Notes to Consolidated Financial Statements

March 31, 2004, 2003 and 2002

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Hitachi Koki Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. 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.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 2003 and 2002 financial statements to conform to the 2004 presentation.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The Company will adopt these standards effective April 1, 2005.

Management believes that adoption of this new accounting standard will have no significant effect on the Company's financial statements.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (23 subsidiaries in 2004, 27 subsidiaries in 2003 and 28 subsidiaries in 2002). All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned) are stated at the underlying equity value, and the appropriate portion of the earning of such companies is included in consolidated income (2 affiliated companies in 2004 and 2003 and 1 affiliated company in 2002).

(c) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Resulting exchange gains or losses are credited or charged to income as incurred.

The assets and liabilities of foreign currency financial statements are translated into Japanese yen at current rates of exchange at the balance sheet date. Common stock, capital surplus and retained earnings are translated at the historical exchange rates. Income, expenses and net income are translated at average rates of exchange. Translation adjustments are debited or credited to foreign currency translation adjustments accounts, which are reported in the shareholders' equity and minority interests in the accompanying consolidated balance sheets.

(d) Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Company and the subsidiaries classify cash on hand, readily available bank deposits and short-term highly liquid investments with low risk of value fluctuation with maturities not exceeding three months at the time of purchase as cash and cash equivalents.

(e) Marketable Securities and Investment Securities

Under Japanese accounting standards, companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by nonconsolidated subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gain on sale of such securities is computed using the moving-average cost. Securities with no fair market values are stated principally at the moving-average cost.

The Company and its domestic subsidiaries had no trading securities or held-to-maturity debt securities.

If the market value of equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline.

(f) Derivative Transactions and Hedge Accounting

The Company and subsidiaries utilize forward foreign exchange contracts and interest rate and currency swap agreements as derivative transactions, in order to hedge foreign currency risks and interest rate risks arising from normal business transactions.

Derivative instruments are stated at fair value. Changes in the fair values are recognized as gains or losses unless derivative transactions are used for hedging purposes.

If derivative transactions are used as hedges and meet certain hedging criteria, the Company and its domestic consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative transactions until the related losses or gains on the hedged items are recognized.

Evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedge instruments are the same as those of the related hedged transactions, assets and liabilities, and therefore they are assumed to be highly effective in offsetting movements in the exchange rates at their inception as well as during their term.

Some subsidiaries record the discounts or premiums on forward contracts in net income over the life of the contracts.

Interest rate and currency swap agreements are stated at fair value and change in the fair value is accounted for as gains or losses in the statement of operations.

(g) Inventories

Finished goods, semi-finished goods and raw materials are stated at the lower of cost or market value, cost being determined primarily by the moving-average method. Work in process is stated at cost primarily based on the identified cost method.

(h) Retirement Benefits

The Company and its domestic subsidiaries provide two post-employment benefit plans, an unfunded lump-sum payment plan and a funded pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and its domestic subsidiaries may make payments for additional retirement benefits for employees which payments have not been included in the actuarial calculation of the projected benefit obligation.

Allowance and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its domestic subsidiaries provided allowance for employees' severance and retirement benefits at the balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

The excess of the projected benefit obligation over the fair value of pension assets as of April 1, 2000, the date the new accounting standard for employees' severance and pension benefits was adopted, and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥5,985 million. The net transition obligation is being recognized as expense in equal amounts over 5 years commencing with the year ended March 31, 2001. Actuarial gains/losses are recognized as income/expense in equal amounts principally over 15 years commencing from the succeeding period. Past service costs are recognized as income or expense in equal amounts principally over 15 years.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its consolidated domestic subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on January 17, 2003 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Company and its consolidated domestic subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As the result, in the year ended March 31, 2003, the Company and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥6,385 million, which was calculated based on the amount of the substitutional portion of the projected benefit obligations as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥14,409 million as at March 31, 2003.

Retirement benefits to directors and corporate auditors of the Company are included in other long-term liabilities in the amount calculated based on the established guidelines. Payment of such benefits is subject to the approval at the shareholders' meeting.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives, except that buildings are depreciated primarily based on the straight-line method.

(j) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(k) Appropriation of Retained Earnings

Payments of dividends and directors' bonuses are accounted for as an appropriation of retained earnings in the year in which such appropriations are approved at the general shareholders' meeting, or in the case of interim dividends at the meeting of the Board of Directors.

