Hitachi Construction Machinery

Financial Results for the six months ended September 30, 2006

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

Interim Financial Statement (Consolidated) for Fiscal Year Ending March 2007 October 26, 2006

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)
Stock exchange: Tokyo, Osaka Code number: 6305 URL http://www.hitachi-c-m.com/
Location of head office: Tokyo
Representative: Michijiro Kikawa, President and Chief Executive Officer
Date of convening of the Board of Directors for financial settlement: October 26, 2006
Parent company: Hitachi, Ltd. (code number: 6501)
Ratio of voting rights held by the parent company: 51.3%
U.S. Accounting Standards are not applied.

1. Consolidated results for the half-year ended September 2006 (April 1 to September 30, 2006)

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 2006 (interim)	351,890	24.1	35,479	37.2	30,114	48.0
September 2005 (interim)	283,641	32.4	25,850	30.4	20,341	25.0
March 2006	626,457	39.8	57,177	42.5	45,783	36.2

	Net income		Net income per share	Net income per share (Diluted)
	Millions of yen	%	Yen	Yen
September 2006 (interim)	13,704	42.3	70.36	70.12
September 2005 (interim)	9,632	27.1	49.43	49.35
March 2006	24,223	39.8	124.37	124.00

Notes:
1) Equity-method investment profit (loss)
September 2006 (interim): (¥857 million) September 2005 (interim): (¥123 million) March 2006: ¥131 million
2) Average number of shares during the term (consolidated)
September 2006 (interim): 194,768,558 September 2005 (interim): 194,853,581 March 2006: 194,770,688
3) Changes in the method of accounting: None
4) Percentages indicated for net sales, operating income, ordinary income and net income are increases/(decreases) compared to the interim period of the preceding fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets equity per share
	Millions of yen	Millions of yen	%	Yen
September 2006 (interim)	591,267	196,530	28.7	871.15
September 2005 (interim)	515,479	140,065	27.2	720.13
March 2006	552,341	157,173	28.5	807.17

Note:
Number of outstanding shares at the end of the term (consolidated)
September 2006 (interim): 194,625,681 September 2005 (interim): 194,500,547 March 2006: 194,721,507

(3) Consolidated cash flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financial activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
September 2006 (interim)	26,009	(13,598)	(327)	54,355
September 2005 (interim)	26,861	(4,873)	(26,586)	50,454
March 2006	37,379	(18,572)	(33,113)	41,954

(4) Scope of consolidation and application of equity method
Number of consolidated subsidiaries: 66
Number of unconsolidated subsidiaries subject to the equity method: None
Number of affiliates subjected to the equity method: 18

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(5) Changes in companies subject to consolidation and equity method

Newly consolidated: 2 companies
Newly unconsolidated: 3 companies
Newly subjected to the equity method: 1 company
Newly excluded from the equity method: None

2. Projected consolidated results for the fiscal year ending March 31, 2007

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
March 2007	740,000	66,000	35,000

