

Notes to Consolidated Financial Statements

March 31, 2006, 2005 and 2004

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 ("Japanese GAAP"), 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, 2006, which was ¥117.47 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 2005 and 2004 financial statements to conform to the 2006 presentation.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (23 subsidiaries in 2006 and 22 subsidiaries in 2005 and 2004). All significant intercompany accounts, transactions and unrealized profits are eliminated in consolidation.

Investments in an affiliated company (20% to 50% owned) in 2005 and 2004 and an unconsolidated overseas subsidiary are stated at the underlying equity value, and the appropriate portion of the earning of such companies is included in consolidated income.

Goodwill is amortized by the straight-line method over periods of 5 or 20 years depending on the sources from which the goodwill was derived.

(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 non-consolidated 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 subsidiaries had no trading securities or held-to-maturity debt securities.

If the market value of equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for using the equity method, 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 the 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 hedging 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 statements of income.

(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 certain consolidated domestic subsidiaries revised their employees' defined-benefit retirement benefit plans and adopted a cash-balance plan and point system in October 2004.

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 of the Company and consolidated domestic subsidiaries is being recognized as expense in equal amounts over five years commencing with the year ended March 31, 2001. Actuarial gains/losses are recognized as income/expense in equal amounts over 15 years commencing from the succeeding period. Certain consolidated overseas subsidiaries recognized actuarial gains/losses as they incurred in 2006 and 2005. Past service costs are recognized as income or expense in equal amounts over 15 years.

The Company and certain consolidated domestic subsidiaries completed the separation and the transfer of the substitutional portion of the Welfare Pension Insurance Scheme operated by the Japanese government in January 2005. Related to the process, a gain from return of the substitutional portion amounting to ¥6,385 million was recognized in the year ended March 31, 2003.

Retirement benefits to directors and corporate auditors of the Company are included in other non-current 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.

The significant useful lives are summarized as follows:

Buildings and structures	2-50 years
Machinery and equipment	3-10 years

(j) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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 issuance of common stock by the exercise of stock purchase rights.

(m) Accounting Standard for Impairment of Fixed Assets

Effective April 1, 2005, the Company and consolidated subsidiaries adopted the "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 on the 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 adoption had no impact on the consolidated financial statements for the year ended March 31, 2006.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2006, 2005 and 2004 for the consolidated statements of cash flows consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Cash and time deposits	¥ 9,019	¥ 9,089	¥ 8,361	\$ 76,777
Deposits	18,371	14,277	16,535	156,389
Cash and cash equivalents.....	¥27,390	¥23,366	¥24,896	\$233,166

Acquisition of Subsidiaries:

The Company acquired all shares of Markt & Co AS, a Norwegian company, in January 2005, when the Company included the financial statements of Markt & Co AS in the consolidated financial statements. The beginning balances of assets and liabilities, the acquisition cost of Markt & Co AS, and the cash paid for the acquisition are outlined as follows:

	Millions of yen
Current assets.....	¥2,063
Noncurrent assets.....	148
Goodwill	547
Current liabilities.....	(1,373)
Noncurrent liabilities.....	(132)
Acquisition cost of shares of Markt & Co AS.....	1,253
Cash and cash equivalents of Markt & Co AS.....	(240)
Net cash paid for acquisition of Markt & Co AS.....	¥1,013

3. MARKET VALUE INFORMATION FOR SECURITIES

At March 31, 2006, 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.....	¥963	¥3,835	¥2,872
Total	¥963	¥3,835	¥2,872
Other securities:			
Equity securities.....	¥ 0	¥ 0	¥ —
Total	¥ 0	¥ 0	¥ —

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities.....	\$8,198	\$32,647	\$24,449
Total	\$8,198	\$32,647	\$24,449
Other securities:			
Equity securities.....	\$ 0	\$ 0	\$ —
Total	\$ 0	\$ 0	\$ —

At March 31, 2006, 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.....	¥77	\$655
Shares of subsidiary and affiliate	6	51

At March 31, 2005, acquisition cost, book value and fair value of securities with available fair value were as follows:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities.....	¥948	¥2,200	¥1,252
Total	¥948	¥2,200	¥1,252

Other securities:

	¥	¥	¥
Equity securities.....	0	0	(0)
Total	0	0	(0)

At March 31, 2005, book values of securities not stated at fair value were as follows:

	Millions of yen
Available-for-sale securities:	
Others.....	¥ 101
Shares of subsidiary and affiliate	3,568

Total sales amounts of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥33 million (\$281 thousand) and the related gains amounted to ¥29 million (\$247 thousand). There were no sales of available-for-sale securities in the year ended March 31, 2005.

