Hitachi Construction Machinery

Financial Results for the year ended

March 31, 2005

(English translation of “KESSAN TANSHIN” originally issued in Japanese language.)

Financial Statement (Consolidated) for Fiscal Year Ending March 2005 April 27, 2005

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)
Stock exchange: Tokyo, Osaka Code number: 6305 URL http://www.hitachi-c-m.com/
Location of head office: Tokyo
Representative: Shungo Dazai, President and Chief Executive Officer
Date of convening of the Board of Directors for financial settlement: April 27, 2005
Parent company: Hitachi, Ltd. (code number: 6501)
Ratio of voting rights held by the parent company: 51.3%
U.S. Accounting Standards are not applied.

1. Consolidated results for the year ended March 2005 (April 1, 2004 to March 31, 2005)

(1)Consolidated results (Rounded off to the nearest million)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2005	448,043	11.4	40,120	22.1	33,609	29.3
March 31, 2004	402,195	22.4	32,858	100.4	26,002	163.2

	Net income		Net income per share	Net income per share (Diluted)	Return on equity	Ordinary income to total assets	Ordinary income to sales
	Millions of yen	%	Yen	Yen	%	%	%
March 31, 2005	17,325	38.7	91.05	90.88	15.6	7.7	7.5
March 31, 2004	12,490	221.7	72.62	70.92	15.1	6.7	6.5

Notes:
1) Equity-method investment loss
March 2005: ¥855 million March 2004: ¥686 million
2) Average number of shares during the term (consolidated)
March 2005: 190,278,052 March 2004: 171,595,677
3) Changes in the method of accounting: None
4) Percentages indicated for net sales, operating income, ordinary income and net income are increases/(decreases) compared to the period of the preceding fiscal year.

(2)Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2005	463,812	131,318	28.3	673.81
March 31, 2004	407,049	91,132	22.4	520.93

Note:
Number of outstanding shares at the end of the term (consolidated)
March 2005: 194,887,811 March 2004: 174,888,581

(3) Consolidated cash flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financial activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2005	7,899	(17,133)	17,594	49,534
March 31, 2004	8,021	(8,830)	(1,672)	41,131

(4) Scope of consolidation and application of equity method
Number of consolidated subsidiaries: 45
Number of unconsolidated subsidiaries subject to the equity method: None
Number of affiliates subjected to the equity method: 8

(5) Changes in companies subject to consolidation and equity method
Newly consolidated: 3 companies
Newly unconsolidated: 5 companies
Newly subjected to the equity method: 1 company
Newly excluded from the equity method: 2 companies

2. Projected consolidated results for the fiscal year ending March 31, 2006

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
September 2005 (Interim)	252,000	16,300	7,200
March 2006	530,000	36,300	18,700

Supplementary information: Projected net income per share for the fiscal year: ¥95.95

Note: The above projections are based on information available as of the time of this announcement, and fully reflect the impact of TCM Corporation's conversion to a wholly owned subsidiary. Actual results may differ due to various factors.

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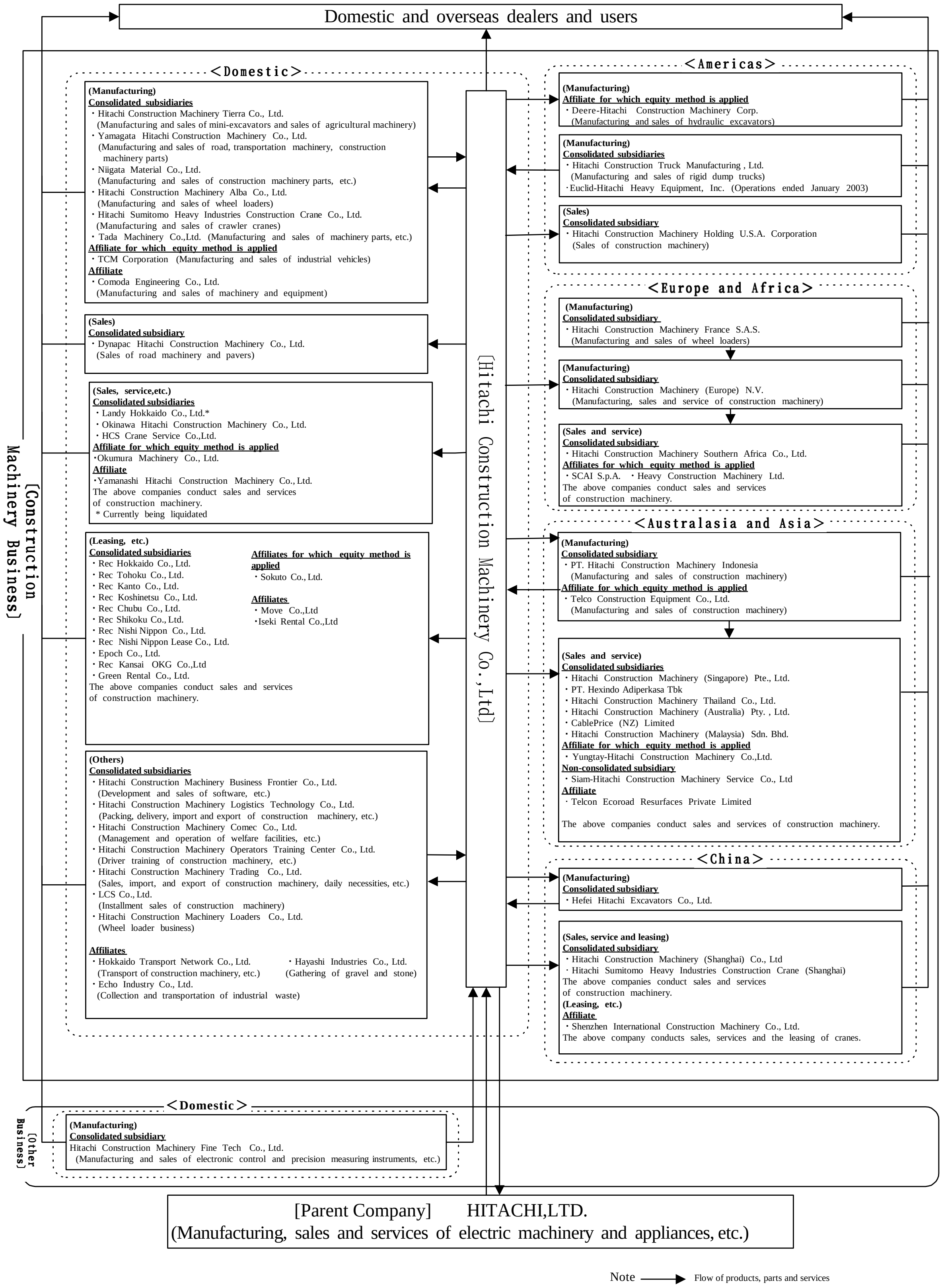
Attachment

1. Status of the Corporate Group

As outlined below, this consolidated Group consists of Hitachi Construction Machinery, its parent company, its 46 subsidiaries and its 17 affiliates. Its business mainly involves the manufacture, sale, service and leasing of construction machinery, as well as the manufacture and sale of electronics controllers.



2. Management Policy

(1) Basic Management Policy

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

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

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

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

(2) Basic Principle Regarding Appropriation of Earnings

The basic focus is on maintaining stable dividends while giving due consideration to the future business plans, financial conditions and profitability of the HCM Group, and linking the distribution of profits to corporate performance. Internal reserves are used to reinforce the Group's financial structure, while concurrently, efforts are undertaken in developing technologies, rationalizing production equipment and growing Group companies in Japan and overseas in order to remain competitive. Management strives to set dividends at roughly 15-20% of consolidated net income.

(3) Concepts and Principles Regarding Reduction of Investment Units

To increase the number of its shareholders and make its stock more fluid, HCM changed its trading unit from 1,000 shares to 100 shares on October 1, 2004.