(l) Earnings per Share

Net income per share of common stock is computed based upon the weighted-average number of shares outstanding during each year. For diluted net income per share, both net income and shares outstanding were adjusted to assuming the conversion of the convertible bond and the issuance of common stock by the exercise of stock purchase rights.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the year ended March 31, 2002 would have been reported ¥7.88, had this new accounting standard been applied retroactively.

(m) Accounting Standard for Treasury Stock and Reversal of Statutory Reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was not material.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2004, 2003 and 2002 for the consolidated statements of cash flows consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Cash and time deposits	**¥ 8,361**	¥ 5,974	¥10,141	**$ 79,109**
Marketable securities	**—**	—	7,000	**—**
Deposits	**16,535**	23,362	5,902	**156,448**
Time deposits with maturities over three months	**—**	(0)	(43)	**—**
Cash and cash equivalents	**¥24,896**	¥29,336	¥23,000	**$235,557**

3. MARKET VALUE INFORMATION FOR SECURITIES

At March 31, 2004, acquisition cost, book value and fair value of securities with available fair value were as follows:

Available-for-sale securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥942	¥2,202	¥1,260
Total	¥942	¥2,202	¥1,260
Other securities:			
Equity securities	¥ 5	¥ 5	¥ (0)
Total	¥ 5	¥ 5	¥ (0)

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	$8,913	$20,835	$11,922
Total	$8,913	$20,835	$11,922
Other securities:			
Equity securities	$ 47	$ 47	$ (0)
Total	$ 47	$ 47	$ (0)

At March 31, 2004, book values of securities not stated at fair value were as follows:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Others	¥101	$956
Shares of subsidiary and affiliate	35	331

Total sales amounts of available-for-sale securities sold in the year ended March 31, 2004 amounted to ¥474 million ($4,485 thousand) and the related losses amounted to ¥6 million ($57 thousand).

At March 31, 2003, acquisition cost, book value and fair value of securities with available fair value were as follows:

Available-for-sale securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥ 105	¥ 145	¥ 40
Total	¥ 105	¥ 145	¥ 40
Other securities:			
Equity securities	¥ 781	¥ 695	¥ (86)
Investment funds	481	412	(69)
Total	¥1,262	¥1,107	¥(155)

At March 31, 2003, book value of securities not stated at fair value were as follows:

	Millions of yen
Available-for-sale securities:	
Others	¥101
Shares of subsidiary and affiliate	53

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods	**¥14,765**	¥14,914	**$139,701**
Semi-finished goods	**1,259**	1,342	**11,912**
Work in process	**2,245**	1,867	**21,241**
Raw materials	**1,540**	1,664	**14,571**
Goods in transit	**2,833**	2,340	**26,805**
Inventory reserve	**(1,308)**	(1,153)	**(12,376)**
	¥21,334	¥20,974	**$201,854**

5. DERIVATIVE TRANSACTIONS

(a) Status of Derivative Transactions

The Company and subsidiaries utilize forward foreign exchange contracts and interest rate and currency swap agreements as derivative transactions, in order to hedge foreign currency risks and interest rate risks arising from normal business transactions.

The derivative transactions are made solely with highly rated financial institutions. The basic policy for derivative transactions is determined by the director in charge. Derivative contracts are executed and managed by the Accounting Department in accordance with the internal rules on authorization, maximum transaction amounts allowed, etc. Details of the transactions are reported to the director on a monthly basis.

The following summarizes hedging derivative financial instruments used by the Company and subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency trade receivables and future transactions denominated in foreign currencies
Interest rate and currency swap agreements	Foreign currency loans

(b) Market Value of Derivative Transactions

The aggregate amounts contracted to be paid or received and the fair value of derivative transactions at March 31, 2004 and 2003 were as follows:

Currency-related derivatives:

	Millions of yen			
	2004			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gain (losses)
Forward contracts:				
To sell:				
U.S. dollars	**¥4,324**	**¥—**	**¥4,220**	**¥104**
Euro	**2,374**	**—**	**2,346**	**28**
H.K. dollars	**165**	**—**	**156**	**9**
STG. £	**245**	**—**	**244**	**1**
A.U. dollars	**375**	**—**	**372**	**3**
S.G. dollars	**100**	**—**	**100**	**(0)**
Total	**¥7,583**	**¥—**	**¥7,438**	**¥145**

