can be used to improve product value to HCM's design and quality assurance teams by enabling them to discover problems in machines being used far from Japan. At the same time, it enables service and technical support departments to obtain information that can be used to diagnose machine breakdowns by allowing them to check operating location, operating conditions and technical documentation before performing repairs.

As an industry-first initiative, Global e-Service was launched in 2000 as an optional service for machinery being operated in

Long-boom ZX850 hydraulic excavator at port in Dubai

Specification ZX360LC hydraulic excavators

Assembly of EX2500 ultra-large hydraulic excavator in China

Japan. In 2006, the Group made the service standard equipment with the launch of ZAXIS-3 Series hydraulic excavator and ZW Series wheel loader global models. As of March 2008, more than 16,000 users are utilizing the service in Japan.

The service's area of geographic coverage continues to increase each year. Service was launched in China in 2006 and in Oceania, Malaysia and Russia in 2007. As of March 2008, Global e-Service was used in 39 countries, and there are some 20,000 machines operating with communications equipment installed. The Group plans to make the system standard equipment on all products, including mini-excavators, and expects the number of machines equipped with Global e-Service to reach 110,000 by 2010.

Training System for Cultivating Global Personnel

As the Group continues to grow in size and employees with each passing year, HCM is working in close partnership with domestic and overseas Group companies to develop a training system aimed at the development of personnel with the skills and expertise needed worldwide.

The Kasumigaura Institute, which opened in April 2007, is central to these efforts. In addition to a comprehensive training program designed to provide foreign language training and instill an ability to adapt to life and work overseas, the institute operates a full selection of facilities and programs for expanding specialized knowledge and technical skills. The institute also actively accepts trainees from overseas Group companies and dealers as part of its role in disseminating manufacturing methods and techniques developed in Japan to the world.

Addressing Environmental Problems from a Global Perspective

As entities involved with businesses that are global in scope, all HCM Group companies actively practice environmental management by setting individual targets and undertaking environmental conservation activities in keeping with their responsibility.

The Group is actively pursuing measures to reduce CO_2 emissions during the manufacturing stage even as production volumes continue to grow worldwide. Measures include using electricity instead of heavy oil at domestic and overseas production plants.

Initiatives based on the "emission neutral" concept for contributing to environmental conservation through products provided to customers include developing electric drive and hybrid drive construction machinery and bringing environment-related products, such as the Hitachi On-site Screening & Solution (Hi-OSS) system for on-site processing and recycling of waste generated at construction and civil engineering worksites, to markets worldwide.

Screen image of Global e-Service

New Telcon employees undergoing training at the Kasumigaura Institute

Hi-OSS demonstration site opened in July 2007

International Contributions through the Development of Demining Equipment

The HCM Group has worked to remove landmines in strife-torn areas around the world by developing, manufacturing, deploying and operating demining equipment based on its hydraulic excavators. As of March 2008, there were 56 demining units operating in five countries including Cambodia, Vietnam and Afghanistan.

The Group has provided comprehensive support for the non-profit organization *Yutaka Na Daichi* - Good Earth Japan (GEJ) in connection with demining activities as part of its efforts to contribute to the global community. GEJ was established in March 2007 to support self-reliance of local residents through rehabilitation of demined land. Operations began in April 2007, whereby a wide range of support from agricultural training to agricultural and living infrastructure development was provided to residents in Surappan village, Battambang Province, Cambodia. In May 2008, GEJ helped build a new elementary school building in the same village to replace the old building made only of pillars covered with a tin roof, thus making it impossible to hold classes during the rainy season.

HCM supports GEJ by making donations through corporate sponsorship as well as actively soliciting donations from employees.

Demonstration of demining equipment delivered to Angola

China and HCM

Hefei Plant

Reflecting the steady track record of performance that HCM has established in China since entering the market in earnest with the construction of a production plant there in 1995, the Company captured a leading share in the market for 6-ton class and larger hydraulic excavators as of March 2008. The Group's basic stance is to pursue growth in parallel with that of China by developing a business that is rooted in Chinese society.

In keeping with this philosophy, the Group responded to the Sichuan earthquake in 2008 the following day by announcing its commitment to donate products and other support valued at ¥100 million and immediately dispatched construction machinery, including hydraulic excavators for use in disaster recovery operations, from the Hefei Plant operated by Hitachi Construction Machinery (China) Co., Ltd. based in Anhui Province.

The Hefei Plant maintains a level of technical skill that is impressive even by Group standards, an accomplishment that is reflected in award-winning efforts by two representatives of the plant at the HCM Group International Skills Competition held at the plant in October 2007. The Group is implementing a range of manufacturing-related programs in preparation for the future expansion of production, including establishing a technical training center at the plant and recruiting students in partnership with local technical schools as a way of encouraging more individuals to enter this segment of the workforce.

As demand for construction machinery in China is expected to expand over the next decade, HCM will continue to build sustainable relationships and pursue additional growth.

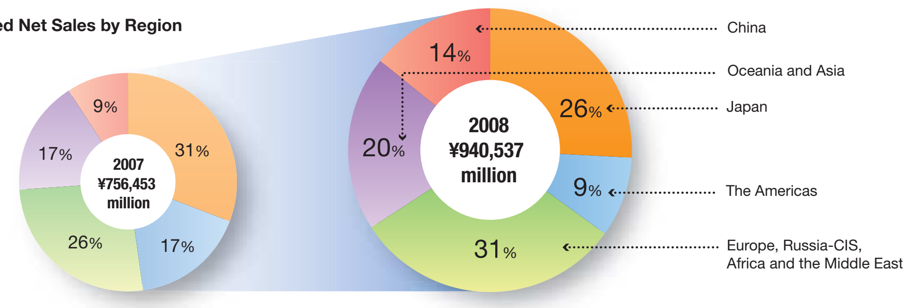
Hydraulic excavators shipped for Sichuan Province

China's Demand for Hydraulic Excavators (Units)

Year ended March 31, 2008

Review of Operations

Overview by Regional Segment



Japan

Revisions to the Building Standard Law stemming from inadequate earthquake resistance led to a significant reduction in the number of new housing starts, impacting net sales at directly managed rental companies. However, demand for new equipment increased due to ongoing stock adjustments and expanded sales of equipment for non-civil engineering applications such as in demolition and metal scrap processing, pushing consolidated net sales up 4% over the previous year to ¥248,733 million (US$2,483 million).

The Americas

Falling housing investment dampened demand for medium and small hydraulic excavators, resulting in a 29% decrease in consolidated net sales over the previous year to ¥88,518 million (US$884 million). Inventory at both the production plant (Deere-Hitachi Construction Machinery Corporation) and dealers are generally at appropriate levels owing to adjustments to production implemented from April to October 2007.

Europe, Russia-CIS, Africa and the Middle East

Demand for machinery including hydraulic excavators, mini-excavators and wheel loaders grew, especially in the United Kingdom, Germany and France, increasing consolidated net sales in Europe 45% over the previous fiscal year to ¥167,242 million (US$1,669 million).

In Russia-CIS, demand for hydraulic excavators and other

TOPICS

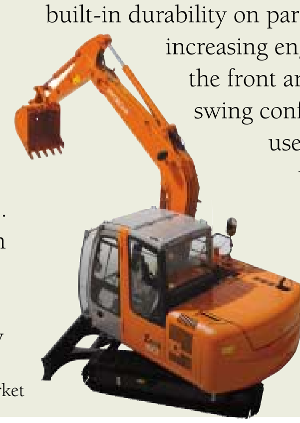
Mini-excavator Model Launched Exclusively for the Chinese Market

Mini-excavators, a class of hydraulic excavators defined by an operating mass of less than six tons, excel in mobility and maneuverability and are primarily used in urban settings and other construction or demolition sites where space is limited. They are also often utilized in agriculture, livestock farming and landscaping, where they improve work efficiency and save labor.

However, due to brisk demand and surging prices in the used equipment market, it is increasingly common in China to see mini-excavators used in applications in which small-to medium-sized hydraulic excavators would be used elsewhere. These applications place the machinery in an extremely harsh operating environment.

HCM's Chinese subsidiary became aware of these uses after conducting research in cooperation with dealers on now customers were using their machinery, and worked with the Tsuchiura Works and the Shiga Plant of Hitachi Construction Machinery Tiera Co., Ltd. to develop a mini-excavator exclusively for the Chinese market. Designers of the ZX60, which went on sale in June 2007, strove to reflect the needs of Chinese operators wherever possible such as by providing built-in durability on par with medium-sized excavators, increasing engine horsepower and speeding up the front arm. The model avoids the zero-tail-swing configuration that is not commonly used in China and also makes extensive use of design features that differ from domestic Japanese models.

The HCM Group is working to share information globally and put it to use in developing the products customers want and improving the quality of service.



ZX60 mini-excavator model developed exclusively for the Chinese market construction and mining machinery grew on the back of brisk demand in resource development and infrastructure investment, leading to an increase in net sales.

In Africa, mine development remained robust, and mining machinery delivered to meet a large-scale order placed by a Zambian copper mine continued to come online smoothly. Additionally, HCM expects to see sales growth in new markets such as Angola due to increasingly active infrastructure development funded by income from natural resources.

In the Middle East, demand for hydraulic excavators, cranes and other equipment continued to grow as a result of expanding infrastructure development and plant construction fueled by petrodollars.

As a result of the above factors, consolidated net sales in Russia-CIS, Africa and the Middle East rose 56% over the previous year to ¥124,700 million (US$1,245 million).