(4) Mid-to-Long-term Management Strategies and Issues to be Addressed

1) Achieving the "SOH 21-Creative Value UP" Medium-term Management Plan

To win out in the increasingly intense arena of global competition, HCM has been pursuing "SOH 21-Creative Value UP," a medium-term management plan launched in April 2003 with the achievement of objectives targeted for the fiscal year ending March 31, 2007.

The aim of the plan is to establish the industry's number-one profit structure, embark on further globalization and regain an "A" rating on HCM's long-term bonds. Specifically, there will be an emphasis on expanding the role of international business, restructuring domestic business operations, promoting global product strategies and becoming the global leader in terms of cost-competitiveness, and finally, strengthening the Company's financial structure. In this regard, HCM intends to predominate in the construction machinery industry in terms of technological capabilities and product strength, cost-competitiveness, service and sales capabilities, and brand strength.

2) Consolidated Numerical Targets (For period ending March 2007)
Numerical targets for the fiscal year ending March 31, 2007 are outlined below.

	Target
Ratio of operating income to net sales	10% (¥46.0 billion)
Ratio of ordinary income to net sales	Over 8% (Over ¥38.0 billion)
ROE	Over 10%
D/E Ratio	Not to exceed 1.0 time

3) Issues to be Tackled
Although there were some destabilizing factors such as a steep jump in materials costs associated with rising steel and crude oil prices as well as exchange rate fluctuations, demand for construction machinery such as hydraulic excavators is expected to remain brisk worldwide. This trend will require a high level of production efficiency to keep pace with demand. Furthermore, it will also place critical importance on setting proper selling prices and reducing costs to absorb skyrocketing materials costs, smoothly releasing products that meet the Tier (Stage) III emissions regulations taking effect in Europe and North America in January 2006, as well as raising the selling price as products become more functional.

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

In Europe, Africa and the Middle East, the HCM Group will establish an Iberian office in Spain, to bolster sales and service activities for leading customers. In order to further expand sales in such high-demand, low-share countries as Germany and France, marketing will also be reinforced through such measures as releasing products tailored to each specific market and achieving penetration of the Hitachi brand. Similarly, the Group's relationships will be strengthened with HM Plant Limited and SCAI S.p.A, which are sub-dealers in the key markets of England and Italy, respectively.

Further, in the Middle East, demand is expected to rise as oil dollars are recycled in infrastructure development. In Russia, housing construction and mining is expected to spur increased demand. In South Africa, demand is increasing on the back of natural resource development in such areas as coal and gold mining. We will use these gains to further expand overall sales.

In Oceania and Asia, the Group is carving out a high share in the mining market through the packaged sale of ultra-large hydraulic excavators and large dump trucks. In the term ahead, HCM intends to refine full maintenance contract services for purchased machinery in order to establish a solid market position in these regions. Capitalizing on the strengths of the Group's direct marketing and service structure, efforts will be made to continue the sale of new machinery and expand sales for components, used machinery and services. Moreover, HCM will seek to bolster sales in the Indian and Vietnamese markets, where demand is expected to rise.

In China, demand for hydraulic excavators is in the process of recovering following a bottoming out in September 2004. Hitachi Construction Machinery (China) Co., Ltd., which changed its name from Hefei Hitachi Excavators Co., Ltd. on April 30, 2005, aims to build a corporate structure that can handle demand fluctuations by carrying out businesses from multiple angles, including providing structural welding materials to plants outside China and launching production of construction cranes.

5) Domestic Business

In order to establish an RSS system consisting of three major elements—rental (R), sales (S) and service (S)—for continued improvement in customer satisfaction and consolidated management efficiency, the HCM Group revised its six-branch structure and carried out reorganization into two divisional organizations on October 1, 2004 to comprise the Eastern Japan Operation Division and Western Japan Operation Division.

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

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

Through the efforts spelled out here, the Group aims to make steady progress toward further raising profitability in domestic businesses.

6) Promoting Global Product Strategies and Becoming the Global Leader in Cost-competitiveness

The HCM Group promotes its region-specific marketing, reinforces its proprietary development structure and maximizes the effects of alliances in order to develop world-class products in a manner that matches the needs of customers throughout the world. In addition, it advances the system of production and procurement in the best locations worldwide while working to reduce costs, shorten lead times and improve cash flows by optimizing fixed expenses on a consolidated basis and increasing the efficiency of the supply chain.

7) Strengthening of the Financial Structure

Reducing the interest-bearing debt is an important challenge for HCM, which aims to regain an “A” rating on its long-term bonds. To that end, it strived to improve the financial structure and reinforced its balance sheets through a capital increase with issuance of new shares at market price on June 5, 2004. The HCM Group is also working to shorten the number of retention days of sales credits and inventories on a consolidated basis by promoting the C Project II (Cash Flow Project II) and supply chain management. HCM will continue to curb fixed assets through integration of bases. In addition, consolidated cash flows will be improved using a cash management system (CMS) that centralizes Group funds.

8) Efforts in Corporate Social Responsibility (CSR)

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

(5) Basic Philosophy on and Status of Measures for Corporate Governance

1) Basic Philosophy on Corporate Governance

The HCM Group is working to augment corporate governance with the goals of raising corporate value and further improving shareholder value, accelerating execution of management strategies, achieving more reliable, transparent and global management, and adapting to the new Hitachi Group management style.

2) Status of Measures for Corporate Governance

A. Content of Corporate Bodies

As a Committee System-based Company, HCM separates the duties of governance and administration for the purpose of accelerating management decision-making and improving the effectiveness of operational oversight. The roles of the committees are as follows:

a) Board of Directors

The Board of Directors is responsible for deciding core management policies and overseeing the activities of the executive officers, with the powers for operational decision-making largely transferred to the executive officers. Of the eight members of the Board of Directors, four also act as executive officers, while three members have been recruited from outside the Group.

The Board of Directors is comprised of the three legal bodies of the nominating committee, auditing committee and compensation committee, with half of the members for the committees composed of outside directors.

b) Various Committees

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

The auditing committee is responsible for monitoring the activities of the Board of Directors and executive officers and drafting proposals for appointing candidates and terminating independent auditors at the General Shareholders Meeting. The Auditing Committee Office was established specifically to aid the work of the Board of Directors and the committees, and is staffed by one employee who is not subject to the authority of the executive officers.

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

c) Executive Officers

The executive officers are responsible for decision-making and execution of day-to-day operations in line with the division of duties as specified by the Board of Directors. For key issues that affect the Group as a whole, decisions are deferred to an executive committee composed of leading executive officers. Moreover, the decisions at the executive commitee are reported to the Board of Directors.

3) Status of Internal Control System

To ensure operational efficiency and compliance, HCM is conducting internal surveys to study progress in operational management and work toward its improvement. Additionally, HCM has established various committees to conduct compliance activities and a Companywide compliance report system.

Regarding assurance of reliability in financial reporting, in order for the Auditing

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

4) Status of Risk Management Structure

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

5) Appointment of Auditors

HCM ensures that audits are conducted fairly and honestly by appointing auditors from Ernst & Young ShinNihon and by providing accurate management information.

The names, term and affiliation of Certified Public Accountants who have been employed at HCM during fiscal 2005 are as follows:

CPA Status and Name		Term	Affiliation
Partner	Hideo Doi	4 years	Ernst & Young ShinNihon
Partner	Masakazu Wakabayashi	7 years	

6) Compensation for Directors, Executive Officers and Auditors

Compensation for Directors, Executive Officers and auditing firms during the fiscal year under review are as follows:

Director and Executive Officer Compensation

	Compensation	
	No. of Persons	Compensation Total
Directors	4	¥42 million
Executive Officers	19	¥554 million
Total	23	¥596 million

Fee paid to the Auditor

	Payments
Audit fee	¥18 million
Other fee	¥2 million
Total	¥20 million

7) Progress Over Last Year Toward Enhancing Corporate Governance

- Board of Directors Meetings held 15 times during the fiscal year ended March 31, 2005
- Executive Meetings held 30 times during fiscal year ended March 31, 2005
- In fiscal 2005, HCM worked to gather feedback from investors that could be

implemented in management by holding financial results briefings (four times) as well as IR roadshows (U.S.[one time] and Europe [two times]) in support of IR activities.