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥21,940	¥18,784	\$186,772
Semi-finished goods	2,122	1,507	18,064
Work in process	2,309	2,179	19,656
Raw materials	2,692	2,139	22,916
Goods in transit.....	3,433	3,429	29,224
Inventory reserve.....	(1,905)	(1,752)	(16,217)
	¥30,591	¥26,286	\$260,415

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, 2006 and 2005 were as follows:

Currency-related derivatives:

	Millions of yen			
	2006			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Forward contracts:				
To sell:				
U.S. dollars	¥2,508	¥—	¥2,559	¥ (51)
Euro	3,270	—	3,361	(91)
STG. £.....	232	—	231	1
A.U. dollars	244	—	241	3
S.G. dollars	124	—	125	(1)
Total	¥6,378	¥—	¥6,517	¥(139)

	Millions of yen			
	2005			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Forward contracts:				
To sell:				
U.S. dollars	¥4,159	¥—	¥4,238	¥ (79)
Euro	2,810	—	2,900	(90)
STG. £.....	218	—	224	(6)
A.U. dollars	422	—	439	(17)
S.G. dollars	124	—	127	(3)
Total	¥7,733	¥—	¥7,928	¥(195)

	Thousands of U.S. dollars			
	2006			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Forward contracts:				
To sell:				
U.S. dollars.....	\$21,350	\$—	\$21,784	\$ (434)
Euro	27,837	—	28,612	(775)
STG. £.....	1,975	—	1,966	9
A.U. dollars	2,077	—	2,051	26
S.G. dollars.....	1,056	—	1,065	(9)
Total.....	\$54,295	\$—	\$55,478	\$(1,183)

Interest-related derivatives:

	Millions of yen			
	2006			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay U.S. dollars, receive yen/Receive variable, pay variable	¥ 59	¥—	¥ (0)	¥ (0)
Pay Can. dollars, receive yen/Receive variable, pay variable	1,201	—	(14)	(14)
Pay Euro, receive yen/Receive variable, pay variable	3,894	—	(63)	(63)
Pay A.U. dollars, receive yen/Receive variable, pay variable	175	—	(2)	(2)
Total	¥5,329	¥—	¥(79)	¥(79)

	Millions of yen			
	2005			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay U.S. dollars, receive yen/Receive variable, pay variable	¥3,565	¥—	¥ (57)	¥ (57)
Pay Can. dollars, receive yen/Receive variable, pay variable	916	—	(12)	(12)
Pay Euro, receive yen/Receive variable, pay variable	3,934	—	(40)	(40)
Pay A.U. dollars, receive yen/Receive variable, pay variable	172	—	(2)	(2)
Total	¥8,587	¥—	¥(111)	¥(111)

	Thousands of U.S. dollars			
	2006			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay U.S. dollars, receive yen/Receive variable, pay variable	\$ 502	\$—	\$ (0)	\$ (0)
Pay Can. dollars, receive yen/Receive variable, pay variable	10,224	—	(119)	(119)
Pay Euro, receive yen/Receive variable, pay variable	33,149	—	(537)	(537)
Pay A.U. dollars, receive yen/Receive variable, pay variable	1,490	—	(17)	(17)
Total	\$45,365	\$—	\$(673)	\$(673)

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, 2006 and 2005 was as follows:

	Millions of yen		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥434	¥224	¥210
Software.....	9	8	1
	¥443	¥232	¥211

	Millions of yen		
	2005		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥377	¥101	¥276
Software.....	9	6	3
	¥386	¥107	¥279

	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	\$3,695	\$1,907	\$1,788
Software.....	77	68	9
	\$3,772	\$1,975	\$1,797

(b) Future minimum lease payments at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Due within one year	¥113	¥126
Due after one year	83	145	707
	¥196	¥271	\$1,669

(c) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Lease payments	¥143	¥150	¥158	\$1,217
Assumed depreciation charges	130	137	152	1,107
Assumed interest charges	4	4	3	34

(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

(a) The weighted-average rate of interest for short-term bank loans is approximately 4.24% at March 31, 2006 and 4.0% at March 31, 2005.