Oceania and Asia

In Oceania and Asia, demand associated with forestry and palm oil production in Malaysia and Indonesia remained strong, as did demand from resource development in Australia and Indonesia. Brisk development of infrastructure including roads, airports and ports in India led to rapid growth in demand for construction machinery, increasing sales.

Consolidated net sales increased 46% over the previous fiscal year to ¥184,021 million (US$1,837 million).

China

Countrywide growth in demand for construction machinery for use in social infrastructure development, combined with robust demand for resource development, enabled HCM to increase net sales of hydraulic excavators. A mini-excavator model designed exclusively for the Chinese market was well received by customers, driving a significant expansion in market share. In addition, the Group was able to expand sales in new fields, a positive development that is reflected in new orders for electric-powered hydraulic excavators for mining operations.

The Group also established Hitachi Construction Machinery Leasing (China) Co., Ltd. as a finance leasing company in an effort to raise our market competitiveness by providing a selection of financial services that better meet customers' needs.

Consolidated net sales increased 79% over the previous year to ¥127,323 million (US$1,271 million).

Overview by Business Segment

Construction Machinery Business

Consolidated net sales in the construction machinery business rose 26% over the previous fiscal year to ¥854,846 million (US$8,532 million). The HCM Group is expanding its global business by working to develop its business across numerous construction machinery sectors and to strengthen product offerings that meet diverse customer needs.

TOPICS

Model Change Underway for Ultra-large Hydraulic Excavator Series

HCM is progressively implementing a model change for ultra-large hydraulic excavators used at large-scale mining operations and other sites worldwide.

As a first step, the Group simultaneously launched the EX1900-6, EX2500-6, and EX3600-6 (all engine-powered) as well as the EX5500E-6 (electric drive) in January 2008, followed by the EX5500-6 (engine-powered) in July 2008.

The redesigned models were launched as the new EX-6 Series featuring improvements such as new Cummins engines that comply with the U.S. Environmental Protection Agency's Tier II emissions regulations (targeting engines of 560 kW and greater).

The electric drive EX5500E-6 was developed in response to increasing demand for ultra-large electric

EX5500E-6

Construction-related Products Business

HCM worked to expand sales of new hydraulic excavators and wheel loaders featuring dramatically improved performance and functionality, as well as engines that comply with Tier III emissions regulations by promoting the new models' outstanding performance as high value-added products with low fuel consumption. This led to an increase in sales in both domestic and overseas markets.

We strove to further expand our market share in Japan, Western Europe, North America and China by deploying product strategies designed to reflect regional characteristics such as by launching an exceptionally durable mini-excavator model in the Chinese market.

excavators for use at coal mines and other sites using power supplied from neighboring coal-fired power plants. The model features an electric motor instead of a diesel engine and draws power from an external source. Electric drive models are capable of stable, consistent operation in areas where an engine would have difficulty providing sufficient performance, for example, in high-altitude locations where engine power is reduced, regions where light diesel quality is poor and extremely cold areas. Thanks to good operability and low running costs, HCM expects to see growing demand for the new model from mines where existing electric rope shovel power supplies can be used and new mines where low-cost power is available.

HCM plans to continue to enhance its series of ultra-large hydraulic excavators by developing electric drive EX2500E-6 and EX3600E-6 models.

EX2500-6

Resource Development-related Products Business

With active mine development underway in all regions to satisfy the worldwide surge in demand for natural resources, HCM worked to expand sales of ultra-large hydraulic excavators and ultra-large dump trucks in the Americas, Australia and Indonesia, as well as in emerging markets such as South Africa, Russia-CIS, China and India. Our electric-powered ultra-large hydraulic excavators have been particularly well received for their superior operability, low running costs and dramatic fuel efficiency, leading to an increase in inquiries and orders.

Environment-related Products Business

Under the Hi-OSS* brand featuring the slogan "Hi-OSS Everywhere," HCM has been working to develop new market needs by proposing combinations of solutions, including recycling, soil improvement and on-site recycling of road materials, to customers. A Hi-OSS demonstration site opened in July 2007 to enable customers to experience the actual machinery in action has been well received.

We also launched track mounted wood grinders featuring a lateral type hopper for easy insertion of materials with long dimensions and a Tier III-compliant clean engine as a principal Hi-OSS machine.

* Hitachi On-site Screening & Solution (Hi-OSS) is a system featuring varying combinations of self-propelled machinery selected in response to site conditions to efficiently sort, process and recycle industrial waste on site so that it does not need to be transported out of the work area, thereby enabling customers to dramatically reduce CO_2 emissions.

Product Development Business

Using hydraulic excavators as a base, HCM worked to develop products that perfectly meet customer needs, including a scrap-specification machine for efficiently processing metal scrap as well as other demolition and crushing machines geared toward a wide range of structures from high-rise office buildings to wooden residences. We also developed and launched products, including one of Japan's largest multi-boom demolition-specification machines for increasingly large-scale demolition work, and a small-sized demolition-specification machine equipped with a multi-adapter that is ideal for performing demolition work in confined locations.

Rental Business
At the "REC" Group, a rental company under direct management, HCM worked to expand its business by enhancing existing bases, opening new facilities in high-demand areas, increasing Hi-OSS sales and expanding the range of products offered. In addition, Hitachi Construction Machinery REC Co., Ltd., was founded in April 2008 by combining eight REC companies. HCM is seeking to enhance the rental business through this new business structure.

Used Machinery Business
As demand for construction machinery continued to grow worldwide, demand for used machinery grew in China and Southeast Asia, where the development of social infrastructure proceeded at a brisk pace, and in the Middle East, where the flow of petrodollars continued to fuel urban development. In addition to holding parade auctions and Internet auctions, Hitachi Construction Machinery Trading Co., Ltd. moved to fulfill domestic and international customers' used machinery needs, for example, by launching a certified used machinery system for supplying high-quality hydraulic excavators that have been inspected and maintained under the company's strict standards as "Hitachi Approved Machines."

Service Business
To enhance its service capabilities, HCM sought to utilize the Global e-Service system as a standard feature installed on individual machinery. We are also striving to expand geographical areas of service and accelerate worldwide deployment of the system by using mobile phone terminals in addition to satellite communications. During the fiscal period under review, we moved to differentiate our maintenance offerings by launching a service in Russia-CIS ahead of competitors.

In the parts recycling business, HCM is redoubling efforts to enhance its global parts supply system so that it is capable of accommodating increases in the number of machines in service worldwide. We are also actively working to enlarge our selection of high-quality remanufactured products that help lower operating expenses.

Other Software Businesses
Among companies supporting Group businesses, Hitachi Kenki Business Frontier Co., Ltd. handles the development, sale and maintenance of computer software; HCL Co., Ltd. handles finance services such as installment sales; Hitachi Kenki Logistics Technology Co., Ltd. handles logistics; and Hitachi Construction Machinery Comec Co., Ltd. handles parts management and the development of new-segment products for agricultural applications. Each works to expand the scope of their businesses by taking maximum advantage of their respective strengths.

Industrial Vehicle Business
Consolidated net sales for the industrial vehicle business rose 14% over the previous year to ¥83,849 million (US$837 million).

TCM Corporation smoothly ramped up forklift production to meet robust forklift demand primarily from overseas sources by commencing full-scale operations of a new component factory built inside the Shiga Plant.

In addition, TCM (Anhui) Machinery Co., Ltd., a wholly Japanese-owned corporation established in China, began production of forklifts and cast parts in July 2008, dramatically increasing the TCM Group's forklift production capacity.

In port-related products, overseas production of key transfer crane models began to pick up steam as HCM continued to develop a structure to accommodate robust demand, particularly in Asia.

A parts center constructed in Thailand to enhance sales capability in Asia contributed to higher sales.

Semiconductor Production Equipment Business
Consolidated net sales in the semiconductor production equipment business fell 15% over the previous year to ¥1,842 million (US$18 million).

Hitachi Kenki FineTech Co., Ltd. worked to increase sales of ultrasonic imaging devices used for inspections to manufacturers of in-vehicle semiconductors and electronic components as well as sales of atomic force microscopes to major overseas semiconductor manufacturers. In addition to ultrasonic imaging devices with automatic measurement functionality, the company developed an ultrasonic imaging device for clean-room use incorporating the functionality of its atomic force microscopes and delivered it to an automobile industry manufacturer during the fiscal period under review.

Directors and Executive Officers

As of June 23, 2008

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

Nobuhiko Kuwahara
Senior Vice President, Executive Officer and Director

Shuichi Ichiyama (2)
Director

Yoshio Kubo (1) (2)
Outside Director

Takeo Ueno (1) (2) (3)
Outside Director

Minoru Tsukada (1) (2) (3)
Outside Director

Notes
1: Numbers in parentheses beside names show committee membership: (1) Nominating Committee, (2) Audit Committee and (3) Compensation Committee.
2: Note: Yoshio Kubo, Takeo Ueno and Minoru Tsukada satisfy the qualifications of Outside Directors as provided in Article 2, Item 15 of the Japanese Corporate Law.