(6) Basic Policies Extending to Relations with the Parent Company

As a member of the Hitachi Group, which shares a common management vision and brand, the HCM Group maintains a cooperative relationship with the parent company, Hitachi, Ltd., and the companies of the Hitachi Group, thereby contributing to maximizing the enterprise value of the Hitachi Group and increasing the strength of the Hitachi brand and also improving shareholder value.

In addition, the HCM Group also borrows and deposits short-term funds using the Hitachi Group Fund pooling system, which is centralized at Hitachi, Ltd.

Items Pertaining to the Parent Company (Fiscal year ended March 2005)

Company	Affiliation	Proportion of Voting Rights	Securities Exchanges where Parent Company Stock is Traded
Hitachi, Ltd.	Parent Company	51.3 (0.9)	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Luxembourg, Frankfurt, Amsterdam, Paris and New York

Note: The proportion of voting rights within parenthesis is the amount held indirectly through a stake in other companies.

3. Management Results and Financial Position

(1) Overview of the Current Fiscal Year

During the fiscal year under review, operating conditions remained fierce amid continued curbs in public investment and skyrocketing materials prices for such items as crude oil and steel. Nonetheless, in the first half of the term, the economy entered the first stages of a recovery against the backdrop of a steady recovery in the U.S. and Asia that fueled robust exports, improvements in corporate profitability and increased capital spending. Unfortunately in the second half of the term, the vigor of the recovery waned as exports languished and production leveled off.

The HCM Group was impacted by such macro-level government policies as money tightening measures in China. Accordingly, the Group restructured its domestic business and expanded its international business to form five market regions, as well as reinforced its production structure to take advantage of such favorable overseas construction machinery markets as the United States and Asia, increased its share in the European market and capitalized on the briskness of the mining machinery market, which is being driven by a worldwide scarcity of steel.

The subsequent results for the term are as follows:

(100 million yen; %)

	Consolidated (Change)	Non-consolidated (Change)
Net sales	4,480 (+11%)	2,873 (+14%)
Ordinary income	336 (+29%)	180 (-6%)
Net income	173 (+39%)	100 (+80%)

Note: Figures under ¥100 million are rounded down.

(2) Overview by Regional Segment

The consolidated sales of the HCM Group are classified by five market regions; an overview of sales by region is shown below.

1) Japan

While exports of used machinery to China declined, demand for new hydraulic excavators rose 13% following stock adjustments. The rental and service businesses also achieved their targets on the whole for the term. Net sales edged up 5% to ¥158,997 million.

2) The Americas
Increased demand for hydraulic excavator, mini-excavators and mining machinery was fueled by strong production in mining and manufacturing as well as vigorous housing starts. Moreover, the highly effective marketing activities undertaken through HCM's partnership with Deere & Company produced results that exceeded original forecasts. Net sales jumped 45% to ¥82,522 million.

3) Europe, Africa and the Middle East
In Europe, sales continued to expand as Hitachi Construction Machinery (Europe) N.V. continued to reinforce and broaden its independent sales networks. Performance was also brisk in Russia and the Middle East, where infrastructure development is underway. Additionally, a bulk order for mining machinery from Spain also contributed considerably to performance. Net sales rose 44% to ¥92,304 million.

4) Oceania and Asia
Sales in this region rose amid increased sales for mining machinery in such countries as Australia and Indonesia and robust demand for hydraulic excavators in Southeast Asia and the area as a whole. Net sales increased 17% to ¥75,423 million.

5) China
Net sales in China declined 41% to ¥38,797 million amid waning demand caused by macro-economic policies such as the money-tightening measures of the Chinese government.

(3) Overview by Industry Segment
1) Construction Machinery Business
Consolidated net sales in the construction machinery business rose 11% to ¥445,681 million.

The HCM Group is promoting a full product lineup using alliances and other measures to support businesses that employ a wide range of construction machinery, and is concentrating on a market-specific marketing approach that can meet the needs of a diverse customer base in order to expand global business.

a. Construction-related Products Business
In Japan, although public spending continued to decline, stock adjustments for hydraulic excavators managed to spur demand to levels above the previous fiscal year. Overseas, the U.S. experienced strong growth; Southeast Asia recorded rising demand; increased market share was acquired in Europe by reinforcing and expanding independent sales networks; and brisk sales continued in the Russian market underscored by significant economic growth. Performance was also favorable in the emerging India market to the extent that HCM was able to achieve consolidated sales growth that covered waning demand in China. With regard to new products, the HCM Group released four models of ultra-short swing radius mini-excavators, which provide a comfortable cab and improved maintainability, as well as a 1.5-ton class ultra-short swing radius mini-excavator that improves on core excavating capabilities. The HCM Group also released a high-demand fully hydraulic crawler crane with 70-ton lift capacity and a telescopic crawler crane with 40-ton lift capacity through Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

In the wheel loader business, HCM acquired the shares of Hitachi Furukawa

Construction Machinery, Ltd. and Hitachi-Furukawa Loaders Europe S.A.S. from Furukawa Co., Ltd. on October 1, 2004, whereby both companies became a wholly owned subsidiary and changed their names to Hitachi Construction Machinery Alba Co., Ltd. and Hitachi Construction Machinery France S.A.S., respectively. Moreover, HCM raised its stake in TCM Corporation, directed toward improving efficiency in development and production in this business and promoting the Group’s global strategy.

b. Resource Development-related Products Business

Amid expanding demand that invigorated the mining business on account of a worldwide scarcity of steel, HCM has garnered a strong reputation for the capabilities of its machinery, which is supported by unrivalled technologies, as well as such services as a full maintenenace support program. This advantage, in combination with aggressive marketing activities focused on global mining centers, ensured continued growth in consolidated sales, including bulk orders from Indonesia and Spain for ultra-large hydraulic excavators and large dump trucks.

While constructing an additional production line for large hydraulic excavators at the Tsuchiura Factory, HCM commissioned a portion of production for ultra-large hydraulic excavators to outside contractors and augmented the production structure to be able to flexibly handle orders for mining machinery, which is expected to expand.

In new products, HCM released an articulate dump truck in Japan that can operate well on uneven and unstable ground.

The 780-ton EX8000 ultra-large hydraulic excavator, which is the largest class in the world and was shipped to Canada in July 2004, is operating flawlessly. Correspondingly, HCM has subsequently received further orders.

c. Environment-related Products Business

Following enactment of the Act for Measures Against Soil Contamination, and in line with trends in the expanding recycling market, HCM expanded its customer base both through product sales as well as by offering customers such proprietary technologies as an oil-reset construction method in which contaminated soil at the site of an abandoned gasoline stand is decontaminated.

In new products, HCM expanded its lineup with the release of a towable timber recycler that can efficiently shred timber from tree thinning as well as a self-propelled timber recycler with improved operationality.

d. Product Development Business

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

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

e. Rental Business

Within the directly managed rental group REC, HCM worked to reduce costs and raise operational efficiency through centralized management of rental assets using the “R-NET1” IT network in tandem with preservation, recovery and unified management of such assets as portable multipurpose equipment through expansion of regional maintenance centers.

f. Used Machinery Business

While demand was brisk in Southeast Asia and the Middle East chiefly through the hub of Hitachi Construction Machinery Trading Co., Ltd. (HCT), demand in China dropped drastically. In order to provide a wide range of information and improve efficiency, HCM was active in holding parade and Internet auctions.

