

To Our Shareholders and Customers



Kozo Kagimoto,
Chairman of the Board & Director, CEO



Yasuyuki Konishi,
President & Director, COO

The Hitachi Koki Group's basic policy is to contribute to society through the provision of technologically superior products and services. As a global enterprise, the Company provides power tools and other products of superior quality and performance to consumers around the world. The Hitachi Koki Group, as a member of society, is working to strengthen compliance and rigorously maintain corporate ethics, with the goal of becoming a socially trusted enterprise.

Guided by this basic policy, we continue to take aggressive measures, improve earnings and pursue business growth with our sights set on becoming "a major global player." We will continue to overcome intense competition against rivals and make further breakthroughs as we push vigorously ahead to become a "major global player," particularly in the global power tools market.

Fiscal 2005 in Review

With regard to the Japanese economy in fiscal 2005, ended March 31, 2006, in the wake of higher corporate earnings, capital spending increased and consumer spending rose moderately. Moreover, in the first half, although housing investment remained at

approximately the same level as in the previous fiscal year, it increased in the second half, and the economy gradually picked up steam after a slow start. Overseas, economic growth was favorable in the United States and Asia, but European economic growth, while showing a moderate recovery, failed to maintain its momentum.

Against this backdrop, the Hitachi Koki Group has taken proactive measures to develop its business to overcome intense global competition with its sights set on becoming "a major global player." These measures included 1) the development and expansion of sales channels to increase worldwide sales, 2) the construction of an optimally geographically sited production system to increase profits and 3) the rapid introduction of new high-value-added products through improved development capabilities.

In the area of product development, Hitachi Koki was awarded for the first time the globally prestigious Industrial Design Excellence Award (IDEA) from the United States and for the fourth consecutive year the International Forum Design Award (iF Design Award) from Germany, and we aim for additional consecutive award wins in the future.

As a result, due to the previously mentioned factors, consolidated net sales and net income increased, primarily in the Power Tools Sector, our core business, for the third consecutive year, with net sales of ¥142,010 million, a 21% year-on-year increase, and operating income of ¥15,522 million, up 49%.

Performance by business segment during fiscal 2005 was as follows. In the Power Tools Sector, sales rose 22%, to ¥138,082 million, while operating income jumped 47%, to ¥14,895 million. In the Life-Science Instruments Sector, sales were up 4%, to ¥3,928 million, and operating income jumped 116%, to ¥627 million, on the back of royalty income of about ¥100 million.

As a result, consolidated ordinary income increased 46%, to ¥15,054 million, while consolidated net income rose 38%, to ¥11,502 million, its highest-ever mark since the Company's founding.

We make decisions concerning profit distribution and the amount of retained earnings by comprehensively taking into account the Company's future business plans, performance, financial condition and other relevant factors. As for retained earnings, Hitachi Koki makes efficient use of them by investing in core products and technologies and streamlining facilities or by appropriating funds for mergers and acquisitions that will expand business and generate synergies with Hitachi Koki's operations.

As for dividends, we have already raised the fiscal 2005 interim dividend to ¥10 (ordinary dividend), which is ¥1 per share higher than last fiscal year's interim dividend. However, in response to the support of all of our shareholders, we offered a further ¥2 per share dividend increase over the ordinary dividend, to ¥12, and a ¥2 per share extra dividend based on favorable earnings, for a total year-end dividend of ¥14. As a result, the annual dividend increased ¥4 from the previous fiscal year, to ¥24, and has already been paid.

Because of a recent change in the Company bylaws as a result of the enactment of the Company Law in Japan, the Board of Directors passed a resolution that enables Hitachi Koki to distribute retained earnings. Hitachi Koki's earnings continue to grow and its financial position is stable. Since Hitachi Koki expects continued earnings growth and a stable financial position in the future, it plans to pay a quarterly dividend in fiscal 2006 in order to quickly return free cash flow to shareholders and improve service.

Consolidated net sales in the first quarter of fiscal 2006 were ¥37,065 million, a 10% year-on-year increase. Meanwhile, operating income was ¥4,152 million, up 23% year on year, ordinary income came in at ¥4,110 million, a 24% increase, and quarterly net income amounted to ¥2,928 million, up 9%.

Future Challenges

Amid fierce global competition, the Hitachi Koki Group has implemented various management policies for the early achievement of its "G13" (Global Share 13%) in its main power tool market, including aggressive investments in sales and continuous strategic product launches. As a result, in fiscal 2005, the Company recorded its third consecutive year of increased sales and profits, primarily in the Power Tools Sector, its mainstay business, achieved its near-term "G13" target and recorded the highest net income since the Company's inception. Hitachi Koki will continue to sustain this momentum into the future and work to generate further breakthroughs.

As part of its medium- and long-term management strategy, the Company will take steps, including 1) expansion of the scale of its business, with the aim of further increasing its sales through proactive global sales activities, 2) strengthening its cost-competitiveness by constructing an optimally geographically sited production system in response to globalization and 3) fortifying its digitally engineering-driven product development capabilities and promoting the early and continuous launch of globally competitive products adapted to customer needs, as well as aggressively promoting strategic mergers, acquisitions and alliances, with the goal of becoming a "major global player."

We thank you for your continued support and encouragement.

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