Senior Vice President and Executive Officer	**Mitsuo Mori**
Senior Vice President and Executive Officer	**Mitsuji Yamada**
Senior Vice President and Executive Officer	**Toru Sakai**
Vice President and Executive Officer	**Shinichi Mihara**
Vice President and Executive Officer	**Kiichi Uchibayashi**
Vice President and Executive Officer	**Takayoshi Honma**
Vice President and Executive Officer	**Terumasa Otsuka**
Vice President and Executive Officer	**Toichi Hirata**
Executive Officer	**Tsutomu Mizutani**
Executive Officer	**Makoto Sato**
Executive Officer	**Yoshikazu Tokugawa**
Executive Officer	**Hiroshi Tokushige**
Executive Officer	**Yukio Arima**
Executive Officer	**Kiyomitsu Yamanaka**
Executive Officer	**Yoshimi Iwase**
Executive Officer	**Mitsuhiro Tabei**

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 result 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 a director and as a senior vice president and executive officer; creating a situation where determination of HCM's business policies and other issues are thus influenced by the expression of those directors' opinions to the Board of Directors. We, however, 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, including 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 (TCM) 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	2008	2007	2006	2005	2004	2003	2008
	Millions of yen, except per share data						Thousands of U.S. dollars (Note 3), except per share data
For the year:							
Net sales	¥ **940,537**	¥ 756,453	¥ 626,457	¥ 448,043	¥ 402,195	¥ 328,496	$ **9,387,534**
Cost of sales	**675,480**	549,453	453,461	316,918	287,360	243,642	**6,741,990**
Selling, general and administrative expenses	**156,888**	128,807	114,872	92,055	82,847	68,803	**1,565,905**
Operating income	**108,458**	78,352	57,177	40,120	32,858	16,399	**1,082,523**
Income before income taxes and minority interests	**100,564**	70,081	46,795	31,862	21,211	6,486	**1,003,733**
Net income	**55,985**	36,502	24,223	17,325	12,490	3,883	**558,788**
At year-end:							
Total assets	¥ **833,096**	¥ 655,326	¥ 552,341	¥ 463,812	¥ 407,049	¥ 373,755	$ **8,315,161**
Working capital	**155,901**	98,891	99,213	96,638	67,201	61,735	**1,556,053**
Shareholders' equity	**310,747**	184,750	157,173	131,318	91,132	74,321	**3,101,577**
Per share data:							
Net income	¥ **271.00**	¥ 187.43	¥ 124.37	¥ 91.05	¥ 72.62	¥ 25.90	$ **2.70**
Diluted net income	**270.23**	186.81	124.00	90.88	70.92	24.35	**2.70**
Shareholders' equity	**1,446.55**	987.56	807.17	673.81	520.93	460.98	**14.44**
Cash dividends	**42.00**	28.00	18.00	14.00	11.00	7.00	**0.42**
Other indicators:							
Return on net sales	**6.0%**	4.8%	3.9%	3.9%	3.1%	1.2%	—
Return on equity	**22.3%**	20.9%	16.8%	15.6%	15.1%	5.6%	—
Equity ratio	**37.1%**	29.4%	28.5%	28.3%	22.4%	19.9%	—
Number of employees	**16,117**	14,272	13,291	10,602	9,983	9,924	—
Number of shareholders	**38,981**	20,112	18,234	11,861	8,913	10,566	—

Management's Discussion and Analysis

Performance

Although the Japanese economy was impacted during the second half of the fiscal period under review by confusion in the international economy caused by the subprime loan crisis in the United States and growing uncertainty about future prospects given concerns such as the surging cost of crude oil, steel and other raw materials, overseas market conditions remained favorable with the exception of the United States.

Against this backdrop, the HCM Group launched the "*SOH* 2010–For the New Stage" medium-term management plan and began pursuing a variety of measures based on the two underlying basic policies of "establishing an unshakeable position as a comprehensive manufacturer among the world's top three construction machinery manufacturers" and "realizing an industry-leading profit structure."

In terms of the production structure, we are constructing the Hitachinaka Works to ensure a stable supply of components worldwide and the Hitachinaka-Rinko Works to manufacture large hydraulic excavators, ultra-large hydraulic excavators and ultra-large dump trucks. (A part of these facilities has started operation in the first half of the fiscal year ending March 31, 2009.) We have also worked to strengthen our global structure for increasing productivity through efforts that include dramatically boosting production capacity at overseas consolidated subsidiaries in China and Indonesia as well as starting construction of a third plant at Telco Construction Equipment Co., Ltd. in India.

On the sales side, we sought to cultivate new customer segments by aggressively expanding sales of hydraulic excavators, our principal product, as well as wheel loaders, mini-excavators and environment-related products, which we have positioned to become future key products, under our RSS system that combines rental (R), service (S), and sales (S). Overseas, falling demand in North America due to a contraction in investment in housing construction was offset by strong demand in all other regions. Together, HCM Group companies actively pursued regional sales strategies to address demand for mining machinery and construction machinery for social infrastructure development in resource-rich nations and fast-growing developing nations, particularly China, Russia-CIS and India as well as countries in the Middle East and Africa.

As a result of these measures, consolidated net sales in the fiscal period under review rose 24.3% over the previous year to ¥940,537 million (US$9,388 million), and consolidated net income rose 53.4% to ¥55,985 million (US$559 million) to mark the sixth consecutive year of increased sales and profits and the fifth consecutive year of record-high profits.

The surging cost of crude oil, steel and other raw materials drove the cost of sales up 22.9% from the previous period to ¥675,480 million (US$6,742 million), representing an 0.8 percentage point decrease in the ratio of cost of sales to net sales to 71.8%. As a result, gross profit jumped 28.1% to ¥265,346 million (US$2,648 million).

Due to increases in labor costs and other factors, selling, general and administrative expenses rose 21.8% compared to the previous fiscal year to ¥156,888 million (US$1,566 million). The ratio of selling, general and administrative expenses to net sales decreased 0.3 percentage point to 16.7%.

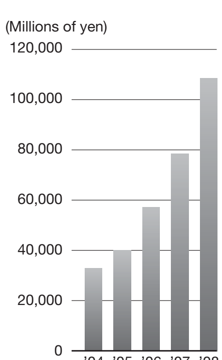
Because selling, general and administrative expenses were kept in check in the same way as the previous fiscal year, operating income increased 38.4% compared with the previous fiscal year to ¥108,458 million (US$1,083 million), exceeding the increase in gross profit. The ratio of operating income to net sales rose 1.1 percentage points to 11.5%.

Other expenses decreased compared with the previous fiscal year from ¥8,271 million (US$83 million) to ¥7,894 million (US$79 million). Interest and dividend income increased ¥2,297 million (US$23 million), while interest expenses rose ¥2,289 million (US$23 million). Additionally, strong performance by affiliates increased equity in earnings of affiliate companies by ¥2,937 million (US$29 million). The disposal of some existing production facilities accompanying the start of operations at new domestic plants led to losses on revaluation of inventories of ¥3,540 million (US$35 million). Gains on sales of property, plant and equipment of ¥839 million (US$8 million) resulting from the sale of the Adachi Training Center, gains on liquidation of subsidiaries of ¥1,423 million (US$14 million) accompanying the liquidation of an overseas subsidiary and restructuring costs of ¥2,191 million (US$22 million) were accounted for during the previous fiscal year and are no longer impacting the Group's performance.

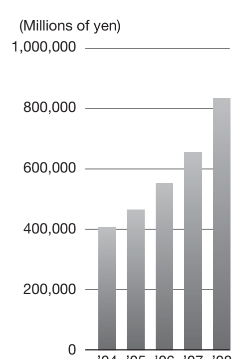
As a result of the above, income before income taxes and minority interests grew 43.5% from the previous fiscal year to ¥100,564 million (US$1,004 million). The effective corporate tax rate after application of tax effect accounting (the nominal tax rate) decreased 5.9 percentage points from 39.3% to 33.4% versus the previous fiscal year.

In aggregate, net income increased 53.4% compared with the previous fiscal year to ¥55,985 million (US$559 million), while net income per share increased ¥83.57 (US$0.83) to ¥271.00 (US$2.70). ROE increased 1.4 percentage points to 22.3%.

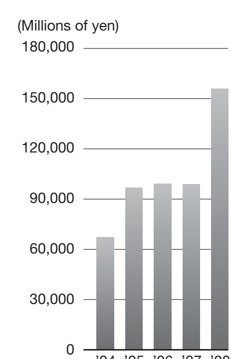
Operating Income



Total Assets



Working Capital



Financial Position

Current assets at the end of the fiscal year amounted to ¥557,971 million (US$5,569 million), an increase of 27.0% from the previous fiscal year. This was due mainly to respective increases of ¥44,671 million (US$446 million) in notes and accounts receivable and ¥33,637 million (US$336 million) in inventories. Fixed assets rose 27.4% from the end of the previous fiscal year to ¥275,125 million (US$2,746 million). As a result, total assets increased 27.1% from the previous fiscal year-end to ¥833,096 million (US$8,315 million).

Current liabilities at the end of the fiscal year amounted to ¥402,070 million (US$4,013 million), an increase of 18.1% from the previous fiscal year-end. This was due mainly to an increase in short-term loans. Long-term liabilities decreased 8.7% from the previous fiscal year-end to ¥84,408 million (US$842 million). As a result, total liabilities increased 12.4% from the previous fiscal year-end to ¥486,478 million (US$4,856 million).

Net assets, including minority interests, increased 55.8% from the previous fiscal year-end to ¥346,618 million (US$3,460 million). The principal factors driving the increase were net income of ¥55,985 million (US$559 million) and the issue of 19 million new shares through a public offering and private placement with Hitachi, Ltd. in August 2007, resulting in the procurement of ¥77,800 million (US$777 million) in new capital. As a result of the above, the equity ratio rose to 37.1% from 29.4% at the end of the previous fiscal period.