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

g. Service Business

In Japan, HCM worked to promote its value-added service packages, which provide maintenance services and preventative measures finely tailored to customer needs, including scheduled maintenance, inspection and theft prevention. Overseas, HCM's strong reputation stemming from its full maintenance contracts (FMC), which provide support for ultra-large hydraulic excavators and large dump trucks that operate long hours in trying conditions, has subsequently led to bulk orders for mining machinery. Moreover, component supply further increased on the back of active demand for new machinery.

h. Other Software Business

In line with expansion in overseas businesses, Hitachi Kenki Logistics Technology Co., Ltd. augmented its global shipping operations by establishing the Tsuchiura Logistics Center for the purpose of providing a seamless product supply line from the Tsuchiura Factory to domestic and overseas production bases.

In addition, Hitachi Kenki Business Frontier Co., Ltd. is handling the development, sale and maintenance of computer software, while LCS Co., Ltd. is handling such financing business as installment and other sales.

2) Other Products Business

Consolidated net sales rose 50% to ¥2,362 million.

At Hitachi Kenki FineTech Co., Ltd., demand for semiconductor production equipment was strong and sales of ultrasonic inspection equipment and atomic force microscope equipment expanded.

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

(4) Disposition of Profits for the Current Term

HCM paid cash dividends of ¥7.00 per share for the fiscal 2004 interim period. At the Board of Directors’ Meeting scheduled for May 27, 2005, a resolution will be proposed to issue year-end cash dividends of ¥7.00 per share. As a result, total cash dividends per share for the fiscal year will amount to ¥14.0.

(5) Status of Consolidated Cash Flows

At the end of the fiscal year, cash and cash equivalents totaled ¥49,534 million, an increase of ¥8,403 million from the same time last year. Factors relating to each cash flow were as follows.

Cash flows from operating activities

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

Cash flows from investing activities

Net cash used in investing activities was ¥17,133 million. This consisted primarily of ¥14,783 million in acquisitions of property, plant and equipment, mainly in the purchase of land from Hitachi Ltd., the parent company, adjacent to the Tsuchiura Factory for a new design development facility, as well as capital investment to increase production at various manufacturing bases. Net cash used in investing activities also mainly consisted of ¥7,553 million for the purchase of investments in securities that included investments in TCM Corporation.

As a result, free cash flows, the sum of net cash provided by operating activities less net cash used in investing activities, amounted to a negative ¥9,234 million.

Cash flows from financing activities

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

(6) Outlook for the Term

Looking ahead, the global economy, beginning with the United States and Asia, is anticipated to be robust. A firm recovery in the Japanese economy is expected, but there are concerns about the rising prices for crude oil, steel, and other raw materials as well as the effects of exchange rate fluctuations.

Under these conditions, in the Americas, the HCM Group will press forward with the cultivation of markets in Latin American in addition to those in North America. In Europe, Africa and the Middle East, HCM will strive to secure additional market share in Europe and cultivate markets in the Middle East, mainly through the Middle East Center, while strengthening sales in the robust Russian market. Meanwhile, in Oceania and Asia, HCM will work to increase sales of ultra-large hydraulic excavators for mining and dump trucks as well as expand sales in markets in India and Vietnam. In China, HCM will strengthen its support structure for dealers, focus on the thorough recovery of account receivables and progress with efforts to offer a full line of products. Turning to Japan, under our two divisional organizations consisting of the Eastern Japan Operation Division and Western Japan Operation Division, we will strengthen our RSS (Rental, Sales and Service) System, undertake thorough marketing by each type of industry outside the civil engineering and construction industries, achieve profitability in the rental business and secure stable earnings.

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

At a meeting of the board of directors held on April 27, 2005, a resolution was passed to expand HCM’s scope of consolidation along with the change of TCM Corporation from an equity-method affiliate to a consolidated subsidiary. This resolution was based on the premises that a measure to revise the articles of incorporation will be approved at TCM Corporation’s ordinary general meeting of shareholders scheduled for June 29, 2005, whereby TCM Corporation will shift to a committee-based system, and also that a measure to elect directors will be approved in its original draft form.

The following shows the present outlook for full-year results in fiscal 2005, both with TCM Corporation as a consolidated subsidiary under the aforementioned change in the scope of consolidation, as well as with TCM Corporation in its current status as an equity-method affiliate.

Outlook for fiscal 2005, with TCM Corporation as a consolidated subsidiary

(100 million yen; %)

	Consolidated (Change)	Non-consolidated (Change)
Net sales	5,300 (+18%)	3,100 (+8%)
Ordinary income	363 (+8%)	160 (-11%)
Net income	187 (+8%)	100 (0%)

(Reference)

Outlook for fiscal 2005 consolidated results with TCM Corporation as an equity-method affiliate as in the past

(100 million yen)

	Consolidated
Net sales	4,700
Ordinary income	350
Net income	185

Notes: 1)Figures under ¥100 million are rounded down.
2)These projections assume an exchange rate of ¥105 to the U.S. dollar and ¥135 to the Euro.

1) Statements in this document contain forward-looking statements, which reflect management’s current views with respect to certain future events and financial performance. Words such as “forecast,” “outlook,” “intend,” “plan,” “project” and similar expressions, which indicate future events and trends identify forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements. Factors that could cause actual results to differ materially from those projected or implied in the forward-looking statements include the general economic conditions in HCM’s major markets, fluctuations in product demand, exchange rates and their fluctuations, and changes in the regulatory environment or in the accounting standards or practices in Japan or other countries.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

		Year-end (As of Mar. 31, 2005 (A))	Previous year-end (As of Mar. 31, 2004 (B))	(A)-(B)			Year-end (As of Mar. 31, 2005 (A))	Previous year-end (As of Mar. 31, 2004 (B))	(A)-(B)
	ASSETS					LIABILITIES			
Ⅰ	Current assets				Ⅰ	Current liabilities			
1.	Cash and bank deposits	32,522	36,848	(4,326)	1.	Notes and accounts payable	90,692	87,457	3,235
2.	Notes and accounts receivables	130,520	129,337	1,183	2.	Short-term debt	57,989	53,207	4,782
3.	Inventories	114,545	86,089	28,456	3.	Current portion of bonds	10,615	10,600	15
4.	Short term loans receivables	1,083	1,046	37	4.	Income taxes payable	7,112	9,610	(2,498)
5.	Deferred tax asset - current	9,716	9,782	(66)	5.	Unrealized income on installment	714	1,764	(1,050)
6.	Others	33,698	16,831	16,867	6.	Deferred income on installment	561	610	(49)
7.	Less: Allowance for doubtful accounts	(10,291)	(14,758)	4,467	7.	Others	47,472	34,726	12,746
	Total current assets	311,793	265,175	46,618		Total current liabilities	215,155	197,974	17,181
Ⅱ	Fixed assets				Ⅱ	Long-term liabilities			
(1)	Property, plant and equipment				1.	Bonds	24,320	34,800	(10,480)
1.	Property held for lease	20,060	20,999	(939)	2.	Long-term debt	61,862	53,545	8,317
2.	Buildings and structures	27,840	25,363	2,477	3.	Deferred long-term tax liability	725	599	126
3.	Machinery and equipment	17,202	14,098	3,104	4.	Retirement and severance benefits	7,181	8,991	(1,810)
4.	Land	32,858	29,610	3,248	5.	Others	14,026	12,294	1,732
5.	Construction in progress	463	1,154	(691)		Total long-term liabilities	108,114	110,229	(2,115)
6.	Tools, furniture and fixtures	5,151	4,641	510		Total liabilities	323,269	308,203	15,066
	Net property, plant and equipment	103,574	95,865	7,709					
						MINORITY INTERESTS			
(2)	Intangible assets					Minority interests	9,225	7,714	1,511
1.	Consolidated adjustment account	652	220	432					
2.	Others	2,732	2,670	62					
	Total intangible assets	3,384	2,890	494					
(3)	Investments and other assets					SHAREHOLDERS' EQUITY			
1.	Investments in securities	27,403	23,521	3,882	Ⅰ	Common stock	42,583	29,779	12,804
2.	Long-term loans receivable	330	518	(188)	Ⅱ	Capital surplus	42,092	29,306	12,786
3.	Deferred long-term tax assets	10,038	12,122	(2,084)	Ⅲ	Retained earnings	49,929	34,296	15,633
4.	Others	8,256	7,672	584	Ⅳ	Net unrealized gain on securities held	1,703	1,468	235
5.	Less: Allowance for doubtful accounts	(966)	(714)	(252)	Ⅴ	Foreign currency translation adjustments	(3,828)	(2,948)	(880)
	Total investments and other assets	45,061	43,119	1,942	Ⅵ	Treasury stock	(1,161)	(769)	(392)
	Total fixed assets	152,019	141,874	10,145		Total shareholders' equity	131,318	91,132	40,186
	Total assets	463,812	407,049	56,763		Total liabilities, minority interests and shareholders' equity	463,812	407,049	56,763

