

Notes to Consolidated Financial Statements

March 31, 2007, 2006 and 2005

I. 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 from 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 net assets for 2006) 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, 2007, which was ¥118.05 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 2006 and 2005 financial statements to conform to the presentation for 2007. Also, as described in Note 1 (p) and (q), the shareholders’ equity and certain other balance sheet items for 2006 and the consolidated statements of shareholders’ equity for 2006 and 2005, which were voluntarily prepared for the purpose of inclusion in the 2006 consolidated financial statements, have been reclassified to conform to the new presentation for 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (25 subsidiaries in 2007, 23 subsidiaries in 2006 and 22 subsidiaries in 2005). All significant intercompany accounts, transactions and unrealized profits are eliminated in consolidation.

Investments in an affiliated company (20% to 50% owned) in 2005 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 within a reasonable period not exceeding 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 net assets 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 net assets. 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.

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. 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.....	3-50 years
Machinery and equipment.....	3-10 years

(j) Research and Development Costs

Research and development costs included in cost of sales, and selling, general and administrative expenses were ¥3,421 million (\$28,979 thousand) and ¥3,292 million for the years ended March 31, 2007 and 2006, respectively.

(k) 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.

(l) Appropriation of Retained Earnings

Payments of dividends are accounted for as appropriation of retained earnings or other capital surplus, as applicable, in the period when approved at the shareholders' meeting or at the Board of Directors or as of the date when dividends are determined to take effect by the shareholders or the Board of Directors. Bonuses to directors were also recognized as appropriations of retained earnings when approved by the shareholders prior to 2007, when new accounting standards were adopted as discussed in Note 1 (o).

(m) 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.

(n) 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.

(o) Accounting Standard for Directors' Bonus

Effective from the year ended March 31, 2007, the Company and consolidated subsidiaries adopted, "Accounting Standard for Directors' Bonus" (Accounting Standards Board Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption, operating income and income before income taxes and minority interests decreased by ¥80 million (\$678 thousand), respectively.

(p) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and consolidated subsidiaries adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and the shareholders' equity sections. The net assets section includes deferred hedge gains/losses, net of taxes, share subscription rights and minority interests, which were previously presented in assets/liabilities, liabilities and between liabilities and shareholders' equity, respectively.

The previously presented shareholders' equity and certain other balance sheet items for 2006 have been reclassified to conform to the 2007 presentation. As a result, minority interests amounting to ¥754 million are included in the net assets section as of March 31, 2006.

If the New Accounting Standards had not been adopted and the previous presentation method for the Shareholders' equity had been applied, the shareholders' equity at March 31, 2006 and 2007, which comprised common stock, capital surplus, retained earnings, net unrealized holding gains on securities, foreign currency translation adjustments and treasury stock, at cost, would have been ¥107,414 million and ¥115,002 million (\$974,180 thousand), respectively.

(q) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and consolidated subsidiaries adopted "Accounting Standard for Statement of Changes in Net Assets" (Accounting Standards Board Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the "Implementation Guidance on Accounting Standard for Statement of Changes in Net Assets" (Accounting Standards Board Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required in Japan.

Based on the reclassification of the previously presented shareholders' equity and certain other balance sheet items for 2006 as discussed in Note 1 (p), the consolidated statements of changes in net assets for 2006 and 2005 and related consolidated balance sheet items have been reclassified to conform to the new presentation method of the Additional New Accounting Standards. As a result, minority interest of ¥754 million and ¥647 million, which were not included in the 2006 and 2005 consolidated statements of shareholders' equity, are now presented in the consolidated statements of changes in net assets.

(r) Accounting Standard for Business Combinations

Effective April 1, 2006, the Company and consolidated subsidiaries adopted the "Accounting Standard for Business Combinations" (issued by the Business Accounting Deliberation Council on October 31, 2003), the "Accounting Standard for Business Divestitures" (Accounting Standards Board Statement No.7 issued by the Accounting Standards Board of Japan on December 27, 2005) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board Guidance No. 10 issued by the Accounting Standards Board of Japan, finally amended on December 22, 2006).