(b) The following assets are pledged as collateral for short-term bank loans at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Trade receivables—accounts	¥1,091	¥116	\$ 9,287
Inventories.....	1,665	197	14,174
	¥2,756	¥313	\$23,461

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 40.5% for 2006 and 2005 and 41.8% for 2004. The actual effective tax rates in the consolidated statements of income 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, 2006 and 2005 were as follows:

	2006	2005
Statutory tax rate	40.5%	40.5%
Non-deductible expenses.....	0.8	1.9
Change in valuation allowance	(17.8)	(24.2)
Per capita inhabitant tax	0.5	0.7
Difference in statutory tax rate of foreign subsidiaries	(3.6)	(3.1)
Others	2.1	2.3
Effective tax rate	22.5%	18.1%

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Retirement benefits	¥1,570	¥1,274	\$13,366
Accrued bonuses.....	853	803	7,261
Write-downs of inventories.....	739	620	6,291
Tax loss carry-forward	1,322	5,999	11,254
Foreign tax credit carry-forward	570	—	4,852
Others.....	1,156	1,208	9,841
Subtotal	6,210	9,904	52,865
Valuation allowance.....	(102)	(2,304)	(868)
Total deferred tax assets.....	6,108	7,600	51,997
Deferred tax liabilities:			
Net unrealized gains on securities	(1,163)	(507)	(9,900)
Others.....	(165)	(22)	(1,405)
Total deferred tax liabilities.....	(1,328)	(529)	(11,305)
Net deferred tax assets	¥4,780	¥7,071	\$40,692

9. CONTINGENT LIABILITIES

Contingent liabilities for trade notes discounted and endorsed in the ordinary course of business amounted to ¥199 million (\$1,694 thousand) and ¥42 million at March 31, 2006 and 2005, respectively.

Contingent liabilities for employee loans amounted to ¥105 million (\$894 thousand) and ¥125 million at March 31, 2006 and 2005, respectively.

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, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥37,426	¥36,018	\$318,601
Unrecognized prior service costs	901	969	7,670
Unrecognized actuarial differences	(4,036)	(6,766)	(34,358)
Less fair value of pension assets	(30,583)	(26,964)	(260,347)
Prepaid pension costs	320	240	2,724
Employees' severance and retirement benefits	¥ 4,028	¥ 3,497	\$ 34,290

Included in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 is a severance and retirement benefit expense comprising of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service costs-benefits earned during the year	¥ 923	¥ 935	¥1,028	\$ 7,857
Interest cost on projected benefit obligation	939	908	894	7,994
Expected return on plan assets	(713)	(638)	(469)	(6,070)
Amortization of actuarial differences	592	659	971	5,040
Amortization of net transition obligation	—	211	211	—
Amortization of prior service costs	(68)	(45)	—	(579)
Severance and retirement benefit expense	¥1,673	¥2,030	¥2,635	\$14,242

The discount rate and the rate of expected return on plan assets used by the Company are principally 2.5% and 2.5% for 2006 and 2005, 2.5% and 2.5% for 2004, 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 over 15 years commencing from the succeeding period. Certain consolidated overseas subsidiaries recognized actuarial gains/losses as they incurred in 2006 and 2005. Past service costs are recognized as income or expense in equal amounts over 15 years. Net transition obligation is recognized as expense in equal amounts over five 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 Code also provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital, which is included in Capital surplus, equals 25% of common stock. [The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and, therefore, the Company is not required to provide any more legal earnings reserve.] The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

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.