(2) Consolidated Statements of Income

(Millions of yen)

		Year-end Year ended Mar. 31, 2005 (A)	Previous year-end Year ended Mar. 31, 2004 (B)	(A)/(B)×100 (%)
				%
Ⅰ	Net sales	448,043	402,195	111
Ⅱ	Cost of sales	316,918	287,360	110
	Gross profit before (realized) unrealized profit on installment sales	131,125	114,835	114
Ⅲ	(Realized) unrealized profit on installment sales	(1,050)	(870)	121
	Gross profit	132,175	115,705	114
Ⅳ	Selling, general and administrative expenses			
1.	Packing and shipping expenses	12,767	9,842	130
2.	Employees' salaries	27,421	25,096	109
3.	R&D expenditure	9,929	6,670	149
4.	Provision of reserve for bad debt	202	4,957	4
5.	Others	41,736	36,282	115
	Total selling, general and administrative expenses	92,055	82,847	111
	Operating income	40,120	32,858	122
Ⅴ	Non-operating income			
1.	Interest income	942	703	134
2.	Interest income from installment	566	558	101
3.	Dividends income	187	108	173
4.	Foreign currency transaction gain	312	0	―
5.	Others	1,653	2,391	69
	Total non-operating income	3,660	3,760	97
Ⅵ	Non-operating expenses			
1.	Interest expenses	3,666	3,519	104
2.	Loss on disposal of inventories	544	733	74
3.	Effect of exchange rate changes	0	1,806	―
4.	New stock issuing expenses	765	0	―
5.	Equity in losses of affiliated	855	686	125
6.	Others	4,341	3,872	112
	Total non-operating expenses	10,171	10,616	96
	Ordinary income	33,609	26,002	129
Ⅶ	Extraordinary income			
1.	Gain on sale of property, plant and equipment	1,425	829	172
2.	Gain on the transfer to Japanese Government of the substitutional portion of employee pension fund liabilities	0	949	―
	Total extraordinary income	1,425	1,778	80
Ⅷ	Extraordinary losses			
1.	Amortization of transition difference	542	919	59
2.	Loss on revision of retirement benefit system	1,542	0	―
3.	Loss on revaluation of investments in securities	0	265	―
4.	Restructuring costs	800	2,732	29
5.	Loss on disposal of inventories	147	0	―
6.	Loss on sale of property, plant and equipment	141	217	65
7.	Impairment losses for long-lived assets	0	2,436	―
	Total extraordinary losses	3,172	6,569	48
	Income before income taxes and minority interests	31,862	21,211	150
	Income taxes			
	Current	10,418	12,105	86
	Deferred	2,488	(5,738)	―
	Minority interests	1,631	2,354	69
	Net income	17,325	12,490	139

(3) Consolidated Statements of Retained Earnings

(Millions of yen)

		Year-end Year ended Mar. 31, 2005 (A)	Previous year-end Year ended Mar. 31, 2004 (B)	(A)-(B)
	ADDITIONAL PAID-IN CAPITAL			
Ⅰ	Beginning balance	29,306	25,848	3,458
Ⅱ	Increase in additional paid-in capital			
1.	Exercise of stock purchase warrant	65	3,458	(3,393)
2.	Proceeds from capital increase by issuance of new shares	12,720	0	12,720
3.	Gain on sales of treasury stock	1	―	1
	Total increase in additional paid-in capital	12,786	3,458	9,328
Ⅲ	Decrease in additional paid-in capital	0	0	0
Ⅳ	Ending balance	42,092	29,306	12,786
	RETAINED EARNINGS			
Ⅰ	Beginning balance	34,296	23,239	11,057
Ⅱ	Increase in retained earnings			
1.	Effect of liquidation of consolidated subsidiaries	778	0	778
2.	Effect of exclusion of affiliated companies	171	0	171
3.	Effect of merger of affiliated company	0	44	(44)
4.	Net income	17,325	12,490	4,835
	Total increase in retained earnings	18,274	12,534	5,740
Ⅲ	Decrease in retained earnings			
1.	Effect of newly affiliated company	0	9	(9)
2.	Cash dividends	2,588	1,342	1,246
3.	Directors' bonuses	53	126	(73)
	Total decrease in retained earnings	2,641	1,477	1,164
Ⅳ	Ending balance	49,929	34,296	15,633

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year-end (The year ended Mar. 31, 2005)	Previous year-end (Year ended Mar. 31, 2004)
Ⅰ Cash flows from operating activities		
1. Income before income taxes and minority interests	31,862	21,211
2. Depreciation and amortization	14,381	12,672
3. Impairment losses for long-life assets	0	2,436
4. (Decrease) Increase in allowance for doubtful accounts	(4,238)	2,943
5. Interest and dividends income	(1,129)	(811)
6. Interest expenses	3,666	3,519
7. Equity in losses of affiliate companies	855	662
8. Increase in notes and accounts receivable	(57)	(21,432)
9. Increase in inventories	(25,265)	(9,685)
10. Purchase of property held for lease	(9,794)	(10,859)
11. Sales of property held for lease	3,835	3,872
12. Increase in notes and accounts payable	1,322	14,238
13. Gain on sales of property, plant and equipment	(2,031)	(1,132)
14. Loss on revaluation of investment in securities	14	265
15. Gain on sales of investment in securities	(197)	12
16. Others	11,402	(4,746)
Sub total	24,626	13,165
17. Income taxes paid	(16,727)	(5,144)
Net cash provided by operating activities	7,899	8,021
Ⅱ Cash flows from investing activities		
1. Investments in time deposits	(754)	(1,691)
2. Proceeds from time deposits	1,540	1,695
3. Acquisitions of property, plant and equipment	(14,783)	(6,447)
4. Proceeds from sale of property, plant and equipment	2,913	1,447
5. Purchases of investment in securities	(7,553)	(5,747)
6. Difference between the cash balance of newly consolidated companies and investment	(1,422)	(89)
7. Proceeds from sale of investments in securities	615	47
8. Interest and dividends received	1,146	771
9. Interest and dividends received from affiliated	288	2,412
10. Other, net	877	(1,228)
Net cash used in investing activities	(17,133)	(8,830)
Ⅲ Cash flows from financing activities		
1. Net increase (decrease) in short-term debt	(1,462)	7,546
2. Proceeds from long-term debt	31,897	24,531
3. Repayments of long-term debt	(20,933)	(11,662)
4. Proceeds from issuance of bonds	0	9,973
5. Repayments of redemption of debenture	(10,600)	(25,600)
6. Interest paid	(3,613)	(3,770)
7. Dividends paid to shareholders	(2,588)	(1,342)
8. Dividends paid to minority shareholders of subsidiaries	(1,046)	(785)
9. Proceeds from issuance of stock	24,825	159
10. Issuance of common stock to minority shareholders by	1,500	0
11. Proceeds from treasury stock	3	1
12. Purchases of treasury stock	(389)	(723)
Net cash provided by (used in) financing activities	17,594	(1,672)
Ⅳ Effect of exchange rate changes on cash and cash equivalents	43	(622)
Ⅴ Net increase (decrease) in cash and cash equivalents	8,403	(3,103)
Ⅵ Cash and cash equivalents at beginning of year	41,131	44,234
Ⅶ Cash and cash equivalents at end of year	49,534	41,131