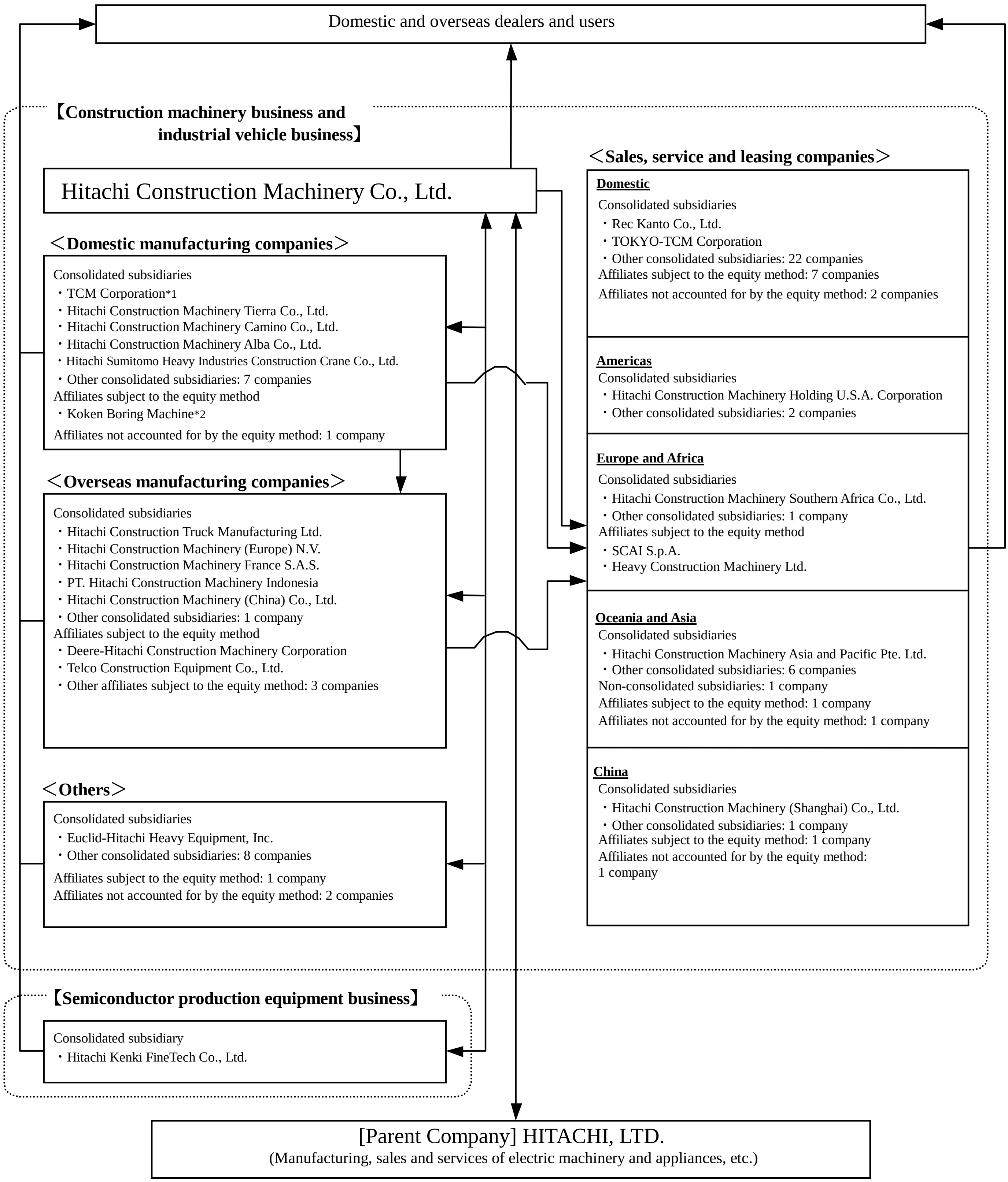
Supplementary information: Projected net income per share for the fiscal year: ¥179.70

Note: The above projections are based on information available as of the time of this announcement. Actual results may differ due to various factors.

Attachment

1. Status of the Corporate Group

As outlined below, this consolidated Group consists of Hitachi Construction Machinery, its parent company, its 67 subsidiaries and its 25 affiliates. Its business mainly involves the manufacture, sale, service and leasing of construction machinery and industrial vehicles, as well as the manufacture and sale of semiconductor production equipment.



*1: Listed on the first section of Tokyo/ Osaka Stock Exchange

*2: Listed on JASDAQ

Note → Flow of products, parts and services

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2. Management Policy

(1) Basic Management Policy

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

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

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

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

(2) Basic Principle Regarding Appropriation of Earnings

HCM focuses on maintaining stable dividends given consideration of future business plans, financial conditions, and profitability even as it works to preserve a link between the distribution of profits and corporate performance. Internal reserves are used to reinforce the Group's financial structure but also employed to develop new technologies, rationalize production equipment, bolster sales capabilities, and grow Group companies in Japan and overseas in order to remain competitive. Management strives to set dividends at roughly 15-20% of consolidated net income.

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

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

To win out in the increasingly intense arena of global competition, HCM is pursuing "*SOH* 21-Creative Value UP," the Group's medium-term management plan launched in April 2003, to achieve the objectives targeted for the fiscal year ending March 31, 2007.

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

2) Consolidated Numerical Targets

Numerical targets for the fiscal year ending March 31, 2007 are outlined below.