Cash Flow Analysis

Cash and cash equivalents at end of year totaled ¥68,726 million (US$686 million), an increase of ¥27,652 million (US$276 million) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Net cash used in operating activities totaled ¥9,564 million (US$95 million). Cash-increasing factors included income before income taxes and minority interests of ¥100,564 million (US$1,004 million), up ¥30,483 million (US$304 million) from the previous fiscal year, as well as an increase of ¥5,947 million (US$59 million) in depreciation and amortization to ¥30,162 million (US$301 million) accompanying investments to increase production capacity.

In contrast, cash-reducing factors were a significant increase in notes and accounts receivable to ¥69,631 million (US$695 million) as a result of an increase in net sales during the peak demand season, including the inclusion of data through March for companies whose account settlement had been in December, and increase in inventories of ¥43,253 million (US$432 million) despite ongoing improvements in asset efficiency.

Net cash used in investing activities was ¥51,311 million (US$512 million), an increase of ¥25,477 million (US$254 million) from ¥25,834 million (US$258 million) in the previous fiscal year. Key factors included an increase of ¥24,888 million (US$248 million) in acquisitions of property, plant and equipment to ¥49,224 million (US$491 million), chiefly for capital investment to raise production at various manufacturing bases.

As a result, free cash flows, the sum of net cash used in operating activities and cash used in investing activities, was negative at ¥60,875 million (US$608 million).

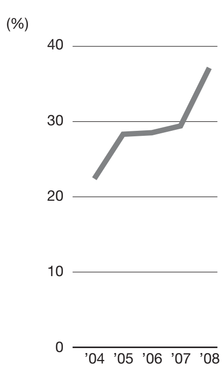
Net cash provided by financing activities increased to ¥91,692 million (US$915 million). The increase was primarily due to procurement of ¥77,467 million (US$773 million) after commissions and fees generated by a private placement and market-priced public stock offering in early August 2007 to provide capital investment funds through March 2009 under the medium-term management plan extending through March 2011.

Business and Other Risks

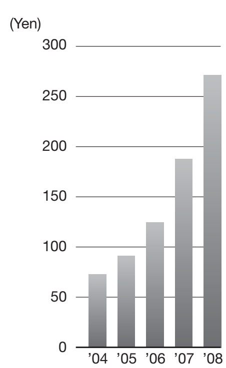
The HCM Group carries out its operations in regions throughout the world and utilizes high-level specialized technologies and information to execute its business activities. Accordingly, the HCM Group's business activities are subject to the effects of a wide range of risks. The principal risks are as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

1. Fluctuations in product supply/demand and intensifying price competition in markets
2. Accelerating technological innovation
3. Fluctuations in product supply/demand and exchange rates (especially yen/dollar and yen/euro rates)
4. Sharp increases in the costs of raw materials
5. Economic and social conditions and various restrictions in principal markets, including trade restrictions
6. Preserving proprietary patents or securing patents from other companies
7. The Company, one of its subsidiaries or an equity method affiliate enters into litigation or other legal procedure
8. Defects in our products and services
9. Status of implementation of business structural reform measures
10. Alliances with other companies in product development and other areas
11. Environment for procurement of funds and tax rates
12. Volatility in Japan's stock market prices
13. Catastrophic impact on production from an earthquake or other natural disaster

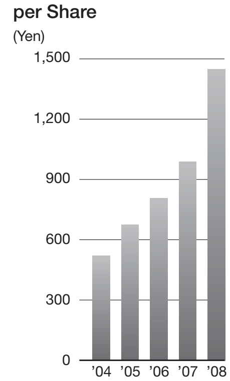
Equity Ratio



Net Income per Share



Shareholders' Equity per Share



Consolidated Balance Sheets

Hitachi Construction Machinery Co., Ltd. and its Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	**2008**	2007	**2008**
Current assets			
Cash and bank deposits	¥ 53,264	¥ 41,079	$ 531,630
Notes and accounts receivable (Notes 8 and 10)	238,851	194,180	2,383,980
Inventories	206,972	173,335	2,065,795
Short-term loans receivable	737	1,092	7,356
Deferred tax assets (Note 17)	22,336	18,626	222,936
Others	43,521	18,056	434,385
Less: Allowance for doubtful accounts	(7,710)	(7,061)	(76,954)
Total current assets	557,971	439,307	5,569,129
Fixed assets			
Property, plant and equipment			
Property held for lease (Note 10)	73,562	62,505	734,225
Land (Note 10)	54,919	46,297	548,149
Buildings and structures (Note 10)	97,648	85,881	974,628
Machinery and equipment	155,231	145,677	1,549,366
Construction in progress	21,377	5,503	213,365
	402,737	345,863	4,019,733
Less: Accumulated depreciation	(198,150)	(188,053)	(1,977,742)
Net property, plant and equipment	204,587	157,810	2,041,990
Intangible assets			
Software	10,725	5,938	107,047
Others	8,587	4,313	85,707
Total intangible assets	19,312	10,251	192,754
Investments and other assets			
Investments in securities (Note 14)	26,736	27,801	266,853
Long-term loans receivable	170	190	1,697
Deferred tax assets (Note 17)	3,023	3,001	30,173
Others (Note 16)	22,422	18,397	223,795
Less: Allowance for doubtful accounts	(1,125)	(1,431)	(11,229)
Total investments and other assets	51,226	47,958	511,289
Total fixed assets	275,125	216,019	2,746,033
Total assets	¥ 833,096	¥ 655,326	$ 8,315,161

	Millions of yen		Thousands of U.S. dollars (Note 3)
LIABILITIES AND NET ASSETS	**2008**	2007	**2008**
Current liabilities			
Notes and accounts payable	¥ 166,517	¥ 159,529	$ 1,662,012
Short-term loans (Notes 18 and 22)	125,184	87,768	1,249,466
Commercial Paper (Note 18)	0	5,000	0
Current portion of bonds (Note 18)	13,000	10,600	129,753
Income taxes payable	21,038	12,949	209,981
Unrealized profit on installment sales and interest	1,902	2,037	18,984
Others	74,429	62,533	742,879
Total current liabilities	402,070	340,416	4,013,075
Long-term liabilities			
Bonds (Note 18)	2,000	15,000	19,962
Long-term loans (Notes 10 and 18)	50,466	47,542	503,703
Deferred tax liabilities (Note 17)	9,398	7,332	93,802
Retirement and severance benefits (Note 16)	12,085	12,410	120,621
Others	10,459	10,217	104,392
Total long-term liabilities	84,408	92,501	842,480
Total liabilities	486,478	432,917	4,855,554
Net assets (Note 7)			
Shareholders equity			
Common stock	81,577	42,636	814,223
Authorized — 700,000,000 shares			
Issued: 215,115,038 shares in 2008 and 196,095,038 shares in 2007			
Capital surplus	81,084	42143	809,302
Retained earnings	150,942	102124	1,506,558
Less: treasury stock, at cost: 1,254,982 shares in 2008 and 1,278,110 shares in 2007	(2,856)	(2,153)	(28,506)
Total shareholders' equity	310,747	184,750	3,101,577
Valuation and translation adjustments			
Net unrealized gain on securities (Note 14)	722	2,299	7,206
Deferred gain on hedging instruments	974	120	9,722
Foreign currency translation adjustments	(3,084)	5,224	(30,782)
Total valuation and translation adjustments	(1,388)	7,643	(13,854)
Stock purchase warrant	415	122	4,142
Minority interests	36,844	29,894	367,741
Total net assets	346,618	222,409	3,459,606
Total liabilities and net assets	¥ 833,096	¥ 655,326	$ 8,315,161

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Net sales	¥ 940,537	¥ 756,453	$ 9,387,534
Cost of sales	675,480	549,453	6,741,990
Installment sales adjustments	(289)	(159)	(2,885)
Gross profit	265,346	207,159	2,648,428
Selling, general and administrative expenses	156,888	128,807	1,565,905
Operating income	108,458	78,352	1,082,523
Other income (expenses):			
Interest and dividend income	6,495	3,241	64,827
Equity in earnings of affiliated companies	3,337	400	33,307
Interest expenses	(6,238)	(3,949)	(62,262)
Foreign exchange losses, net	(4,832)	(5,591)	(48,228)
Restructuring costs	0	(2,191)	0
Losses on disposal of inventories	(953)	(1,221)	(9,512)
Losses on valuation of inventories	(3,540)	0	(35,333)
Gains on sales of property, plant and equipment	0	839	0
Gains on liquidation of subsidiaries	0	1,423	0
Others, net	(2,163)	(1,222)	(21,589)
	(7,894)	(8,271)	(78,790)
Income before income taxes and minority interests	100,564	70,081	1,003,733
Income taxes:			
current	35,291	20,887	352,241
prior year (Note 23)	0	2,363	0
deferred	(1,664)	4,299	(16,608)
Minority interests	10,952	6,030	109,312
Net income	55,985	36,502	558,788

Per share data	Yen		U.S. dollars (Note 3)
Net income	¥ 271.00	¥ 187.43	$ 2.70
Diluted net income	270.23	186.81	2.70
Cash dividends (declared)	42.00	28.00	0.42
Weighted average number of shares (thousands)	206,588	194,753	