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007, 2006 and 2005 for the consolidated statements of cash flows consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Cash and time deposits.....	¥ 8,922	¥ 9,019	¥ 9,089	\$ 75,578
Deposits	22,053	18,371	14,277	186,811
Cash and cash equivalents	¥30,975	¥27,390	¥23,366	\$262,389

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

The Company acquired all shares of Carat International B.V., a Netherlands company, in January 2007, when the Company included the financial statements of Carat International B.V. in the consolidated financial statements. The beginning balances of assets and liabilities, the acquisition cost of Carat International B.V., and the cash paid for the acquisition are outlined as follows:

	Millions of yen
Current assets	¥1,566
Noncurrent assets	365
Goodwill	2,968
Current liabilities	(777)
Noncurrent liabilities	(186)
Minority interest.....	(58)
Acquisition cost of shares of Carat International B.V.....	3,878
Cash and cash equivalents of Carat International B.V.	(31)
Net cash paid for acquisition of Carat International B.V.	¥3,847

3. MARKET VALUE INFORMATION FOR SECURITIES

At March 31, 2007, 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	¥957	¥3,118	¥2,161
Total.....	¥957	¥3,118	¥2,161
Other securities:			
Equity securities	¥ 0	¥ 0	¥ (0)
Total	¥ 0	¥ 0	¥ (0)

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	\$8,107	\$26,413	\$18,306
Total	\$8,107	\$26,413	\$18,306
Other securities:			
Equity securities	\$ 0	\$ 0	¥ (0)
Total	\$ 0	\$ 0	¥ (0)

At March 31, 2007, 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	¥76	\$643
Shares of subsidiary and affiliate	¥ 0	\$ 0

At March 31, 2006, 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	¥963	¥3,835	¥2,872
Total	¥963	¥3,835	¥2,872
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
Available-for-sale securities:	
Others	¥77
Shares of subsidiary and affiliate	6

Total sales amounts of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥16 million (\$136 thousand) and the related gains amounted to ¥5 million (\$42 thousand).

Total sales amounts of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥33 million and the related gains amounted to ¥29 million.

4. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods	¥26,876	¥21,940	\$227,666
Semi-finished goods	2,239	2,122	18,967
Work in process	2,474	2,309	20,957
Raw materials	3,415	2,692	28,928
Goods in transit	3,521	3,433	29,826
Inventory reserve	(2,208)	(1,905)	(18,703)
	¥36,317	¥30,591	\$307,641

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, trade accounts payable 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, 2007 and 2006 were as follows:

Currency-related derivatives:

	Millions of yen			
	2007			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Forward contracts:				
To sell:				
U.S. dollars	¥1,419	¥—	¥1,420	¥(1)
Euro	5,206	—	5,203	3
STG. £	559	—	559	0
A.U. dollars	387	—	388	(1)
S.G. dollars	148	—	149	(1)
Japanese Yen	24	—	24	(0)
To buy:				
U.S. dollars	235	—	235	(0)
STG. £	70	—	70	0
Total	¥8,048	¥—	¥8,048	¥ 0

	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)

	Thousands of U.S. dollars			
	2007			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Forward contracts:				
To sell:				
U.S. dollars	\$12,021	\$—	\$12,029	\$(8)
Euro	44,100	—	44,075	25
STG. £.....	4,735	—	4,735	0
A.U. dollars	3,278	—	3,287	(9)
S.G. dollars	1,254	—	1,262	(8)
Japanese Yen	203	—	203	(0)
To buy:				
U.S. dollars	1,991	—	1,991	(0)
STG. £.....	593	—	593	0
Total	\$68,175	\$—	\$68,175	\$ 0

Interest-related derivatives:

	Millions of yen			
	2007			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay Can. dollars, receive yen				
Receive variable, pay variable	¥1,629	¥—	¥(2)	¥(2)
Pay Euro, receive yen				
Receive variable, pay variable	3,583	—	2	2
Pay A.U. dollars, receive yen				
Receive variable, pay variable	96	—	1	1
Total	¥5,308	¥—	¥ 1	¥ 1

	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)

Interest rate and currency swap agreements:

	Thousands of U.S. dollars			
	2007			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay Can. dollars, receive yen				
Receive variable, pay variable	\$13,799	\$—	\$(17)	\$(17)
Pay Euro, receive yen				
Receive variable, pay variable	30,352	—	17	17
Pay A.U. dollars, receive yen				
Receive variable, pay variable	813	—	8	8
Total	\$44,964	\$—	\$ 8	\$ 8

	Thousands of U.S. dollars			
	2007			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay Can. dollars, receive yen				
Receive variable, pay variable	\$13,799	\$—	\$(17)	\$(17)
Pay Euro, receive yen				
Receive variable, pay variable	30,352	—	17	17
Pay A.U. dollars, receive yen				
Receive variable, pay variable	813	—	8	8
Total	\$44,964	\$—	\$ 8	\$ 8

Interest rate and currency swap agreements:

	Thousands of U.S. dollars			
	2007			
	Contracted amount			
	Total	Due after one year	Market value	Unrealized gains (losses)
Interest rate and currency swap agreements:				
Pay Can. dollars, receive yen				
Receive variable, pay variable	\$13,799	\$—	\$(17)	\$(17)
Pay Euro, receive yen				
Receive variable, pay variable	30,352	—	17	17
Pay A.U. dollars, receive yen				
Receive variable, pay variable	813	—	8	8
Total	\$44,964	\$—	\$ 8	\$ 8

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, 2007 and 2006 was as follows:

	Millions of yen		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥485	¥342	¥143

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

	Thousands of U.S. dollars		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	\$4,108	\$2,897	\$1,211

(b) Future minimum lease payments at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	Due within one year	¥ 87	¥113
Due after one year	59	83	500
	¥146	¥196	\$1,237

(c) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
	Lease payments	¥132	¥143	¥150
Assumed depreciation charges....	146	130	137	1,237
Assumed interest charges	3	4	4	25

(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 4.96% at March 31, 2007 and 4.24% at March 31, 2006.

(b) The weighted-average rate of interest for long-term debt is approximately 3.84% at March 31, 2007 and the long-term debt is due in 2009 through 2025.

(c) The following assets are pledged as collateral for short-term bank loans and long-term debt at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trade receivables – accounts	¥ 873	¥1,091	\$ 7,395
Inventories	2,166	1,665	18,348
Buildings and structures	147	—	1,245
Machinery and equipment	26	—	221
Land	47	—	398
	¥3,259	¥2,756	\$27,607

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 2007, 2006 and 2005.

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, 2007 and 2006 were as follows:

	2007	2006
Statutory tax rate	40.5%	40.5%
Non-deductible expenses	0.9	0.8
Change in valuation allowance	(2.8)	(17.8)
Per capital inhabitant tax	0.4	0.5
Difference in statutory tax rate of foreign subsidiaries	(6.0)	(3.6)
Others	(1.8)	2.1
Effective tax rate	31.2%	22.5%

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Retirement benefits	¥1,315	¥1,570	\$11,139
Accrued bonuses	845	853	7,158
Write-downs of inventories	782	739	6,624
Tax loss carry-forward	34	1,322	288
Foreign tax credit carry-forward	592	570	5,015
Unrealized intercompany profit of inventories	1,477	175	12,512
Accrued enterprise taxes	426	45	3,609
Others	919	936	7,785
Subtotal	6,390	6,210	54,130
Valuation allowance	(542)	(102)	(4,592)
Total deferred tax assets	5,848	6,108	49,538
Deferred tax liabilities:			
Net unrealized gains on securities	(875)	(1,163)	(7,412)
Others	(141)	(165)	(1,194)
Total deferred tax liabilities	(1,016)	(1,328)	(8,606)
Net deferred tax assets	¥4,832	¥4,780	\$40,932

9. CONTINGENT LIABILITIES

Contingent liabilities for trade notes discounted and endorsed in the ordinary course of business amounted to ¥352 million (\$2,982 thousand) and ¥199 million at March 31, 2007 and 2006, respectively.