The Code provides that cash dividends may be approved semiannually by the resolution of the annual general shareholders' meeting after the end of each fiscal year or by the declaration of the Board of Directors after the end of each interim semi-annual period. Such dividends are payable to shareholders of record at the end of each fiscal year or semi-annual period.

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, 2006 include amounts representing the year-end cash dividends and bonuses to directors approved at the shareholders' meeting held on June 28, 2006 as described in Note 15.

Cash dividends charged to retained earnings during the years ended March 31, 2006, 2005 and 2004 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 five directors and seven employees at the closing of the 81st general shareholders' meeting.

The stock purchase rights can be exercised at a price of ¥507 (\$4.32) 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. As of March 31, 2006, 266,000 shares of common stock were issued under the plan.

By general resolution at the 82nd general shareholders' meeting held on June 25, 2004, 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 nine directors and four employees at the closing of the 82nd general shareholders' meeting.

The stock purchase rights can be exercised at a price of ¥722 (\$6.15) per share in the period from August 1, 2006 to August 31, 2010 and a total of 305,000 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.

By general resolution at the 83rd general shareholders' meeting held on June 28, 2005, 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 nine directors and four employees at the closing of the 83rd general shareholders' meeting.

The stock purchase rights can be exercised at a price of ¥1,313 (\$11.18) per share in the period from August 1, 2007 to August 31, 2011 and a total of 290,000 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. SEGMENT INFORMATION

(a) Information by Industrial Segment

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

Business segment information for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of yen			
	2006			
	Power tools	Life-science instruments	Elimination and/or corporate	Consolidated
Net sales:				
Outside customers	¥138,082	¥3,928	¥ —	¥142,010
Inter segment	—	—	(—)	—
Total sales	138,082	3,928	(—)	142,010
Operating expenses.....	123,187	3,301	(—)	126,488
Operating income	¥ 14,895	¥ 627	¥(—)	¥ 15,522
Identifiable assets.....	¥129,513	¥6,229	¥ —	¥135,742
Depreciation expense.....	4,083	195	—	4,278
Capital expenditures	4,381	141	—	4,522

	Millions of yen			
	2005			
	Power tools	Life-science instruments	Elimination and/or corporate	Consolidated
Net sales:				
Outside customers	¥113,616	¥3,792	¥ —	¥117,408
Inter segment	—	—	(—)	—
Total sales	113,616	3,792	(—)	117,408
Operating expenses.....	103,514	3,502	(—)	107,016
Operating income	¥ 10,102	¥ 290	¥(—)	¥ 10,392
Identifiable assets.....	¥114,426	¥6,080	¥ —	¥120,506
Depreciation expense.....	3,759	224	—	3,983
Capital expenditures	4,170	273	—	4,443

	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

	Thousands of U.S. dollars			
	2006			
	Power tools	Life-science instruments	Elimination and/or corporate	Consolidated
Net sales:				
Outside customers	\$1,175,466	\$33,438	\$ —	\$1,208,904
Inter segment	—	—	(—)	—
Total sales	1,175,466	33,438	(—)	1,208,904
Operating expenses.....	1,048,668	28,100	(—)	1,076,768
Operating income	\$ 126,798	\$ 5,338	\$(—)	\$ 132,136
Identifiable assets.....	\$1,102,520	\$53,026	\$ —	\$1,155,546
Depreciation expense.....	34,758	1,660	—	36,418
Capital expenditures.....	37,295	1,200	—	38,495

(b) Information by Geographic Area

A summary of the sales and operating income by geographic area for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of yen						
	2006						
	Domestic	Asia	Europe	North America	Others	Elimination and/or corporate	Consolidated
Net sales:							
Outside customers	¥49,659	¥ 7,115	¥34,449	¥46,757	¥4,030	¥ —	¥142,010
Inter segment	28,538	26,150	343	6	1	(55,038)	—
Total sales	78,197	33,265	34,792	46,763	4,031	(55,038)	142,010
Operating expenses.....	66,801	31,164	33,768	45,548	3,879	(54,672)	126,488
Operating income	¥11,396	¥ 2,101	¥ 1,024	¥ 1,215	¥ 152	¥ (366)	¥ 15,522
Identifiable assets.....	¥88,134	¥20,448	¥24,708	¥22,526	¥2,008	¥(22,082)	¥135,742