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, 2008 and 2007

	Number of shares of common stock (thousands)	Millions of yen: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2006	194,721	¥ 42,626	¥ 42,133	¥ 70,392	¥ (1,876)	¥ 153,275
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	194,817	¥ 42,636	¥ 42,143	¥ 102,124	¥ (2,153)	¥ 184,750
Newly issued	19,020	38,941	38,941			77,882
Effect of newly consolidated subsidiaries				(121)		(121)
Effect of affiliated company excluded from equity method				121		121
Net income				55,985		55,985
Cash dividends (declared)				(7,009)		(7,009)
Net increase (decrease) in treasury stock	23			(158)	(703)	(861)
Net increase (decrease) during the fiscal year of non-shareholders' equity items						
Balance at March 31, 2008	213,860	¥ 81,577	¥ 81,084	¥ 150,942	¥ (2,856)	¥ 310,747

	Millions of yen: Net unrealized gain (loss) on securities	Deferred gain on hedging instruments	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock purchase warrant	Minority interests	Total net assets
Balance at March 31, 2006	¥ 2,730	¥ 0	¥ 1,168	¥ 3,898	¥ 0	¥ 24,996	¥ 182,169
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	¥ 2,299	¥ 120	¥ 5,224	¥ 7,643	¥ 122	¥ 29,894	¥ 222,409
Newly issued							77,882
Effect of newly consolidated subsidiaries							(121)
Effect of affiliated company excluded from equity method							121
Net income							55,985
Cash dividends (declared)							(7,009)
Net increase (decrease) in treasury stock							(861)
Net increase (decrease) during the fiscal year of non-shareholders' equity items	(1,577)	854	(8,308)	(9,031)	293	6,950	(1,788)
Balance at March 31, 2008	¥ 722	¥ 974	¥ (3,084)	¥ (1,388)	¥ 415	¥ 36,844	¥ 346,618

	Thousands of U.S. dollars (Note 3): Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2007	$ 425,551	$ 420,631	$ 1,019,303	$ (21,489)	$ 1,843,996
Newly issued	388,672	388,672			777,343
Effect of newly consolidated subsidiaries			(1,208)		(1,208)
Effect of affiliated company excluded from equity method			1,208		1,208
Net income			558,788		558,788
Cash dividends (declared)			(69,957)		(69,957)
Net increase (decrease) in treasury stock				(7,017)	(8,594)
Net increase (decrease) during the fiscal year of non-shareholders' equity items					
Balance at March 31, 2008	$ 814,223	$ 809,303	$ 1,506,557	$ (28,506)	$ 3,101,576

	Thousands of U.S. dollars (Note 3): Net unrealized gain (loss) on securities	Deferred gain on hedging instruments	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock purchase warrant	Minority interests	Total net assets
Balance at March 31, 2007	$ 22,946	$ 1,198	$ 52,141	$ 76,285	$ 1,218	$ 298,373	$ 2,219,872
Newly issued							777,343
Effect of newly consolidated subsidiaries							(1,208)
Effect of affiliated company excluded from equity method							1,208
Net income							558,788
Cash dividends (declared)							(69,957)
Net increase (decrease) in treasury stock							(8,594)
Net increase (decrease) during the fiscal year of non-shareholders' equity items	(15,740)	8,524	(82,922)	(90,139)	2,924	69,368	(17,846)
Balance at March 31, 2008	$ 7,206	$ 9,722	$ (30,781)	$ (13,854)	$ 4,142	$ 367,741	$ 3,459,606

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 100,564	¥ 70,081	$ 1,003,733
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	30,162	24,215	301,048
Increase (decrease) in allowance for doubtful accounts	723	(2,215)	7,216
Interest and dividend income	(5,741)	(2,549)	(57,301)
Interest expenses	6,238	3,949	62,262
Equity in earnings of affiliated companies	(3,323)	(400)	(33,167)
Increase in notes and accounts receivable	(69,631)	(20,803)	(694,990)
Increase in inventories	(43,253)	(26,285)	(431,710)
Purchase of property held for lease	(19,791)	(19,328)	(197,535)
Sale of property held for lease	3,405	3,809	33,985
Increase in notes and accounts payable	24,542	20,329	244,955
Gains on sales of property, plant and equipment	(2,623)	(3,289)	(26,180)
Losses on valuation of investments in securities	109	4	1,088
Gains on sales of investments in securities	(22)	(31)	(220)
Other, net	(6,241)	(1,920)	(62,292)
Subtotal	15,118	45,567	150,893
Income taxes paid	(24,682)	(21,466)	(246,352)
Net cash provided by (used in) operating activities	(9,564)	24,101	(95,459)
Cash flows from investing activities			
Investments in time deposits	0	(47)	0
Proceeds from time deposits	5	462	50
Acquisitions of property, plant and equipment	(49,224)	(24,336)	(491,307)
Proceeds from sale of property, plant and equipment	885	1,222	8,833
Purchase of intangible assets	(7,083)	(4,999)	(70,696)
Purchase of investments in securities	(1,999)	(1,127)	(19,952)
Purchase of investments in subsidiaries	(1,893)	0	(18,894)
Proceeds from sale of investments in securities	1,151	70	11,488
Interest and dividends received	5,738	2,397	57,271
Interest and dividends received from affiliated companies	644	169	6,428
Other, net	465	355	4,641
Net cash used in investing activities	(51,311)	(25,834)	(512,137)
Cash flows from financing activities			
Net increase in short-term loans	41,013	23,448	409,352
Proceeds from long-term loans	18,220	12,308	181,854
Repayments of long-term loans	(18,898)	(24,881)	(188,622)
Repayments of bonds	(10,600)	(600)	(105,799)
Interest paid	(6,482)	(3,996)	(64,697)
Dividends paid to shareholders	(7,009)	(4,673)	(69,957)
Dividends paid to minority shareholders by subsidiaries	(2,510)	(1,488)	(25,052)
Proceeds from issuance of common stocks	77,475	20	773,281
Proceeds from issuance of common stocks to minority shareholders by subsidiaries	1,344	753	13,415
Purchase of treasury stock	(1,368)	(841)	(13,654)
Proceeds from sale of treasury stock	507	467	5,060
Net cash provided by financing activities	91,692	517	915,181
Effect of exchange rate changes on cash and cash equivalents	(3,202)	297	(31,959)
Net increase (decrease) in cash and cash equivalents	27,615	(919)	275,626
Cash and cash equivalents at beginning of year	41,074	41,954	409,961
Effect of newly consolidated subsidiaries	0	39	0
Effect of merger of subsidiaries	37	0	369
Cash and cash equivalents at end of year (Note 12)	¥ 68,726	¥ 41,074	$ 685,957

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 in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Hitachi Construction Machinery Co., Ltd. (the “Company”) prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Financial Services Agency as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

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 ¥100.19 = US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2008. 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

The Company and certain subsidiaries classify their securities into one of the following two categories and account for these securities 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 other than held-to-maturity securities are classified as other 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 provided 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 employment period 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 of the occurrence over the expected average remaining employment period 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 when 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 by 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 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, an amount by which the issuance price exceeds the cost of 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. 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 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 by 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 year consolidated financial statements in order to conform to the current year presentations.

7. Accounting change

Change in depreciation method for property, plant and equipment

Starting with this consolidated accounting period, the Company and the domestic subsidiaries changed the depreciation method for property, plant and equipment acquired after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. The impact on profit and loss resulting from the change was minimal.

(Additional information)

Starting from this consolidated accounting period, for property, plant and equipment acquired prior to April 1, 2007, from the business year following attainment of the allowable limit for depreciation, the remaining cost will then be depreciated evenly over five years. Impact on profit and loss resulting from the change is minimal.

Change in items related to the settlement date of consolidated subsidiaries

In previous years, the Company consolidated accounts of 12 foreign subsidiaries with different fiscal year-end date within three months from that of the Company by adjusting only major transactions in the intervening period. Beginning the fiscal year ended March 31, 2008, all the 12 foreign subsidiaries with the different fiscal year-end date made a provisional closing at March 31, 2008 to conform with the Company's fiscal year because a quarterly reporting would be mandated in Japan effective the fiscal year ending March 31, 2009. The management of the Company believes that consolidation of all accounts at the same fiscal period enhances transparency of disclosure of the Company and its subsidiaries' consolidated financial positions and results of operations and cash flows.

As a result of this change, compared with when applying the previous method, consolidated net sales increased ¥36,914 million, operating income increased ¥3,246 million, income before income taxes and minority interests increased ¥2,976 million, and net income increased ¥1,527 million.

8. Notes receivable discounted or endorsed

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Notes receivable discounted	**¥ 69**	¥ 80	**$ 689**
Notes receivable endorsed	**339**	152	**3,384**
Total	**408**	232	**4,073**

9. Contingent liabilities

At March 31, 2008 and 2007, the Company was contingently liable for guarantees given in respect of bank loans of affiliated companies and other entities amounting to ¥12,132 million (US$121,090 thousand) and ¥6,061 million, respectively.