Important matters that form the basis for compiling consolidated financial statements

1. Scope of consolidation

Number of consolidated subsidiaries: 45

(1) Main consolidated subsidiaries

1) Hitachi Construction Machinery Tierra Co., Ltd.
2) Yamagata Hitachi Construction Machinery Co., Ltd.
3) Hitachi Construction Machinery Alba Co., Ltd.
4) Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.
5) Hitachi Construction Machinery FineTech Co., Ltd.
6) Hitachi Construction Truck Manufacturing Ltd.
7) Hitachi Construction Machinery France S.A.S.
8) Hitachi Construction Machinery (Europe) N.V.
9) PT. Hitachi Construction Machinery Indonesia
10) Hefei Hitachi Excavators Co., Ltd.
<From April 2005, will be known as Hitachi Construction Machinery (China) Co., Ltd.>
11) Hitachi Construction Machinery (Singapore) Pte., Ltd.
12) Hitachi Construction Machinery (Shanghai) Co., Ltd.

(2) Newly consolidated subsidiaries: 3

1) Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai)
2) Tada Machinery Co., Ltd
3) Hitachi Construction Machinery (Malaysia) Sdn. Bhd.

(3) Newly unconsolidated subsidiaries: 5

1) Landy Niigata Co., Ltd.
2) Landy Kanto Co., Ltd.
3) Landy Kansai Co., Ltd.
4) Kanai Rec Co., Ltd.
5) Siam-Hitachi Construction Machinery Co., Ltd.

(4) Non-consolidated subsidiary: 1

Siam-Hitachi Construction Machinery Service Co., Ltd.

(5) Changes in Corporate Names

1) From October 2004, Hitachi Furukawa Construction Machinery, Ltd. became known as Hitachi Construction Machinery Alba Co., Ltd.
2) From October 2004, Hitachi-Furukawa Loaders Europe S.A.S. became known as Hitachi Construction Machinery France S.A.S.
3) From March 2005, Oriental-Hitachi Construction Machinery Sdn. Bhd. became known as Hitachi Construction Machinery (Malaysia) Sdn. Bhd.

2. Application of the equity method

Number of affiliates subject to the equity method: 8

(1) Main affiliates subject to the equity method

1) Deere-Hitachi Construction Machinery Corp.
2) Telco Construction Equipment Co., Ltd.
3) TCM Corporation

(2) Newly subjected to the equity method: 1

Yungtay-Hitachi Construction Machinery Co., Ltd.

(3) Excluded from the equity method: 2

1) Oriental-Hitachi Construction Machinery Sdn. Bhd.
2) Unite Co., Ltd.

3. Date of settlement of accounts for consolidated subsidiaries

Below is a list of the consolidated subsidiaries that settle their accounts on a date different from the rest of the consolidated Group.

1) Hitachi Construction Truck Manufacturing Ltd.
2) Euclid-Hitachi Heavy Equipment, Inc.
3) Hitachi Construction Machinery France S.A.S.
4) Hitachi Construction Machinery Southern Africa Co., Ltd.

5) PT. Hitachi Construction Machinery Indonesia
6) PT. Hexindo Adiperkasa Tbk.
7) Hefei Hitachi Excavators Co., Ltd.
8) Hitachi Construction Machinery (Shanghai) Co., Ltd.
9) Hitachi Construction Machinery Holdings U.S.A. Corporation
10) Hitachi Construction Machinery Thailand Co., Ltd.
11) Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai)
12) Hitachi Construction Machinery (Malaysia) Sdn. Bhd.

All the above firms settle their accounts on December 31. Financial statements as of the same date are used in preparing consolidated financial statements, and the required adjustments are performed for the consolidated Group when handling any major transactions that may have arisen between the date of settlement among these companies and the date of consolidated settlement. The closing dates for earnings for the consolidated subsidiaries other than those listed above correspond to the closing date for consolidated accounting.

4. Items concerning accounting standards

(1) Securities

Securities held to maturity

Amortized cost method

Other Securities

Those with market value:

Determined by the market-price valuation method based on market prices and other rates on the closing date of period under review. (The difference between the carrying value and the market value is included in equity, while the cost of securities sold is computed using the moving average method.)

Those without market value:

Determined mainly by the cost method based on the moving average method.

(2) Derivatives trading

Determined by the market-price valuation method.

(3) Inventories

Determined mainly by the lower-of-cost-or-market valuation accounting method based on the moving average method or individual method.

(4) Depreciation of major depreciable assets

1. Tangible fixed assets
   Assets for leases: The straight-line method is mainly applied.
   Other tangible fixed assets: The declining balance method is mainly applied.
2. Intangible fixed assets: The straight-line method is mainly applied.

(5) Accounting for deferred assets

1. Bond issue expenses
   Entire amount is expensed as incurred.
2. New stock issue expenses
   Entire amount is expensed as incurred.

(6) Allowance for doubtful accounts

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

(7) Reserve for retirement and severance benefits

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

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

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

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

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

(8) Income on installment sales

The Company and some subsidiaries have installment sales. Income on long-term installment is recognized as the related installment receivables become due.

Note: Interest from installment sales is included in Interest and dividend income.

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

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

(10) Accounting for leases

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

(11) Method of major hedge accounting

1. Method of hedge accounting
   By deferred hedge accounting.
2. Means and object of hedging
   Forward exchange contracts and currency options are conducted to alleviate foreign exchange risks in overseas transactions. Interest-rate swaps are conducted according to their procurement periods to solidify the fluctuation risks of cash flows by corporate bonds, long-term loans and other instruments.
3. Hedging policy
   Derivatives trading in currency-related operations is designed mainly to hedge sales contracts denominated in U.S. dollars, such that it is supposed to be conducted in the range of accounts receivable denominated in foreign currency and amounts of contracts established. As for interest-related derivatives trading, the Company considers its first priority to procure corporate bonds, long-term loans and similar instruments by long-stabilized interest, so that the Company aims to solidify interest rates on levels that match the actual market rates at the time of procurement.
4. Method of evaluating the effectiveness of hedging
   During the period from the commencement of hedging to the point at which effectiveness is assessed, the Company compares the cumulative total of market changes in the targeted objects of hedging or cash flow changes with the cumulative total of market changes in the hedging instruments or cash flow changes. The Company then makes a decision based on the changes and other factors of the two.

(12) Other major items regarding the basis for preparing consolidated balance sheets

Consumption taxes and regional consumption taxes are treated outside the financial statements.

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

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

6. Policies concerning the consolidated adjustment accounts

The consolidation adjustment accounts are amortized uniformly over five years.

7. Policies concerning the appropriation of earnings, etc.

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

8. Scope of funds in the statement of consolidated cash flows

The funds consist of (1) cash on hand, (2) demand deposits, and (3) short-term investments which have maturities of no more than three months after the date of acquisition and which are highly liquid, readily convertible into cash, and which bear little risk with regard to price fluctuations.