	Millions of yen			
	2003			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gain (losses)
Forward contracts:				
To sell:				
U.S. dollars	¥4,099	¥—	¥4,035	¥ 64
Euro	3,154	—	3,347	(193)
H.K. dollars	115	—	116	(1)
STG. £	70	—	70	(0)
A.U. dollars	265	—	277	(12)
S.G. dollars	93	—	94	(1)
Total	¥7,796	¥—	¥7,939	¥(143)

	Thousands of U.S. dollars			
	2004			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gain (losses)
Forward contracts:				
To sell:				
U.S. dollars	**$40,912**	**$—**	**$39,928**	**$ 984**
Euro	**22,462**	**—**	**22,197**	**265**
H.K. dollars	**1,561**	**—**	**1,476**	**85**
STG. £	**2,318**	**—**	**2,309**	**9**
A.U. dollars	**3,548**	**—**	**3,520**	**28**
S.G. dollars	**946**	**—**	**946**	**(0)**
Total	**$71,747**	**$—**	**$70,376**	**$1,371**

Interest-related derivatives:

	Millions of yen			
	2004			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Receive U.S. dollars, pay yen/ Receive variable, pay variable	**¥3,459**	**¥—**	**¥127**	**¥127**
Receive Can. dollars, pay yen/ Receive variable, pay variable	**778**	**—**	**23**	**23**
Receive Euro, pay yen/ Receive variable, pay variable	**3,702**	**—**	**0**	**0**
Receive A.U. dollars, pay yen Receive variable, pay variable	**86**	**—**	**(1)**	**(1)**
Total	**¥8,025**	**¥—**	**¥149**	**¥149**

	Millions of yen			
	2003			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Receive U.S. dollars, pay yen/ Receive variable, pay variable	¥1,472	¥—	¥27	¥27
Receive Can. dollars, pay yen/ Receive variable, pay variable	656	—	0	0
Receive Euro, pay yen/ Receive variable, pay variable	385	—	(6)	(6)
Total	¥2,513	¥—	¥21	¥21

	Thousands of U.S. dollars			
	2004			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Receive U.S. dollars, pay yen/ Receive variable, pay variable	**$32,728**	**$—**	**$1,202**	**$1,202**
Receive Can. dollars, pay yen/ Receive variable, pay variable	**7,361**	**—**	**217**	**217**
Receive Euro, pay yen/ Receive variable, pay variable	**35,027**	**—**	**0**	**0**
Receive A.U. dollars, pay yen Receive variable, pay variable	**814**	**—**	**(9)**	**(9)**
Total	**$75,930**	**$—**	**$1,410**	**$1,410**

6. LEASE INFORMATION

Finance leases whose ownership is not transferred to lessees are not capitalized and accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases was as follows:

(a) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2004 and 2003 was as follows:

	Millions of yen		
	2004		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥543**	**¥428**	**¥115**
Software	**8**	**4**	**4**
	¥551	**¥432**	**¥119**

	Millions of yen		
	2003		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥639	¥382	¥257
Software	8	2	6
	¥647	¥384	¥263

	Thousands of U.S. dollars		
	2004		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$5,137**	**$4,049**	**$1,088**
Software	**76**	**38**	**38**
	$5,213	**$4,087**	**$1,126**

(b) Future minimum lease payments, at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 88**	¥151	**$ 833**
Due after one year	**35**	119	**331**
	¥123	¥270	**$1,164**

(c) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Lease payments	**¥158**	¥181	¥162	**$1,495**
Assumed depreciation charges	**152**	174	154	**1,438**
Assumed interest charges	**3**	6	7	**28**

(d) Assumed depreciation charges are computed using the straight-line method over the lease terms assuming no residual value.

(e) Assumed interest charges are computed using the effective-interest method.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

(a) The weighted-average rate of interest for short-term bank loans is approximately 7.0% at March 31, 2004 and 3.3% at March 31, 2003.