	Target
Ratio of operating income to net sales	10%
Ratio of ordinary income to net sales	8% or over
Return on equity	10% or over
D/E Ratio	Not to exceed 1.0

3) Strengthening the Group's International Business

Americas

In the United States and Canada, demand in areas such as road and infrastructure development, commercial construction, and mining machinery is expected to remain flat as attention focuses on the impact of a downturn in housing starts and the recent peak in the ten-year demand cycle. The Group also faces the challenge of developing a supply system capable of responding to fluctuations in demand. In Central and South America, HCM will work to increase sales of ultra-large hydraulic excavators and large dump trucks in the growing mining sector. The cultivation and development of a market for new and used general-purpose hydraulic excavators is another priority.

Europe, Africa, and the Middle East

In Europe, the Group is working to increase market share with the introduction of global-model ZW Series wheel loaders and ZAXIS-3 hydraulic excavators while continuing to enhance and develop its networks of distributors in the high-demand countries of France and Germany. In the key markets of the UK and Italy, the Group will work to strengthen its relationship with sub-dealers Heavy Construction Machinery Ltd. and SCAI S.p.A.

The Group will also continue to grow sales in South Africa and throughout the continent, where demand for mining machinery is on the rise thanks to development in coal and gold mining; the Middle East, where the funneling of petrodollars into infrastructure development projects continues to stimulate demand; and Russia, where housing construction and mining are driving rapid growth in demand.

Oceania and Asia

The Group has been successful in carving out a large share of the mining market through packaged sales of ultra-large hydraulic excavators and large dump trucks. In its bid to maintain a solid market position, HCM will continue to enhance services such as full maintenance contracts for purchased machinery. Capitalizing on the strengths of its direct marketing and service structures, the Group will continue to expand sales of new machinery, parts, used equipment, and service. In the rapidly growing and extremely competitive Indian market, HCM worked to further deepen its relationship with Telco Construction Equipment Co., Ltd., a local partner with which the company has recently strengthened its affiliation, by increasing the number of staff stationed there and bolstering technical assistance. The Company also broke ground on its third manufacturing plant in the country in an effort to keep up with rapidly increasing demand. To address expectations of near-term growth in Vietnam, HCM opened a local office in July 2006, established a maintenance facility for large hydraulic excavators, and increased the level of support it provides to distributors.

China

Hitachi Construction Machinery (Shanghai) Co., Ltd., will address increased demand by focusing on demand trends, working to increase net sales, and ensuring collection of accounts receivable. In addition to increasing production of general-purpose hydraulic excavators, Hitachi Construction Machinery (China) Co., Ltd., will continue to diversify its business operations to include providing structural welding materials to plants outside China and producing construction cranes.

4) Improving Domestic Business

Domestic demand is expected to remain steady thanks to stock adjustments and increased capital investment. The Group will also work to improve customer satisfaction by enhancing its three-element RSS system—rental (R), sales (S), and service (S)—to achieve increased consolidated management efficiency.

Recognizing the need to increase profits and improve market standing, the Group introduced two completely redesigned product lines in January 2006: the ZAXIS-3 Series of next-generation hydraulic excavators, which delivers dramatically improved performance and functionality while complying with Tier III emissions regulations; and the ZW Series, a globally unified line of wheel loaders featuring enhanced operational efficiency.

In its rental business, the Company will seek to reduce costs and raise profitability by effectively utilizing assets with a new IT-based rental system, aggressively applying the R-VEC (Rental-Value Engineering for Customers) technique, and unifying management of assets and repairs by expanding and improving its network of regional equipment centers.

In its service business, HCM is poised to enhance its IT-driven Global eService as well as contract-based service programs such as “value packs” that allow customers to budget and reduce maintenance costs. Through these measures the Company will improve customer satisfaction while delivering new value as a dependable and accessible partner.

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

The HCM Group will pursue a region-specific marketing approach, reinforce its proprietary development structure, and maximize the effects of alliances in order to develop products that meet the needs of customers worldwide. At the same time, the Company is set to strengthen its regional network of production and procurement systems and minimize fixed costs on a consolidated basis. Efforts to reduce costs, shorten lead times, and improve cash flow by streamlining the supply chain will continue.

6) Strengthening the Financial Structure

After achieving one of its medium-term management plan goals last year by regaining an “A” rating (A-) on its long-term bonds, the Company plans to seek to upgrade that rating by further improving its profit and financial structures. Specifically, it will continue to shorten the number of retention days of sales credits and inventories on a consolidated basis by promoting C Project II (Cash Flow Project II) and supply chain management. In addition to continuing to curb fixed assets by integrating and eliminating existing facilities, HCM will move to improve consolidated cash flows with a cash management system (CMS) that facilitates the centralized management of group funds.