Contingent liabilities for employee loans amounted to ¥94 million (\$796 thousand) and ¥105 million at March 31, 2007 and 2006, 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, 2007 and 2006 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2005
Projected benefit obligation	¥37,155	¥37,426	\$314,740
Unrecognized prior service costs	834	901	7,065
Unrecognized actuarial differences	(2,932)	(4,036)	(24,837)
Less fair value of pension assets	(31,811)	(30,583)	(269,471)
Prepaid pension costs	860	320	7,285
Employees' severance and retirement benefits	¥ 4,106	¥ 4,028	\$ 34,782

Included in the consolidated statements of income for the year ended March 31, 2007, 2006 and 2005 is a severance and retirement benefit expense comprising of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service costs-benefits earned during the year	¥ 920	¥ 923	¥ 935	\$ 7,793
Interest cost on projected benefit obligation	948	939	908	8,031
Expected return on plan assets	(796)	(713)	(638)	(6,743)
Amortization of actuarial differences	449	592	659	3,803
Amortization of net transition obligation	—	—	211	—
Amortization of prior service costs	(68)	(68)	(45)	(576)
Severance and retirement benefit expense	¥1,453	¥1,673	¥2,030	\$12,308

The discount rate and the rate of expected return on plan assets used by the Company are principally 2.5% and 2.5% for 2007, 2006 and 2005, 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 2007, 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. OWNERS' EQUITY

On May 1, 2006, the Japanese corporate law (the "Corporate Law") became effective, which reformed and replaced the Japanese Commercial Code (the "Code") with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

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 Board of Directors' approval has been obtained.

Retained earnings at March 31, 2007 include amounts representing the year-end cash dividends approved at the Board of Directors' meeting held on April 26, 2007 as described in Note 15.

Cash dividends charged to retained earnings during the years ended March 31, 2007, 2006 and 2005 represent dividends paid out during these periods.

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal earnings reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal earnings reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal earnings reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the share-

holders. Under the Corporate Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The Corporate Law also provides that common stock, legal earnings reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

12. STOCK OPTION (STOCK PURCHASE RIGHTS)

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 former Commercial Code of Japan, which was reformed and replaced by a new corporate law on May 1, 2006, 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 (\$6.12) 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. As of March 31, 2007, 232,000 shares of common stock were issued under the plan.

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 former Commercial Code of Japan, which was reformed and replaced by a new corporate law on May 1, 2006, 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 (\$11.12) 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, 2007, 2006 and 2005 is as follows:

	Millions of yen			
	2007			Consolidated
	Power tools	Life-science instruments	Elimination and/or corporate	
Net sales:				
Outside customers	¥148,366	¥4,648	¥ —	¥153,014
Inter segment	—	—	(—)	—
Total sales	148,366	4,648	(—)	153,014
Operating expenses	130,087	3,721	(—)	133,808
Operating income	¥ 18,279	¥ 927	¥(—)	¥ 19,206
Identifiable assets	¥147,230	¥6,913	¥ —	¥154,143
Depreciation expense	4,055	196	—	4,251
Capital expenditures	4,554	112	—	4,666