10. Assets pledged as collateral

Assets pledged as collateral at March 31, 2008 and 2007 were as follows:	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings and structures	**¥ 360**	¥ 354	**$ 3,593**
Property held for lease	**26,205**	19,930	**261,553**
Land	**466**	466	**4,651**
Total	**27,031**	20,750	**269,797**

Related debts secured with the above assets at March 31, 2008 and 2007 were as follows:	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Short-term loans	**¥ 10,263**	¥ 8,329	**$ 102,435**
Long-term loans	**20,269**	17,657	**202,306**
Total	**30,532**	25,986	**304,741**

11. Research and development costs

Research and development costs that were charged to cost of sales as incurred and included in selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were ¥13,826 million (US$137,998 thousand) and ¥13,683 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash and bank deposits	**¥ 53,264**	¥ 41,079	**$ 531,630**
Deposits to affiliates	**15,462**	0	**154,327**
Less: time deposits with the maturity longer than three months	**0**	(5)	**0**
Total	**68,726**	41,074	**685,957**

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		
	2008			2008		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 7,350	¥ 4,607	¥ 11,957	$ 73,361	$ 45,983	$ 119,344
Accumulated depreciation	(3,626)	(1,248)	(4,874)	(36,191)	(12,456)	(48,647)
Net leased property	3,724	3,359	7,083	37,170	33,527	70,697

	Millions of yen		
	2007		
	Machinery and equipment	Others	Total
Acquisition cost	¥ 6,475	¥ 3,819	¥ 10,294
Accumulated depreciation	(3,185)	(958)	(4,143)
Net leased property	3,290	2,861	6,151

2. Lease obligation under finance leases inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 4,017	¥ 3,895	$ 40,094
Due after one year	11,081	9,571	110,600
Total	15,098	13,466	150,694

3. Lease payments, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease payments	¥ 2,709	¥ 2,537	$ 27,039
Depreciation expense	2,341	2,192	23,366
Interest portion	360	343	3,593

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 by using the interest method.

(Lessor)

1. Acquisition cost, accumulated depreciation and net leased property

	Millions of yen			Thousands of U.S. dollars		
	2008			2008		
	Machinery and equipment	Others	Total	Machinery and equipment	Others	Total
Acquisition cost	¥ 9,057	¥ 0	¥ 9,057	$ 90,398	$ 0	$ 90,398
Accumulated depreciation	(6,054)	0	(6,054)	(60425)	0	(60,425)
Net leased property	3,002	0	3,002	29,973	0	29,973

	Millions of yen		
	2007		
	Machinery and equipment	Others	Total
Acquisition cost	¥ 8,104	¥ 0	¥ 8,104
Accumulated depreciation	(5,525)	0	(5,525)
Net leased property	2,579	0	2,579

2. Future lease income inclusive of interest portion

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 2,476	¥ 2,278	$ 24,713
Due after one year	4,614	4,259	46,053
Total	7,090	6,537	70,766

3. Lease income, depreciation expense and interest portion

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease income	¥ 1,963	¥ 1,690	$ 19,593
Depreciation expense	1,794	1,309	17,906
Interest portion	207	193	2,066

4. Calculation method of interest expense

Interest portion is allocated to each period by 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
	2008	2007	2008
Due within one year	¥ 1,100	¥ 816	$ 10,979
Due after one year	1,966	1,410	19,623
Total	3,066	2,226	30,602

(Lessor)	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 2,245	¥ 1,788	$ 22,407
Due after one year	4,776	3,794	47,669
Total	7,021	5,582	70,076

14. Investments in securities

Marketable securities

	Millions of yen			Thousands of U.S. dollars		
	2008			2008		
Securities with gross unrealized holding gain	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Stocks	¥ 2,101	¥ 4,356	¥ 2,255	$ 20,970	$ 43,477	$ 22,507
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	2,101	4,356	2,255	20,970	43,477	22,507
Securities with gross unrealized holding loss						
Stocks	2,453	1,955	(498)	24,483	19,513	(4,971)
Debt securities	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	2,453	1,995	(498)	24,483	19,513	(4,971)
Grand Total	4,554	6,311	1,757	45,453	62,990	17,536

	Millions of yen		
	2007		
Securities with gross unrealized holding gain	Acquisition cost	Carrying value	Unrealized gain (loss)
Stocks	¥ 3,815	¥ 8,413	¥ 4,598
Debt securities	0	0	0
Others	0	0	0
Total	3,815	8,413	4,598
Securities with gross unrealized holding loss			
Stocks	29	25	(4)
Debt securities	0	0	0
Others	0	0	0
Total	29	25	(4)
Grand Total	3,844	8,438	4,594

Non-marketable securities	Millions of yen	Thousands of U.S. dollars
	2008	2008
Stocks	¥ 2,057	$ 20,531
Debt securities	0	0
Held-to-maturity debt securities	10	100
Other investments	5	50
Total	2,072	20,681

	Millions of yen
	2007
Stocks	¥ 2,107
Debt securities	1,000
Held-to-maturity debt securities	10
Other investments	6
Total	3,123

The proceeds from sales of marketable securities amounted to ¥1,049 million (US$10,470 thousand) and ¥39 million with an aggregate gain of ¥23 million (US$230 thousand) and ¥31 million for the years ended March 31, 2008 and 2007, respectively.

15. Derivative financial instruments

The estimated fair values of the derivative financial instruments, excluding the derivative financial instruments which are accounted for by using deferral hedge accounting, by major instrument types as of March 31, 2008 and 2007 are as follows:

1. Forward exchange contracts

	Millions of yen			Thousands of U.S. dollars		
	2008			2008		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 101,397	¥ 96,923	¥ 4,474	$ 1,012,047	$ 967,392	$ 44,655
To buy foreign currencies	11,530	11,123	(407)	115,081	111,019	(4,062)
Total	—	—	4,067	—	—	40,593

	2007		
	Notional amount	Estimated fair value	Unrealized gains (losses)
To sell foreign currencies	¥ 89,421	¥ 90,278	¥ (857)
To buy foreign currencies	3,847	3,571	(276)
Total	—	—	(1,133)

2. Interest rate swap agreement

	Millions of yen			Thousands of U.S. dollars		
	2008			**2008**		
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
Fixed payment /float receipt	**¥ 0**	**¥ 0**	**¥ 0**	**$ 0**	**$ 0**	**$ 0**

	2007		
	Notional amount	Estimated fair value	Unrealized gains (losses)
Fixed payment /float receipt	¥ 2,000	¥ 2	¥ 2

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, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥ (68,200)**	¥ (70,360)	**$ (680,707)**
Plan assets at fair value	**56,829**	57,957	**567,212**
Funded status	**(11,371)**	(12,403)	**(113,494)**
Unrecognized actuarial loss	**17,543**	14,671	**175,097**
Unrecognized prior service cost	**(4,810)**	(5,108)	**(48,009)**
Total	**1,362**	(2,840)	**13,594**
Prepaid pension cost	**13,447**	9,570	**134,215**
Retirement and severance benefits	**(12,085)**	(12,410)	**(120,621)**

Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the years ended March 31, 2008 and 2007 consist of the following components:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥ 2,475**	¥ 2,496	**$ 24,703**
Interest cost	**1,875**	1,798	**18,714**
Expected return on plan assets	**(1,673)**	(1,532)	**(16,698)**
Amortization of unrecognized actuarial loss	**1,710**	1,284	**17,068**
Amortization of unrecognized prior service cost	**(326)**	(396)	**(3,254)**
Cost for defined contribution plan	**1,239**	1,025	**12,367**
Net periodic benefit cost	**5,300**	4,675	**52,899**

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

	2008	2007
Discount rate (weighted average):	**2.66%**	2.74%
Expected rate of return on plan assets:	**2.5%**	2.5%

Actuarial gain and loss are amortized using the straight-line method over 10 to 23 years.
Unrecognized prior service cost is amortized using the straight-line method over 9 to 23 years.

17. Income taxes

The tax effects of the temporary difference that give rise to significant position of tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
Deferred tax assets	**2008**	2007	**2008**
Allowance for doubtful accounts	**¥ 1,146**	¥ 1,431	**$ 11,438**
Accrued employees bonuses	**2,759**	3,318	**27,538**
Net operating loss carryforward	**7,730**	7,191	**77,153**
Unrealized gain on inventories	**11,114**	9,091	**110,929**
Retirement and severance benefits	**4,846**	5,119	**48,368**
Loss incurred by consolidated subsidiaries after initial consolidation	**458**	458	**4,571**
Unrealized gain on fixed assets	**1,537**	841	**15,341**
Others	**16,445**	17,014	**164,138**
Subtotal	**46,035**	44,463	**459,476**
Less: Valuation allowance	**(11,210)**	(15,766)	**(111,887)**
Total	**34,825**	28,697	**347,589**
Less: Deferred tax liabilities	**(9,466)**	(7,070)	**(94,480)**
Net deferred tax assets	**25,359**	21,627	**253,109**
Deferred tax liabilities			
Earnings generated in consolidated subsidiaries and affiliated companies after initial consolidation	**6,784**	4,855	**67,711**
Net unrealized holding gains on investment in other securities	**3,944**	5,137	**39,365**
Prepaid pension cost	**5,322**	3,269	**53,119**
Others	**2,302**	1,185	**22,976**
Total	**18,352**	14,446	**183,171**
Less: Deferred tax assets	**(8,890)**	(7,070)	**(88,731)**
Net deferred tax liabilities	**9,462**	7,376	**94,440**

The Company and the consolidated subsidiaries are subject to a number of taxes based on income.

The aggregate statutory tax rate for the Company was approximately 40.5% for the years ended March 31. 2008 and 2007.

Reconciliation between the statutory income tax rate and effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2008 is as follows:

	%
Statutory tax rate applicable to the Company	40.5
(reconciliations)	
Expenses not deductible for tax purposes	0.3
Inhabitant tax on per capita basis	0.1
Difference in statutory tax rates of foreign subsidiaries	(9.1)
Elimination of dividends from subsidiaries	6.5
Amortization of goodwill	0.3
Equity in earnings of affiliated companies	(1.3)
Income tax effect on undistributed earnings of affiliated companies	1.9
Effect of foreign tax credit	(5.5)
Others	(0.3)
Effective income tax rate	33.4

The reconciliation for the previous year is not presented because such difference was less than 5% of the aggregate statutory tax rate.