7) Corporate Social Responsibility (CSR) Initiatives

HCM is committed to increasing corporate value by undertaking activities to fulfill its social responsibilities and improve satisfaction of all stakeholders in accordance with the Group’s corporate philosophy. To that end, HCM will redouble efforts to encourage environmental management, compliance, and brand management while contributing to the good of society through environment-related businesses such as soil purification and parts recycling.

Recent CSR activities include acting as a special sponsor of the Kasumigaura Marathon/International Blind Marathon held in April 2006 in Tsuchiura and continuing to contribute to the international community by working to develop demining equipment. Additionally, in June 2006 the Company published the *Hitachi Construction Machinery*

Group CSR Report, a summary designed to deepen stakeholders' understanding of the Group's CSR philosophy and initiatives.

(4) Basic Policy on Relations with the Parent Company

The companies of the Hitachi Group share a common management vision and brand. As a member of this Group, the HCM Group is proud to cultivate cooperative relationships with other Group companies as well as with its parent company, Hitachi, Ltd. These partnerships help HCM contribute to maximizing the Group's corporate value, strengthening the Hitachi brand, and improving shareholder value.

The HCM Group also borrows and deposits short-term funds using the Hitachi Group Fund pooling system, a financial framework operated by Hitachi, Ltd.

Items Pertaining to the Parent Company (As of September 30, 2006)

Company	Affiliation	Proportion of Voting Rights	Securities Exchanges on Which Parent Company Stock is Listed
Hitachi, Ltd.	Parent Company	51.3 (0.9)	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, New York

Note: The number shown in parentheses in the "Proportion of Voting Rights" column indicates indirect voting rights deriving from stakes in other companies.

3. Management Results and Financial Position

(1) Overview of the Interim Period

Despite a decline in public investment in Japan, demand rose during the first half of the fiscal year on the back of increased capital investment against a backdrop of improving corporate profits, continued stock adjustments in hydraulic excavators, and increased numbers of non-civil engineering applications.

Robust demand for construction machinery continued overseas as the overall world economy grew despite a slowdown in housing investment in North America.

HCM pursued its businesses in this economic environment with the aim of achieving steady growth in accordance with the goals of the "SOH 21-Creative Value UP" medium-term management plan of establishing the industry's number-one profit structure and embarking on further globalization.

The Company moved to meet ongoing demand growth by updating and adding production equipment at its main plant at Tsuchiura as well as at plants worldwide. This growth was fueled by the market's favorable reaction to HCM's completely redesigned hydraulic excavators and globally unified wheel loader lines featuring Tier III emissions regulation compliance; increased demand for mining machinery due to an ongoing worldwide resource shortage; and rapidly increasing demand in emerging countries such as Russia and India.

The following table summarizes consolidated and non-consolidated results for the term:

(100 million yen; %)

	Consolidated (Change)	Non-consolidated (Change)
Net sales	3,518 (+24%)	1,889 (+27%)
Operating income	354 (+37%)	111 (+85%)
Ordinary income	301 (+48%)	98 (+91%)
Net income	137 (+42%)	68 (+110%)

Note: Figures under ¥100 million are rounded down.

(2) Overview by Regional Segment

This section provides an overview of the Group's sales by region.

1) Japan
Sales of new hydraulic excavators were up 11% over the previous fiscal year thanks to factors including continued stock adjustments and increased capital investment against a backdrop of improving corporate profits. Results for the rental and service businesses were also generally consistent with Group plans. Net sales rose 19% to ¥109,943 million, reflecting the incorporation of figures for TCM Corporation into the consolidated results starting with the second quarter of 2005.

2) The Americas
Increased demand for hydraulic excavators and mini-excavators due to road and infrastructure development, commercial construction, and mining, combined with stock adjustments due to the outflow of used machinery to South America to offset a downturn in housing starts, to produce results that exceeded forecasts. Net sales jumped 47% to ¥72,797 million.

3) Europe, Africa, and the Middle East
Increased market share in Europe resulting from efforts to reinforce and broaden the Group’s independent sales network, growth in demand for mining machinery in Africa due to brisk demand for mined resources, increased infrastructure development and plant construction funded by recycled petrodollars, and increased demand in resource extraction and infrastructure development in Russia pushed sales up 36% to ¥85,919 million.