	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

	Thousands of U.S. dollars			
	2007			
	Power tools	Life-science instruments	Elimination and/or corporate	Consolidated
Net sales:				
Outside customers	\$1,256,806	\$39,374	\$ —	\$1,296,180
Inter segment	—	—	(—)	—
Total sales	1,256,806	39,374	(—)	1,296,180
Operating expenses	1,101,965	31,521	(—)	1,133,486
Operating income	\$ 154,841	\$ 7,853	\$(—)	\$ 162,694
Identifiable assets	\$1,247,183	\$58,560	\$ —	\$1,305,743
Depreciation expense	34,350	1,660	—	36,010
Capital expenditures	38,577	949	—	39,526

(b) Information by Geographic Area

A summary of the sales and operating income by geographic area for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of yen						
	2007						
	Domestic	Asia	Europe	North America	Others	Elimination and/or corporate	Consolidated
Net sales:							
Outside customers	¥49,845	¥ 7,740	¥46,612	¥44,365	¥4,452	¥ —	¥153,014
Inter segment	32,734	34,572	352	7	—	(67,665)	—
Total sales	82,579	42,312	46,964	44,372	4,452	(67,665)	153,014
Operating expenses	67,726	38,904	45,141	44,307	4,256	(66,526)	133,808
Operating income	¥14,853	¥ 3,408	¥ 1,823	¥ 65	¥ 196	¥ (1,139)	¥ 19,206
Identifiable assets	¥91,336	¥24,484	¥36,644	¥23,906	¥2,215	¥(24,442)	¥154,143

	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

	Thousands of U.S. dollars						
	2007						
	Domestic	Asia	Europe	North America	Others	Elimination and/ or corporate	Consolidated
Net sales:							
Outside customers	\$422,236	\$ 65,565	\$394,850	\$375,815	\$37,714	\$ —	\$1,296,180
Inter segment	277,289	292,859	2,982	59	—	(573,189)	—
Total sales	699,525	358,424	397,832	375,874	37,714	(573,189)	1,296,180
Operating expenses	573,706	329,555	382,389	375,324	36,053	(563,541)	1,133,486
Operating income	\$125,819	\$ 28,869	\$ 15,443	\$ 550	\$ 1,661	\$ (9,648)	\$ 162,694
Identifiable assets	\$773,706	\$207,404	\$310,411	\$202,507	\$18,763	\$(207,048)	\$1,305,743

(c) Overseas net sales

A summary of overseas net sales for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of yen				
	2007				
	Asia	Europe	North America	Others	Total
Overseas net sales.....	¥8,281	¥46,544	¥46,210	¥5,691	¥106,726
Consolidated net sales.....					153,014
Percentage of overseas net sales over consolidated net sales.....	5.4 %	30.4%	30.2%	3.7%	69.7%

	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%

	Thousands of U.S. dollars				
	2007				
	Asia	Europe	North America	Others	Total
Overseas net sales.....	\$70,148	\$394,274	\$391,444	\$48,209	\$ 904,075
Consolidated net sales.....					1,296,180
Percentage of overseas net sales over consolidated net sales.....	5.4 %	30.4%	30.2%	3.7%	69.7%

14. TRANSACTIONS WITH RELATED COMPANY

The outstanding common stock of the Company is directly and indirectly owned 38.6% by Hitachi, Ltd. as of March 31, 2007.

Balances with the related company and subsidiaries of the related company as of March 31, 2007 and 2006, and related transactions for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Balances:			
The related company:			
Deposits	¥18,044	¥16,878	\$152,850
Subsidiaries of the related company:			
Trade receivables—accounts	770	1,077	6,523
Trade accounts payable	1,081	1,015	9,157

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Principal transactions:				
The related company:				
Deposits	¥92,018	¥46,502	¥31,551	\$779,483
Interest received	58	9	10	491
Subsidiaries of the related company:				
Sales	1,865	2,903	2,882	15,798
Factoring	4,266	4,288	4,161	36,137
Income from rental of real estate	—	—	198	—

15. SUBSEQUENT EVENTS

The following appropriations of retained earnings were approved at the board of directors' meeting of the Company held on April 26, 2007.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥15 (\$0.13) per share	¥1,548	\$13,113