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, 2008 and 2007 were 4.12% and 2.27%, respectively.

(b) Current portion of bonds at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Unsecured bonds, interest 10 years swap rate plus 0.5%, due 2008	**¥ 3,000**	¥ 0	**$ 29,943**
Unsecured bonds, interest 1.22%, due 2008	**10,000**	0	**99,810**
Unsecured bonds, interest 0.97%, due 2008	**0**	600	**0**
Unsecured bonds, interest 1.2%, due 2007	**0**	10,000	**0**
	13,000	10,600	**129,753**

(c) Bonds other than current portion at March 31, 2008 and 2007 are as follows:

Unsecured bonds, interest 10 years swap rate plus 0.5%, due 2008	**0**	3,000	**0**
Unsecured bonds, interest 1.22%, due 2008	**0**	10,000	**0**
Unsecured bonds, interest 1.39%, due 2009	**500**	500	**4,991**
Unsecured bonds, interest 1.27%, due 2010	**1,500**	1,500	**14,972**
	2,000	15,000	**19,963**

(d) Loans from banks and other financial institutions

Loans from banks and other financial institutions:			
Short-term loans	**110,562**	72,980	**1,103,523**
Commercial paper	**0**	5,000	**0**
Short-term lease obligation	**68**	0	**679**
Current portion of long-term loans included in current liabilities	**14,622**	14,788	**145,943**
Long-term loans	**50,466**	47,542	**503,703**
Long-term lease obligation	**150**	0	**1,497**
Total loans	**175,868**	140,310	**1,755,345**

19. Segment information

Business segment information

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net sales:			
Construction Machinery	**¥ 854,882**	¥ 680,883	**$ 8,532,608**
Industrial Vehicle	**83,849**	73,420	**836,900**
Semiconductor Production Equipment	**3,430**	3,480	**34,235**
Elimination	**(1,624)**	(1,330)	**(16,209)**
Consolidated total	**940,537**	756,453	**9,387,534**
Operating income:			
Construction Machinery	**104,740**	75,249	**1,045,414**
Industrial Vehicle	**5,627**	5,298	**56,163**
Semiconductor Production Equipment	**428**	430	**4,272**
Elimination	**(2,337)**	(2,625)	**(23,326)**
Consolidated total	**108,458**	78,352	**1,082,523**

Notes:
1) The business segments are classified based on similarity of products.
2) The principal products and services of each segment are as follows:
   ① Construction Machinery: excavators, mini-excavators, wheel loaders and cranes & foundation machines
   ② Industrial Vehicle: forklift trucks, transfer cranes and container carriers
   ③ Semiconductor Production Equipment: ultrasonic inspection equipment and atomic force microscope equipment
3) "Elimination" principally consists of administrative expenses of ¥2,392 million relative to TCM Corporation and its subsidiaries, which are not allocated to the business segments.
4) As discussed in accounting change, starting with this consolidated accounting period, the Company and the domestic subsidiaries changed the depreciation method for property, plant and equipment acquired after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. The impact on the business segment information resulting from the change was minimal.
5) As discussed in accounting change, in previous years, the Company consolidated accounts of 12 foreign subsidiaries with different fiscal year-end date within three months from that of the Company by adjusting only major transactions in the intervening period. Beginning the fiscal year ended March 31, 2008, all the 12 foreign subsidiaries with the different fiscal year-end date made a provisional closing at March 31, 2008 to conform with the Company's fiscal year because a quarterly reporting would be mandated in Japan effective the fiscal year ending March 31, 2009.
   As a result of this change, compared with when applying the previous method, net sales in construction machinery increased ¥36,914 million and operating income in construction machinery increased ¥3,246 million, respectively.

Segment information by geographic area:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net sales:			
Domestic (inside Japan)	¥ 683,191	¥ 594,650	$ 6,818,954
Outside Japan			
Asia	194,664	107,582	1,942,948
Europe	247,323	163,953	2,468,540
Americas	75,445	100,879	753,019
Other Areas	120,799	82,706	1,205,699
Elimination	(380,885)	(293,317)	(3,801,627)
Consolidated total	940,537	756,453	9,387,533
Operating income:			
Domestic (inside Japan)	52,669	43,442	525,691
Outside Japan			
Asia	26,134	13,025	260,844
Europe	18,804	11,643	187,683
Americas	7,214	11,674	72,003
Other Areas	10,372	5,669	103,523
Elimination	(6,735)	(7,101)	(67,222)
Consolidated total	108,458	78,352	1,082,522

Notes:
1) Net sales above include inter-segment sales.
2) The countries included in each segment are as follows:
① Asia: China, Indonesia, Singapore, Thailand and Malaysia
② Europe: The Netherlands and France
③ Americas: The United States and Canada
④ Other areas: New Zealand, Australia and South Africa
3) As discussed in accounting change, starting with this consolidated accounting period, the Company and the domestic subsidiaries changed the depreciation method for property, plant and equipment acquired after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. The impact on the business segment information resulting from the change was minimal.
4) As discussed in accounting change, in previous years, the Company consolidated accounts of 12 foreign subsidiaries with different fiscal year-end date within three months from that of the Company by adjusting only major transactions in the intervening period. Beginning the fiscal year ended March 31, 2008, all the 12 foreign subsidiaries with the different fiscal year-end date made a provisional closing at March 31, 2008 to conform with the Company's fiscal year because a quarterly reporting would be mandated in Japan effective the fiscal year ending March 31, 2009.
As a result of this change, compared with when applying the previous method, as for the sales amount to the outside customer, net sales increased ¥15,277 million in "Asia", ¥7,747 million in "Europe", ¥4,399 million in "Americas" and ¥9,491 million in "Other Areas" respectively.
In addition, the operating income increased ¥2,247 million in "Asia", ¥369 million in "Europe", ¥207 million in "Americas", ¥702 million in "Other Areas" and decreased ¥279 million in "Elimination", respectively.

Overseas sales by geographic area:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Americas	¥ 88,518	¥ 125,129	$ 883,501
Europe, Africa and the Middle East	291,942	195,209	2,913,884
Australia, New Zealand and Other areas of Asia, except China	184,021	126,280	1,836,720
China	127,323	71,286	1,270,815
Total	691,804	517,904	6,904,920

Note: Overseas sales are sales in countries and areas other than Japan where the Company and its consolidated subsidiaries are located.

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, 2008 and 2007 represent dividends resolved during those years. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥22 (US$0.22) per share totaling ¥4,705 million (US$46,961 thousand) for the second half of the year, subsequently proposed by the Board of Directors in respect of the year ended March 31, 2008.

21. Stock option

The stock option expense of ¥293 million (US$2,924 thousand) is recognized and classified as selling, general and administrative expenses for the year ended March 31, 2008.

The details for stock option

1) Stock option information

Company name		Hitachi Construction Machinery Co., Ltd.								TCM Corporation
Resolution date		June 29, 2000	June 28, 2001	June 27, 2002	June 26, 2003	June 29, 2004	June 28, 2005	June 26, 2006	June 25, 2007	June 27, 2006
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 Directors 14 Executive Officers 26 Employees 33 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	332,000	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	November 6, 2007	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	July 1, 2009	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, 2017	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	—	—	—	—	—	504,000	305,000	—	—
Granted	—	—	—	—	—	—	—	332,000	755,000
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	504,000	—	—	—
Outstanding	—	—	—	—	—	—	305,000	332,000	755,000
After vested									
Beginning of the fiscal year	5,000	5,000	55,000	137,000	289,000	—	—	—	—
Vested	—	—	—	—	—	504,000	—	—	—
Exercised	—	5,000	20,000	76,000	125,000	157,400	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Ending of the fiscal year	5,000	—	35,000	61,000	164,000	346,600	—	—	—

② Price information

Company name	Hitachi Construction Machinery Co., Ltd.								TCM Corporation
Exercise price	¥ 564	—	¥ 413	¥ 1,211	¥ 1,325	¥ 1,557	¥ 2,728	¥ 4,930	¥ 393
Average stock prices when exercised	¥ 4,070	¥ 0	¥ 3,958	¥ 4,065	¥ 3,890	¥ 4,154	—	—	—
Fair value at the grant date	—	—	—	—	—	—	¥ 877	¥ 1,501	¥ 148
Exercise price	US$ 5.63	—	US$ 4.12	US$ 12.09	US$ 12.09	US$ 15.54	US$ 27.23	US$ 49.21	US$ 3.92
Average stock prices when exercised	US$ 40.62	US$ 0.00	US$ 39.50	US$ 40.57	US$ 38.83	US$ 41.46	—	—	—
Fair value at the grant date	—	—	—	—	—	—	US$ 8.75	US$ 14.98	US$ 1.48

The valuation method for estimated fair value of stock options granted during the year ended March 31, 2008

1) The calculation formula: The Black Scholes

2) The underlying data used and method of estimation:

	(Notes)	Hitachi Construction Machinery Co., Ltd.
Stock price volatility	1)	42%
Estimated remaining period	2)	6 Year
Estimated dividend	3)	¥34 (US$0.34)
Risk free rate	4)	1.19%

Note : 1) The daily historical average price for the past 6 years is used.
2) We assumed options were exercised at the middle of the exercise period, because there is no accumulation of enough data and rational estimate was difficult.
3) The actual results of the previous year
4) The estimated rate of Japanese Government Bond with the corresponding remaining period to maturity

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 expiration.