4) Oceania and Asia
Demand for hydraulic excavators has been robust across the region since an economic upturn began in April, offsetting reduced demand in Indonesia due to weakness in the rupiah triggered by a sustained run-up in crude prices dating from early fall 2005. Demand for mining machinery in countries such as Australia and Indonesia remained solid, helping net sales grow 7% to ¥55,818 million.

5) China
Despite fears of slowing demand in response to higher interest rates and other financial policies, demand for hydraulic excavators intensified throughout China, while demand for mini-excavators continued to grow in urban areas such as Shanghai. Net sales inched up 3% to ¥27,413 million. Taking into consideration a change in the fiscal year, the actual rate of increase of net sales was 13%.

(3) Overview by Industry Segment
1) Construction Machinery Business
Consolidated net sales for HCM’s construction machinery business surged 19% to ¥314,782 million.

The HCM Group is promoting a full product lineup, strengthening key product lines, and developing its global business to support sectors that employ a wide range of construction machinery.

a. Construction-related Products Business
In Japan, net sales of hydraulic excavators increased as a result of continuing stock adjustments and aggressive industry-specific marketing targeting non-civil engineering applications and other sectors. Overseas, the Company sought to improve its market standing, working steadily to meet demand from public investment in the United States and infrastructure development across Asia, and to expand sales of new models in Europe. Performance remained solid in China thanks in particular to growth in sales of mini-excavators in urban areas such as Shanghai as well as increased demand due to infrastructure development throughout the country.

In its wheel loader business, HCM worked with TCM Corporation to develop a new series of environmentally friendly models as part of a single global lineup and launched that line in Europe, a region characterized by high demand. At the same time, the Company sought to expand net sales through promotional programs using the Group's sales network.

New products launched by the Company included two new zero-tail ultra-mini-excavator models as well as a tracked backhoe featuring compliance with Tier III emissions regulations.

b. Resource Development-related Products Business

Dramatic growth in demand for mining machinery continued in the Americas, Oceania, and Indonesia. Demand in this product area is also growing in emerging markets such as China, India, Africa, and resource-rich Russia.

HCM's ultra-large hydraulic excavators have been well received by the market in terms of basic performance as measured by metrics such as excavating capacity and durability as well as exceptional operability underwritten by solid service capabilities. Augmented by this positive reputation, the Company's aggressive pursuit of combination sales pairing excavators with ultra-large dump trucks helped expand net sales.

c. Environment-related Products Business

Under the Hitachi Onsite Screening & Solution (Hi-OSS) brand, HCM has been marketing a system that features varying combinations of self-propelled machinery to efficiently sort, process, and recycle industrial waste on-site. The Company worked to deepen market penetration and develop new customer segments through aggressive marketing to customers such as local governments.

In new products, HCM launched a self-propelled crusher as part of its Hi-OSS line. Designed as a high-volume, high-speed solution for crushing waste from building demolition sites, the new machine is capable of accommodating materials ranging from concrete rubble to natural stone.

d. Product Development Business

HCM is working actively to increase sales by developing new products based on models such as the series of hydraulic excavators that was recently completely redesigned for compliance with Tier III emissions regulations. These offerings are designed to meet a variety of specialized customer needs and include shredders that can quickly and efficiently shred automobiles as well as special high-reach demolition models that excel at tearing down multi-story buildings.

In new products, HCM launched an environmentally friendly electric mini-excavator that is completely emissions-free.

e. Rental Business

The Company worked to improve asset efficiency, expand and improve facilities, and more closely match product availability with rental demand at its directly-managed rental group REC.

HCM is seeking to enhance customer satisfaction by providing the REC-BIZWAY credit card for businesses as an alternative means of paying rental fees, freeing them from the need to arrange cash payments or bank transfers. Going forward, the Company will aggressively increase profitability by expanding revenue from rentals in non-civil engineering sectors and of Hi-OSS products, developing new customers, and expanding and improving its presence in high-demand regions.

f. Used Machinery Business

Demand for used machinery is intensifying across Asia, China, Russia, and the Middle East. HCM met domestic and overseas demand for used machinery by selling highly reliable construction machinery that had been inspected and repaired at service facilities around Japan at parade and Internet auctions held by Hitachi Construction Machinery Trading Co., Ltd.

g. Service Business

HCM is actively working to increase customer satisfaction by strengthening service systems designed specifically for customers in different non-civil engineering sectors which are experiencing increasing demand such as scrap processing and demolition. This commitment to customer satisfaction is also reflected in the Company's decision to ship the ZAXIS-3 and ZW Series with satellite receivers as standard equipment, allowing machine data to be shared between customers and HCM and used by the Global e-Service machinery management system.