(b) Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Unsecured loans principally from banks and insurance companies, weighted-average rate of interest approximately 1.4% for 2003	**¥—**	¥600	**$—**
Less amount due within one year	**—**	120	**—**
	¥—	¥480	**$—**

(c) The following assets are pledged as collateral for short-term bank loans at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Trade receivables–accounts	**¥138**	¥120	**$1,306**
Inventories	**160**	181	**1,514**
	¥298	¥301	**$2,820**

8. INCOME TAXES

Taxes on income consist of corporation tax, inhabitant taxes and enterprise tax. The aggregate statutory tax rate on income before income taxes was approximately 41.8% for 2004, 2003 and 2002. The actual effective tax rates in the consolidated statements of operations differ from the normal effective tax rates principally because of the effect of recoverability of deferred tax assets and net losses of subsidiaries.

The significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2004 and 2002 were as follows:

Such reconciliation for the year ended March 31, 2003 has not been prepared as net loss was incurred.

	2004	2002
Statutory tax rate	**41.8%**	41.8%
Non-deductible expenses	**2.0**	4.1
Non-taxable income	**—**	(5.6)
Change in valuation allowance	**(17.9)**	(7.1)
Per capital inhabitant tax	**1.3**	4.3
Deference in statutory tax rate of foreign subsidiaries	**(3.2)**	6.3
Net loss of subsidiaries	**—**	26.4
Elimination of unrealized profits	**—**	(19.4)
Others	**3.8**	3.0
Effective tax rate	**27.8%**	53.8%

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Retirement benefits	**¥ 1,128**	¥ 957	**$ 10,673**
Accrued bonuses	**783**	662	**7,408**
Write-downs of inventories	**348**	378	**3,293**
Tax loss carryforward	**9,859**	12,421	**93,282**
Others	**763**	518	**7,219**
Subtotal	**12,881**	14,936	**121,875**
Valuation allowance	**(4,995)**	(5,934)	**(47,261)**
Total deferred tax assets	**7,886**	9,002	**74,614**
Deferred tax liabilities:			
Net unrealized gains on securities	**(510)**	—	**(4,825)**
Prepaid pension costs	**(25)**	(112)	**(237)**
Others	**(7)**	(7)	**(66)**
Total deferred tax liabilities	**(542)**	(119)	**(5,128)**
Net deferred tax assets	**¥ 7,344**	¥ 8,883	**$ 69,486**

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was principally 41.8% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 41.8% for current items and 40.5% for non-current items at March 31, 2003, and 40.5% for both current and non-current items as of March 31, 2004.

As a result of the change in the aggregate statutory income tax rates, deferred income tax assets decreased by ¥176 million and deferred income tax expense increased by the same amount compared with what would have been recorded under the previous local tax law as of and for the year ended March 31, 2003.

9. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2004 and 2003, for trade notes discounted in the ordinary course of business amounted to ¥168 million ($1,590 thousand) and ¥458 million, respectively.

Contingent liabilities at March 31, 2004 for employee loans amounted to ¥133 million ($1,258 thousand).

10. RETIREMENT BENEFITS AND RETIREMENT COSTS

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥36,704**	¥35,889	**$347,280**
Unrecognized actuarial differences	**(8,440)**	(14,089)	**(79,856)**
Less fair value of pension assets	**(25,106)**	(18,769)	**(237,544)**
Less unrecognized net transition obligation	**(211)**	(422)	**(1,996)**
Prepaid pension costs	**161**	369	**1,523**
Employees' severance and retirement benefits	**¥ 3,108**	¥ 2,978	**$ 29,407**

Included in the consolidated statements of operations for the years ended March 31, 2004, 2003 and 2002 is a severance and retirement benefit expense comprising the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Service costs-benefits earned during the year	**¥1,028**	¥ 1,099	¥2,232	**$ 9,727**
Interest cost on projected benefit obligation	**894**	2,273	2,758	**8,459**
Expected return on plan assets	**(469)**	(1,355)	(1,539)	**(4,438)**
Amortization of actuarial differences	**971**	1,054	530	**9,187**
Amortization of net transition obligation	**211**	1,937	1,197	**1,996**
Amortization of prior service costs	**—**	(132)	—	**—**
Severance and retirement benefit expense	**¥2,635**	¥ 4,876	¥5,178	**$24,931**
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	**¥ —**	¥(6,385)	¥ —	**$ —**
Net severance and retirement benefit expense	**¥ —**	¥(1,509)	¥ —	**$ —**

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 2.5% for 2004, principally 2.5% and 2.5% for 2003 and principally 3.5% and 2.5% for 2002, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized as income or expense in equal amounts principally over 15 years commencing from the succeeding period. Past service costs are recognized as income or expense in equal amounts principally over 15 years. Net transition obligation is recognized as expense in equal amounts over 5 years commencing with the year ended March 31, 2001.

11. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital, which is included in capital surplus.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2004 include amounts representing the year-end cash dividends and bonuses to directors approved at the shareholders' meeting held on June 25, 2004 as described in Note 17.

Cash dividends charged to retained earnings during the years ended March 31, 2004, 2003 and 2002 represent dividends paid out during these periods.

12. STOCK OPTION (STOCK PURCHASE RIGHTS)

By general resolution at the 81st general shareholders' meeting held on June 26, 2003, the Company introduced a stock option plan in accordance with Article 280-20 and 280-21 of the Commercial Code of Japan, and granted stock purchase rights at advantageous terms to 5 directors and 7 employees at the closing of the 81st general shareholders' meeting.

The stock purchase rights can be exercised at a price of ¥507 ($4.80) per share in the period from August 1, 2005 to August 31, 2009 and a total of 285,000 shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

13. EXPENSES FOR RESTRUCTURING

The Company and some of its subsidiaries implemented various restructuring plans in the years ended March 31, 2002 and 2003.

Expenses of the restructuring in 2002 consist mainly of additional retirement benefits amounting to ¥2,210 million and closure of some offices amounting to ¥648 million.

Expenses of the restructuring in 2003 consist mainly of additional retirement benefits amounting to ¥1,189 million, closure of Hitachi Koki Yamagata Co., Ltd. amounting to ¥1,599 million, amortization of unrecognized cost of employees' severance and retirement benefits amounting to ¥1,047 million and restructuring expenses for domestic operations amounting to ¥327 million.

14. GAIN ON PRINTING SYSTEMS BUSINESS TRANSFER AND LOSS ON RECYCLING OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

The gain from the transfer of the Company's printing systems business in the year ended March 31, 2003 amounted to ¥691 million, which was offset against the loss of ¥6,727 million recognized as a result of recycling the related translation adjustments included in the shareholders' equity.

15. SEGMENT INFORMATION

(1) Information by Industrial Segment

The Company and its consolidated subsidiaries' primary business activities are divided into three industrial segments: Power tools, Printing systems, and Life-science instruments.

Business segment information for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of yen			
	2004			
	Power tools	Life-science instruments	Elimination and/ or corporate	Consolidated
Net sales:				
Outside customers	**¥ 94,209**	**¥3,998**	**¥ —**	**¥ 98,207**
Inter segment	**—**	**—**	**(—)**	**—**
Total sales	**94,209**	**3,998**	**(—)**	**98,207**
Operating expenses	**88,125**	**3,697**	**(—)**	**91,822**
Operating income	**¥ 6,084**	**¥ 301**	**¥(—)**	**¥ 6,385**
Identifiable assets	**¥102,708**	**¥6,510**	**¥ —**	**¥109,218**
Depreciation expense	**3,476**	**235**	**—**	**3,711**
Capital expenditures	**2,867**	**344**	**—**	**3,211**

	Millions of yen				
	2003				
	Power tools	Printing systems	Life-science instruments	Elimination and/ or corporate	Consolidated
Net sales:					
Outside customers	¥ 82,337	¥21,476	¥3,693	¥ —	¥107,506
Inter segment	—	—	—	(—)	—
Total sales	82,337	21,476	3,693	(—)	107,506
Operating expenses	79,648	20,326	3,497	(—)	103,471
Operating income	¥ 2,689	¥ 1,150	¥ 196	¥(—)	¥ 4,035
Identifiable assets	¥106,869	¥ —	¥6,842	¥ —	¥113,711
Depreciation expense	3,520	783	170	—	4,473
Capital expenditures	2,929	565	330	—	3,824

	Millions of yen				
	2002				
	Power tools	Printing systems	Life-science instruments	Elimination and/ or corporate	Consolidated
Net sales:					
Outside customers	¥78,271	¥45,284	¥3,611	¥ —	¥127,166
Inter segment	—	—	—	(—)	—
Total sales	78,271	45,284	3,611	(—)	127,166
Operating expenses	75,206	44,801	3,426	(—)	123,433
Operating income	¥ 3,065	¥ 483	¥ 185	¥(—)	¥ 3,733
Identifiable assets	¥92,301	¥40,878	¥4,253	¥ —	¥137,432
Depreciation expense	3,269	1,714	144	—	5,127
Capital expenditures	3,407	2,006	169	—	5,582