Accompanying Notes

(Notes to Consolidated Balance Sheets)

(Millions of yen)

	As of March 31, 2005	As of March 31, 2004
1. Notes discounted and endorsed Notes receivable discounted Notes receivable endorsed	 195 53	 0 65
2. Securitization Notes and accounts receivable	 67,760	 46,750
3. Accumulated depreciation on property, plant and equipment	131,489	125,024
4. Guarantee obligations Loans guaranteed Commitments to provide guarantees for loans	 8,464 600	 5,411 3,267
5. Assets pledged as collateral Secured debt	17,546 19,598	16,956 16,370

(Shares)

6. Total shares issued	195,865,038	175,567,038
7. Common stock held by consolidated subsidiaries	977,227	678,457

(Notes to Consolidated Statements of Income)

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004
Research and development costs included in general administrative expenses and manufacturing costs during the term	11,284	8,079

(Notes to Consolidated Statements of Cash Flows)

(Millions of yen)

	As of March 31, 2005	As of March31, 2004
Cash and bank deposits	32,522	36,848
Deposit paid	17,158	5,155
Subtotal	49,680	42,003
Time deposits with a maturity of more than three months	(146)	(872)
Cash and cash equivalents	49,534	41,131

5. Securities

(1) Other securities with market value

(Millions of yen)

Category	As of March 31, 2005			As of March 31, 2004		
	Market value	Book value per consolidated balance sheet	Unrealized gain(loss)	Market value	Book value per consolidated balance sheet	Unrealized gain(loss)
Securities with Unrealized holding gain						
① Stocks	1,950	4,062	2,112	1,605	3,356	1,751
② Bonds	0	0	0	0	0	0
③ Others	0	0	0	0	0	0
Total	1,950	4,062	2,112	1,605	3,356	1,751
Securities with Unrealized holding loss						
① Stocks	13	10	(3)	331	285	(46)
② Bonds	0	0	0	0	0	0
③ Others	0	0	0	0	0	0
Total	13	10	(3)	331	285	(46)
Grand Total	1,963	4,072	2,109	1,936	3,641	1,705

(2) Available-for-sales securities sold for the year ended March 31, 2005 and 2004 were as follows.

Fiscal year ended March 31, 2005 (Millions of yen)

Total sale amount	Total gain	Total loss
31	5	0

Fiscal year ended March 31, 2004 (Millions of yen)

Total sale amount	Total gain	Total loss
47	2	14

(3) Main securities not valuated at market prices

(Millions of yen)

Category	As of March 31, 2005	As of March 31, 2004
	Book value per consolidated balance sheet	Book value per consolidated balance sheet
(1) Securities held to maturity Bonds	10	0
Total	10	0
(2) Other securities		
① Unlisted stocks other than OTC stocks	1,619	2,026
② Unlisted foreign bonds	1,000	1,000
Total	2,619	3,026

(4) Maturities of available-for-sales securities as of March 31, 2005 and 2004 were as follows.

(Millions of yen)

Bond (corporate bond)	As of March 31, 2005	As of March 31, 2004
Within one year	0	0
More than one year but within five years	0	0
More than five years but within ten years	1,000	1,000
More than ten years	0	0

6. Market value and appraisal profits/losses of contractual and other amounts of derivatives

(1) Currencies

(Millions of yen)

Category	Type	Fiscal year ended March 31, 2005				Fiscal year ended March 31, 2004			
		Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain
			Due after one year				Due after one year		
Transactions other than market transactions	Forward exchange contracts								
	Selling in								
	US dollar	38,341	0	39,831	(1,490)	24,250	0	23,852	398
	Euro	22,026	0	22,546	(520)	19,003	0	18,791	212
	Japanese yen								
	Buying in								
	Japanese yen	4,199	0	4,108	(91)	6,514	0	6,582	68
	US dollar	1,687	0	1,637	(50)	1,628	0	1,562	(66)
	Euro	437	0	435	(2)	121	0	116	(5)
	Australian dollar	3	0	3	0	40	0	40	0
	Currency option trade								
	Buying in								
	Japanese yen (Optional fee)	0 (—)	0 (—)	0	0	1,054 (—)	0 (—)	(25)	(25)
Total		—	—	—	(2,153)	—	—	—	582

Notes:

1)The exchange rates at the end of the term are the futures rates.

2) The market prices of option transaction at the end of the term are based on prices presented by the financial establishments.

3)The above table excludes the derivative transactions subjected to hedge accounting.

(2) Interest rates

(Millions of yen)

Category	Type	Fiscal year ended March 31, 2005 Contractual or other amount	Due after one year	Market value	Unrealized gain	Fiscal year ended March 31, 2004 Contractual or other amount	Due after one year	Market value	Unrealized gain
Interest swaps	Payment fixed, receipts fluctuated	7,000	7,000	(64)	(64)	5,300	5,300	(87)	(87)
Total		7,000	7,000	(64)	(64)	5,300	5,300	(87)	(87)

Notes:

1)The market prices are based on prices presented by financial establishments with which the HCM and subsidiaries have interest swaps.

2)The above table excludes the derivative transactions subjected to hedge accounting.

7. Retirement and severance benefits

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

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

2. The funded status of the Company’s pension plans as of March 31, 2005 is summarized as follows:

(Millions of yen)

	(As of March 31, 2005)	(As of March 31, 2004)
①Projected benefit obligation	(57,757)	(72,831)
②Plan assets at fair value	39,156	40,659
③Funded status	(18,601)	(32,172)
④Unrecognized transition difference as at April 1, 2000	0	613
⑤Unrecognized actuarial loss	19,977	22,906
⑥Unrecognized prior service cost	(6,182)	(28)
Total	(4,806)	(8,681)
⑦Prepaid benefit cost	2,375	310
⑧Retirement and severance benefit on balance sheet	(7,181)	(8,991)

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

(Millions of yen)

	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2004
①Service cost	1,879	2,681
②Interest cost	2,033	2,536
③Expected return on plan assets	(989)	(2,093)
④Participant contributions	(59)	(276)
⑤Amortization of transition difference	542	919
⑥Recognized actuarial (gain) or loss	1,720	2,600
⑦Amortization of prior service cost	(188)	(2)
⑧Cost for defined contributed pension plan	715	146
⑨Cost for installment of defined contribution pension plan	157	0
⑩Extraordinary income originated from exemption from payment of future benefits regarding the substituted portion of the employee pension fund liabilities	0	(949)
⑪Loss on revision of retirement benefit plan	1,542	0
⑫Loss associated with termination of subsidiary pension plans	800	0
Net periodic benefit cost	8,152	5,562

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

	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2004
Discount rate: 0.00%	2.60%	2.79%
Expected long-term rate of return on plan assets : 0.0%	2.5%	5.0%
Term of amortization of unrecognized prior service cost	10~23years	10~23years
Term of amortization of unrecognized actuarial loss	10~23years	10~23years
Term of amortization of unrecognized transition difference	5 years	5 years

8. Segment Information

(1) Segment information by business category

During the preceding fiscal year (from April 1, 2003 through March 31, 2004) and this fiscal year (from April 1, 2004 through March 31, 2005), the construction machinery business, including manufacturing, sales and rental, exceeded 90% of the total business of the Company with respect to sales, operating income and asset size. The segment information by business category is therefore omitted in this report.