	Millions of yen						
	2005						
	Domestic	Asia	Europe	North America	Others	Elimination and/or corporate	Consolidated
Net sales:							
Outside customers	¥44,631	¥ 7,833	¥23,969	¥37,162	¥3,813	¥ —	¥117,408
Inter segment	24,092	18,419	441	8	5	(42,965)	—
Total sales	68,723	26,252	24,410	37,170	3,818	(42,965)	117,408
Operating expenses.....	60,676	24,565	24,124	36,252	3,722	(42,323)	107,016
Operating income	¥ 8,047	¥ 1,687	¥ 286	¥ 918	¥ 96	¥ (642)	¥ 10,392
Identifiable assets.....	¥88,056	¥15,208	¥19,040	¥17,202	¥1,733	¥(20,733)	¥120,506

	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

	Thousands of U.S. dollars						
	2006						
	Domestic	Asia	Europe	North America	Others	Elimination and/ or corporate	Consolidated
Net sales:							
Outside customers	\$422,737	\$ 60,569	\$293,258	\$398,034	\$34,306	\$ —	\$1,208,904
Inter segment	242,938	222,610	2,920	51	9	(468,528)	—
Total sales	665,675	283,179	296,178	398,085	34,315	(468,528)	1,208,904
Operating expenses	568,663	265,293	287,461	387,742	33,021	(465,412)	1,076,768
Operating income	\$ 97,012	\$ 17,886	\$ 8,717	\$ 10,343	\$ 1,294	\$ (3,116)	\$ 132,136
Identifiable assets	\$750,267	\$174,070	\$210,335	\$191,760	\$17,094	\$(187,980)	\$1,155,546

(c) Overseas Net Sales

A summary of overseas net sales for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Millions of yen				
	2006				
	Asia	Europe	North America	Others	Total
Overseas net sales	¥7,596	¥34,404	¥48,277	¥4,851	¥ 95,128
Consolidated net sales					142,010
Percentage of overseas net sales over consolidated net sales	5.4%	24.2%	34.0%	3.4%	67.0%

	Millions of yen				
	2005				
	Asia	Europe	North America	Others	Total
Overseas net sales	¥7,093	¥24,715	¥38,211	¥4,603	¥ 74,622
Consolidated net sales					117,408
Percentage of overseas net sales over consolidated net sales	6.0%	21.1%	32.6%	3.9%	63.6%

	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%

	Thousands of U.S. dollars				
	2006				
	Asia	Europe	North America	Others	Total
Overseas net sales	\$64,663	\$292,875	\$410,973	\$41,296	\$ 809,807
Consolidated net sales					1,208,904
Percentage of overseas net sales over consolidated net sales	5.4%	24.2%	34.0%	3.4%	67.0%

14. TRANSACTIONS WITH RELATED COMPANIES

The outstanding common stock of the Company is directly and indirectly owned 37.9% by Hitachi, Ltd. as of March 31, 2006.

Balances with the other related company and subsidiaries of the other related company as of March 31, 2006 and 2005, and related transactions for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
			2006
Balances:			
Other related company:			
Deposits.....	¥16,878	¥13,266	\$143,679
Subsidiaries of other related company:			
Trade receivables—accounts.....	1,077	1,102	9,168
Trade accounts payable	1,015	1,017	8,641

	Millions of yen			Thousands of
	2006	2005	2004	U.S. dollars
				2006
Principal transactions:				
Other related company:				
Deposits	¥46,502	¥31,551	¥29,250	\$395,863
Interest received.....	9	10	21	77
Subsidiaries of other related company:				
Sales.....	2,903	2,882	3,318	24,713
Factoring.....	4,288	4,161	3,961	36,503
Income from rental of real estate	—	198	352	—

15. SUBSEQUENT EVENTS

The following appropriations of retained earnings were approved at the general shareholders' meeting of the Company held on June 28, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥14 (\$0.12) per share	¥1,470	\$12,514
Bonuses to directors.....	70	596