	Thousands of U.S. dollars			
	2004			
	Power tools	Life-science instruments	Elimination and/ or corporate	Consolidated
Net sales:				
Outside customers	**$891,371**	**$37,828**	**$ —**	**$ 929,199**
Inter segment	**—**	**—**	**(—)**	**—**
Total sales	**891,371**	**37,828**	**(—)**	**929,199**
Operating expenses	**833,806**	**34,980**	**(—)**	**868,786**
Operating income	**$ 57,565**	**$ 2,848**	**$(—)**	**$ 60,413**
Identifiable assets	**$971,786**	**$61,595**	**$ —**	**$1,033,381**
Depreciation expense	**32,889**	**2,223**	**—**	**35,112**
Capital expenditures	**27,126**	**3,255**	**—**	**30,381**

Note: On October 1, 2002, the printing systems business of the Company was transferred to a newly established wholly-owned subsidiary, Hitachi Printing Solutions, Ltd., and the Company sold all of the shares of the new subsidiary to Hitachi, Ltd.

(2) Information by Geographic Area

A summary of the sales and operating income by geographic area for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of yen 2004						
	Domestic	Asia	Europe	North America	Others	Elimination and/ or corporate	Consolidated
Net sales:							
Outside customers	**¥41,971**	**¥ 7,293**	**¥19,788**	**¥25,770**	**¥3,385**	**¥ —**	**¥ 98,207**
Inter segment	**21,076**	**12,202**	**648**	**8**	**5**	**(33,939)**	**—**
Total sales	**63,047**	**19,495**	**20,436**	**25,778**	**3,390**	**(33,939)**	**98,207**
Operating expenses	**57,548**	**18,582**	**20,411**	**25,614**	**3,329**	**(33,662)**	**91,822**
Operating income	**¥ 5,499**	**¥ 913**	**¥ 25**	**¥ 164**	**¥ 61**	**¥ (277)**	**¥ 6,385**
Identifiable assets	**¥87,399**	**¥12,486**	**¥14,190**	**¥12,033**	**¥1,448**	**¥(18,338)**	**¥109,218**

	Millions of yen 2003						
	Domestic	Asia	Europe	North America	Others	Elimination and/ or corporate	Consolidated
Net sales:							
Outside customers	¥52,652	¥ 8,071	¥19,307	¥25,016	¥2,460	¥ —	¥107,506
Inter segment	19,854	8,602	317	308	4	(29,085)	—
Total sales	72,506	16,673	19,624	25,324	2,464	(29,085)	107,506
Operating expenses	68,965	16,257	19,443	25,140	2,455	(28,789)	103,471
Operating income	¥ 3,541	¥ 416	¥ 181	¥ 184	¥ 9	¥ (296)	¥ 4,035
Identifiable assets	¥90,369	¥11,041	¥13,006	¥ 9,966	¥1,146	¥(11,817)	¥113,711

	Millions of yen 2002						
	Domestic	Asia	Europe	North America	Others	Elimination and/ or corporate	Consolidated
Net sales:							
Outside customers	¥ 70,090	¥ 9,278	¥18,640	¥26,927	¥2,231	¥ —	¥127,166
Inter segment	19,182	7,687	292	766	8	(27,935)	—
Total sales	89,272	16,965	18,932	27,693	2,239	(27,935)	127,166
Operating expenses	84,871	16,825	18,626	28,011	2,314	(27,214)	123,433
Operating income (loss)	¥ 4,401	¥ 140	¥ 306	¥ (318)	¥ (75)	¥ (721)	¥ 3,733
Identifiable assets	¥105,244	¥13,100	¥16,238	¥13,879	¥1,168	¥(12,197)	¥137,432