22. Related party transactions

As of March 31, 2008, Hitachi, Ltd., the parent company of the Company holds 50.3% of the Company's total number of shares issued and 51.1% (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 the business segment of Hitachi, Ltd. The Company maintains close cooperative relationship with Hitachi, Ltd. and Hitachi Group companies.

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

Transactions with Hitachi, Ltd.	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash deposit transaction	¥ 234,529	¥ 27,935	$ 2,340,842
Cash borrowing transaction	213,091	108,065	2,126,869

Balances with Hitachi, Ltd.	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short term loan as of March 31	¥ 0	¥ 5,976	$ 0
Short term lending as of March 31	15,462	—	154,327

23. Per share data

	Yen		U.S. dollars
	2008	2007	2008
Per share data:			
Net assets	¥ 1,446.55	¥ 987.56	$ 14.44
Net income	271.00	187.43	2.71
Diluted net income	270.23	186.81	2.70

	Millions of yen		Thousands of U.S. dollars
Basis in calculation:	2008	2007	2008
1) Net assets			
Total net assets on consolidation balance sheet	¥ 346,618	¥ 222,409	$ 3,459,607
Total net assets for oridinary shares	309,359	192,393	3,087,723
Major item for above discrepancies			
Stock purchase warrants	415	122	4,142
Minority interests	36,844	29,894	367,741
Common stock issued	215,115,038	196,095,038	—
Treasury stock	1,254,982	1,278,110	—
Number of common stock for net assets per share	213,860,056	194,816,928	—

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
2) Net income			
Net income	¥ 55,985	¥ 36,502	$ 558,788
Net income not belong to common shareholders	0	0	0
Net income for common shareholders	55,985	36,502	558,788
Weighted average common shares outstanding, less treasury stock	206,587,605	194,753,374	—
Dilutive effect of: Stock purchase warrants	586,357	646,619	—
Weighted average diluted common shares outstanding	207,173,962	195,399,993	—

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 2008, 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 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 23, 2008

Global Network

As of June 23, 2008

Major Consolidated Subsidiaries and Affiliates *Affiliates

Europe, Africa and the Middle East

Manufacturing & Sales Companies
- Hitachi Construction Machinery (Europe) N.V. [HCME]

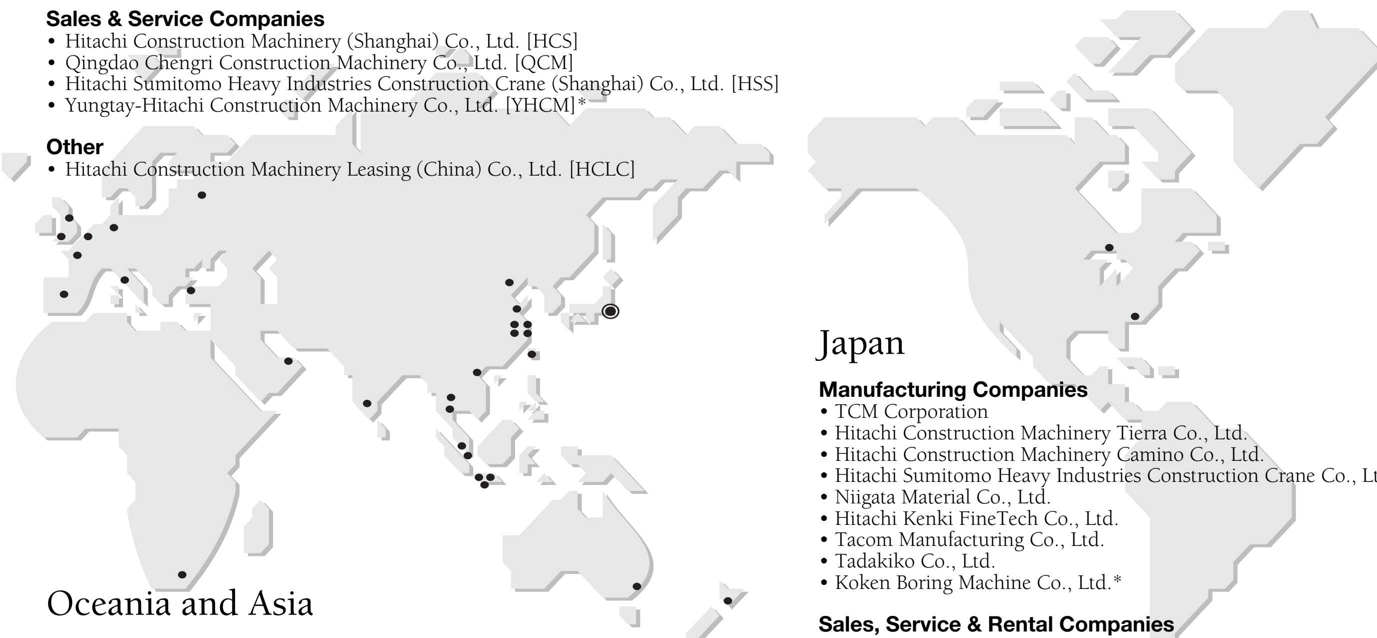
Sales & Service Companies
- Hitachi Construction Machinery Southern Africa Co., Ltd. [HCSA]
- Hitachi Construction Machinery Sales and Service France S.A.S. [HCSF]
- Heavy Construction Machinery Ltd. [HMP]
- SCAI S.p.A. [SCAI]*

China

Manufacturing & Sales Companies
- Hitachi Construction Machinery (China) Co., Ltd. [HCMC]
- Hefei Rijian Shearing Co., Ltd. [HRS]

Sales & Service Companies
- Hitachi Construction Machinery (Shanghai) Co., Ltd. [HCS]
- Qingdao Chengri Construction Machinery Co., Ltd. [QCM]
- Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai) Co., Ltd. [HSS]
- Yungtay-Hitachi Construction Machinery Co., Ltd. [YHCM]*

Other
- Hitachi Construction Machinery Leasing (China) Co., Ltd. [HCLC]



Oceania and Asia

Manufacturing & Sales Companies
- PT. Hitachi Construction Machinery Indonesia [HCMI]
- PT. Shibaura Shearing Indonesia [SSI]*
- Telco Construction Equipment Co., Ltd. [TELCON]*

Sales & Service Companies
- Hitachi Construction Machinery Asia and Pacific Pte. Ltd. [HMAP]
- CablePrice (NZ) Limited [CPL]
- PT. Hexindo Adiperkasa Tbk [HAP]
- Hitachi Construction Machinery (Australia) Pty., Ltd. [HCA]
- Hitachi Construction Machinery (Thailand) Co., Ltd. [HCMT]
- SHCM Service Co., Ltd. [SHSC]
- Hitachi Construction Machinery (Malaysia) Sdn. Bhd. [HCMM]

Other
- Hitachi Construction Machinery Leasing (Thailand) Co., Ltd. [HCMLT]

The Americas

Manufacturing & Sales Companies
- Hitachi Construction Truck Manufacturing Ltd. [HTM]
- Deere-Hitachi Construction Machinery Corporation [DHCM]*

Other
- Hitachi Construction Machinery Holding U.S.A. Corp. [HHUS]

Japan

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

Sales, Service & Rental Companies
- Yamanashi Hitachi Construction Machinery Co., Ltd.
- Okinawa Hitachi Construction Machinery Co., Ltd.
- Hitachi Construction Machinery REC Co., Ltd.
- Okumura Kikai Co., Ltd.*
- Sokuto Co., Ltd.*

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

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

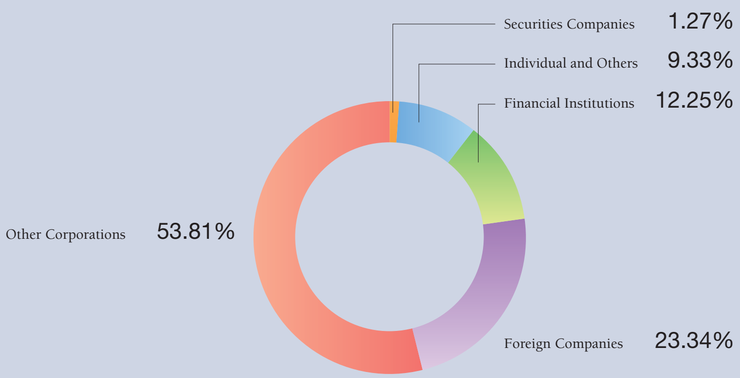
As of March 31, 2008

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 215,115,038
Paid-in Capital	¥81,576,592,620
Stock Exchange Listings	Tokyo, Osaka (#6305)
Independent Auditor	Ernst & Young ShinNihon
Stock Transfer Agent	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shareholders	38,981
Number of Employees	16,117 (Consolidated) 3,529 (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.	107,581	50.01
Japan Trustee Services Bank, Ltd.	6,791	3.16
The Master Trust Bank of Japan, Ltd.	6,538	3.04
Trust & Custody Services Bank, Ltd.	3,969	1.85
Goldman Sachs International	3,268	1.52
The Chase Manhattan Bank N A London S L Omnibus Account	2,800	1.30
State Street Bank and Trust Company	2,607	1.21
Governor and Company of Bank of Ireland Clients	2,325	1.08
State Street Bank and Trust Company 505103	2,237	1.04
R-BC Dexa Eventer Services Trust, London Client Account	2,093	0.97

Composition of HCM's Shareholders



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