(2) Segment information by area (Millions of yen)

	Fiscal year ended March 31, 2005			Fiscal year ended March 31, 2004		
	Sales	Operating income(loss)	Assets	Sales	Operating income(loss)	Assets
Japan	355,673	18,633	394,453	317,398	18,887	341,817
Asia	64,744	6,537	57,802	72,332	10,552	57,979
Europe	80,914	4,066	61,991	53,484	1,229	54,507
Others	106,506	9,670	73,364	59,281	4,965	42,285
Subtotal	607,837	38,906	587,610	502,495	35,633	496,588
Elimination	(159,794)	1,214	(123,798)	(100,300)	(2,775)	(89,539)
Total	448,043	40,120	463,812	402,195	32,858	407,049

Notes:
1) Segment net sales figures include inter-segment transactions.
2) The countries included in each segment are as follows:
(1)Asia: China, Indonesia, Singapore, Thailand and Malaysia
(2)Europe: Holland and France
(3)Other: The United States, Canada, Australia, New Zealand and South Africa

(3) Overseas sales (Millions of yen)

	Fiscal year ended March 31, 2005		Fiscal year ended March 31, 2004	
	Sales	Percentage of sales in consolidated sales	Sales	Percentage of sales in consolidated sales
The Americas	82,522	18.4%	56,870	14.1%
Europe, Africa & Middle East	92,304	20.6	63,932	15.9
Oceania & Asia	75,423	16.8	64,634	16.1
China	38,797	8.7	65,417	16.3
Total Overseas sales	289,046	64.5	250,853	62.4
Consolidated sales	448,043	100.0	402,195	100.0

Notes:
(1)Countries and regions are based on geographical proximity.
(2)The countries included in each segment are as follows:
The Americas: The United States and Canada
Europe, Africa & Middle East: Holland, the United Kingdom, Italy, South Africa and the United Arab Emirates.
Oceania & Asia: Indonesia, Australia and New Zealand
China: China
(3)Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.

9. Transactions with parties involved

(1) Parent company, major corporate stockholders, and other stakeholders

Attribute	Company	Address	Capital or capital subscriptions	Business	Holding (held) percentage of voting rights and other rights	Relationship		Nature of transactions	Amount of transaction	Subject	Amount as of end of year
						Concurrent office of officers, etc.	Virtual relationship				
Parent company	Hitachi, Ltd.	Chiyoda-ku, Tokyo	282,032 million yen	Manufacturing, sales, and service of electrical appliances, apparatus, and various other products	Held (%) Direct: 50.4 Indirect: 0.9	Concurrent office: 2	Purchase of components and production commissioning and sales of construction machinery	Fund raising (Note 1)	6,686 million yen	Short-term debt	0 million yen
								Fund deposit (Note 1)	67,317 million yen	Other current assets	17,158 million yen
								Capital increase (Note 2)	12,730 million yen	Common stock	6,370 million yen
										Capital reserve	6,360 million yen

Note: Terms of transactions, principles of determining terms of transactions, etc.

1. Regarding the borrowing and deposit of funds, loan and deposit interest is agreed on with consideration given to the market interest rates prevalent. These loans and deposits are based on monthly contracts. No collateral is provided.
2. The new shares issued consisted of common stock. Of the 20,000,000 such shares issued (issuing price of ¥25,460 million), 10,000,000 shares were accepted by Hitachi, Ltd.

(2) Subsidiaries, etc.

Attribute	Company	Address	Capital or capital subscriptions	Business	Holding (held) percentage of voting rights and other rights	Relationship		Nature of transactions	Amount of transaction	Subject	Amount as of end of year
						Concurrent office of officers, etc.	Virtual relationship				
Affiliates	Deere-Hitachi Construction Machinery Corp.	North Carolina USA	58,800 thousand US dollars	Manufacturing, sale and other operations of construction machinery	Holding (%) Direct: 50.0	Concurrent office: 2 On loan: 1	Supply, etc. of the company's products and components	Sales of construction machinery and components(Note 1, 2 & 3)	22,766 million yen	Accounts receivable	8,748 million yen

Note: Terms of transactions, principles of determining terms of transactions, etc.

1. The amounts of transaction and the balance of accounts receivable include the amounts of transactions conducted via large trading firms.
2. The amounts of transactions are indicated without consumption tax and other taxes. The balance at the term end is indicated including consumption tax and other taxes generated through the intermediary of trading firms.
3. The sale price is a local market price or export component price.

(3) Sibling companies, etc.

Attribute	Company	Address	Capital or capital subscriptions	Business	Holding (held) percentage of voting rights and other rights	Relationship		Nature of transactions	Amount of transaction	Subject	Amount as of end of year
						Concurrent office of officers, etc.	Virtual relationship				
Subsidiary of the parent company	Hitachi Capital Co., Ltd.	Minato-ku, Tokyo	9,983 million yen	Financial service enterprises, etc.	Holding (%) Direct: - Indirect: 0.1	None	Lease of the company's products, and commissioning of payment operations conducted to the company's suppliers and customers	Commissioning of payment operations to the company's suppliers (Note 1 & 2)	31,632 million yen	Accounts payable Accrued liability	11,442 million yen 379 million yen
Subsidiary of the parent company	Hitachi Asset Funding Corporation	Minato-ku, Tokyo	3 million yen	Securitization business	None	None	Assignment of account receivable claims	Assignment of account receivable claims (Note 3)	9,304 million yen	-	-

Note: Terms of transactions, principles of determining terms of transactions, etc.

1)Purchase prices are determined based on the market prices.

2) Amounts of transactions are indicated with consumption tax and other taxes excluded, and the balance at the term end is indicated with consumption and other taxes included.

3) Amounts of transactions are indicated with consumption tax.

(English translation of “KESSAN TANSHIN” originally issued in Japanese language.)

10. Principal subsequent events

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

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

11. Change in Officer Structure (As of June 28, 2005)

As the candidates for Director were finalized following a resolution by the Nominating Committee on April 26, 2005, a list of candidates for Director and Executive Officer are provided below.

In addition, the Directors are expected to be appointed at the 41st Annual General Meeting of Shareholders scheduled for June 28, 2005, while the Executive Officers are expected to be appointed at a Board of Directors meeting later on the same day.

(1) Candidates for Director

Chairman of the Board	Ryuichi Seguchi (Unchanged)
Director	Shungo Dazai (Unchanged)
Director	Tadamichi Sakiyama (Unchanged)
Director	Michijiro Kikawa (New; Representative Executive Officer and Executive Vice President)
Director	Yasuhiko Nakaura (New; Executive Officer and Senior Vice President)
Director	Morihisa Sugiyama (New; Representative Director and Executive Vice President of TCM Corporation)
Director	Hisashi Hosokawa (Outside Director; Representative Director of Green ARM Co., Ltd.)
Director	Kazuo Kumagai (Outside Director; Senior Adviser to Hitachi, Ltd.)
Director	Reiji Tagaya (New; Senior Adviser to Hitachi, Ltd.)

* Hisashi Hosokawa, Kazuo Kumagai and Reiji Tagaya fulfill the requirements for outside directors as stipulated in Article 188, Paragraph 2, Item 7-2 of the Japanese Commercial Code.

(2) Retiring Directors

Kyoichi Ueda (Scheduled to assume post as Director at TCM Corporation)
Nobuyoshi Katagiri
Tadashi Ishibashi

(3) Candidates for Executive Officer

President and Chief Executive Officer	Shungo Dazai (Unchanged)
Executive Vice President and Representative Executive Officer	Tadamichi Sakiyama (Unchanged)
Executive Vice President and Representative Executive Officer	Michijiro Kikawa (Unchanged)
Senior Vice President and Executive Officer	Yasuhiko Nakaura (Unchanged)
Senior Vice President and Executive Officer	Shuichi Ichiyama (Unchanged)
Senior Vice President and Executive Officer	Katsutoshi Arita (Unchanged)
Senior Vice President and Executive Officer	Tadakatsu Tsuda (Unchanged)
Vice President and Executive Officer	Hiromitsu Suzuki (Unchanged)
Vice President and Executive Officer	Nobuhiko Kuwahara (Unchanged)
Vice President and Executive Officer	Yasuhiko Murata (Unchanged)
Vice President and Executive Officer	Toshiyuki Natake (Unchanged)
Vice President and Executive Officer	Mitsuo Mori (Unchanged)
Executive Officer	Jiro Kamio (Unchanged)
Executive Officer	Mitsuji Yamada (Unchanged)
Executive Officer	Toru Sakai (Unchanged)
Executive Officer	Shinichi Mihara (Unchanged)
Executive Officer	Kiichi Uchibayashi (Unchanged)
Executive Officer	Takayoshi Honma (Unchanged)
Executive Officer	Hideo Arahata (Unchanged)