	Thousands of U.S. dollars 2004						
	Domestic	Asia	Europe	North America	Others	Elimination and/ or corporate	Consolidated
Net sales:							
Outside customers	**$397,114**	**$ 69,004**	**$187,227**	**$243,826**	**$32,028**	**$ —**	**$ 929,199**
Inter segment	**199,413**	**115,451**	**6,131**	**76**	**47**	**(321,118)**	**—**
Total sales	**596,527**	**184,455**	**193,358**	**243,902**	**32,075**	**(321,118)**	**929,199**
Operating expenses	**544,498**	**175,816**	**193,121**	**242,350**	**31,498**	**(318,497)**	**868,786**
Operating income	**$ 52,029**	**$ 8,639**	**$ 237**	**$ 1,552**	**$ 577**	**$ (2,621)**	**$ 60,413**
Identifiable assets	**$826,937**	**$118,138**	**$134,261**	**$113,852**	**$13,700**	**$(173,507)**	**$1,033,381**

Note: On October 1, 2002, the printing systems business of the Company was transferred to a newly established wholly-owned subsidiary, Hitachi Printing Solutions, Ltd., and the Company sold all of the shares of the new subsidiary to Hitachi, Ltd.

(3) Overseas Net Sales

A summary of overseas net sales for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of yen				
	2004				
	Asia	Europe	North America	Others	Total
Overseas net sales	**¥7,128**	**¥20,674**	**¥26,103**	**¥3,991**	**¥57,896**
Consolidated net sales					**98,207**
Percentage of overseas net sales over consolidated net sales	**7.3%**	**21.0%**	**26.6%**	**4.1%**	**59.0%**

	Millions of yen				
	2003				
	Asia	Europe	North America	Others	Total
Overseas net sales	¥8,239	¥23,028	¥29,054	¥2,882	¥ 63,203
Consolidated net sales					107,506
Percentage of overseas net sales over consolidated net sales	7.7%	21.4%	27.0%	2.7%	58.8%

	Millions of yen				
	2002				
	Asia	Europe	North America	Others	Total
Overseas net sales	¥10,601	¥23,576	¥35,103	¥2,946	¥ 72,226
Consolidated net sales					127,166
Percentage of overseas net sales over consolidated net sales	8.3%	18.6%	27.6%	2.3%	56.8%

	Thousands of U.S. dollars				
	2004				
	Asia	Europe	North America	Others	Total
Overseas net sales	**$67,443**	**$195,610**	**$246,977**	**$37,761**	**$547,791**
Consolidated net sales					**929,199**
Percentage of overseas net sales over consolidated net sales	**7.3%**	**21.0%**	**26.6%**	**4.1%**	**59.0%**

Note: On October 1, 2002, the printing systems business of the Company was transferred to a newly established wholly-owned subsidiary, Hitachi Printing Solutions, Ltd., and the Company sold all of the shares of the new subsidiary to Hitachi, Ltd.

16. TRANSACTIONS WITH RELATED COMPANIES

The outstanding common stock of the Company is owned 26.8% by Hitachi, Ltd. (the other related company).

Balances with the other related company and subsidiaries of the other related company as of March 31, 2004 and 2003, and related transactions for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Balances:			
Other related company:			
Deposits	**¥16,535**	¥23,362	**$156,448**
Subsidiaries of other related company:			
Trade receivables—accounts	**1,085**	1,267	**10,266**
Trade payables—accounts	**1,004**	1,054	**9,499**

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Principal transactions:				
Other related company:				
Consignment sales	**¥ —**	¥ 9,638	¥20,750	**$ —**
Deposit	**29,250**	61,450	11,200	**276,753**
Interest received	**21**	13	0	**199**
Transferred assets of printing systems business	**—**	23,709	—	**—**
Transferred liabilities of printing systems business	**—**	8,208	—	**—**
Proceeds from the transfer of printing systems business	**—**	16,300	—	**—**
Gain on transfer of printing systems business	**—**	799	—	**—**
Subsidiaries of other related company:				
Sales	**3,318**	3,865	5,008	**31,394**
Factoring	**3,961**	6,172	7,750	**37,478**
Deposits	**—**	—	16,100	**—**
Interest received	**—**	—	0	**—**
Proceeds from sale of investment securities	**—**	—	588	**—**
Gain on sale of investment securities	**—**	—	411	**—**
Proceeds from sale of land	**—**	—	668	**—**
Gain on sale of land	**—**	—	665	**—**
Income from rental of real estate	**352**	102	—	**3,330**

17. SUBSEQUENT EVENT

The following appropriations of retained earnings were approved at the general shareholders' meeting of the Company held on June 25, 2004.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥8 ($0.08) per share	¥854	$8,080
Bonuses to directors	48	454