Additionally, HCM's full maintenance contract services for ultra-large hydraulic excavators used in mining applications have won the trust of customers in dramatic fashion, making a significant contribution to growth in net sales.

h. Other Software Businesses

Hitachi Kenki Business Frontier Co., Ltd., handles the development, sale, and maintenance of computer software; LCS Co., Ltd., handles financing business such as installment and other sales; Hitachi Kenki Logistics Technology Co., Ltd., handles logistics; and Hitachi Construction Machinery Comec Co., Ltd., oversees equipment procurement and part receipts and payments. Each entity is expanding the scale of business by applying its expertise.

2) Industrial Vehicles Business

Due in part to the inclusion of data for TCM Corporation starting in the second quarter of 2005, consolidated net sales rose 108% to ¥36,085 million.

In addition to broadening its line of small engine-powered forklifts, TCM Corporation developed a large battery-powered forklift as a means of complying with increasingly strict environmental regulations. In port-related products, TCM sought to expand sales by developing the country's first hybrid transfer crane. The model boasts dramatically reduced emissions and improved fuel economy.

3) Semiconductor Production Equipment Business

Consolidated net sales slid 3% to ¥1,023 million.

Domestic demand for atomic force microscopes remained strong, and Hitachi Kenki FineTech Co., Ltd (HKFT) worked to expand sales of ultrasonic testing equipment and testing equipment for onboard vehicle semiconductors, two product lines for which performance remained solid.

In new products, HKFT launched both the Fine SAT II ultrasonic video system, a testing and analysis tool capable of visualizing results non-destructively, and the next-generation WA3300 model in the WA Series of atomic force microscopes.

(4) Disposition of Profits for the Current Term

HCM paid cash dividends of ¥8.00 per share for the fiscal 2005 interim period ended September 30, 2005. At the Board of Directors meeting scheduled for October 26, 2006, a resolution was passed to issue cash dividends of ¥14.00 per share for the interim period under review.

(5) Status of Consolidated Cash Flows

At the end of the interim period, cash and cash equivalents totaled ¥54,355 million, an increase of ¥3,901 million from the same time last year. Factors relating to respective cash flows are described below.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥26,009 million, a decrease of ¥852 million compared with net cash provided by operating activities of ¥26,861 million in the same period last year. Revenue before income taxes and minority interests was ¥30,114 million, up ¥8,656 million compared with ¥21,458 million in the same period last year. The decrease in notes and accounts receivable was ¥12,375 million, a reduction of ¥8,218 million compared with the same period last year, despite dramatically higher sales. Other factors in increased cash flows from operating activities include an increase of ¥15,791 million in notes and accounts payable due primarily to the last day of the period falling on a holiday. Factors reducing cash flows from operating activities include a dramatic increase in inventories of ¥19,636 million compared with the same period last year to ¥20,911 million primarily at overseas sales and manufacturing subsidiaries and a jump in income taxes paid of ¥6,235 million compared with the same period last year to ¥12,185 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥13,598 million. This consisted primarily of ¥12,107 million in acquisitions of property, plant, and equipment, mainly as capital investment to increase production at various manufacturing bases.

As a result, free cash flows, the sum of net cash provided by operating activities and cash used in investing activities, amounted to ¥12,411 million.

Cash flows from financing activities

Net cash used in financing activities totaled ¥327 million. This was the result of short-term debt of ¥9,901 million and long-term debt of ¥6,044 million undertaken in order to make ¥300 million in repayments of bonds, ¥10,236 million in repayments of long-term debt, ¥3,394 million in dividends paid, and ¥1,766 million in interest paid.

The following table describes HCM's cash flow indicator indices:

	March 2005		March 2006		March 2007
	Interim	End of year	Interim	End of year	Interim
Shareholders' equity ratio (%)	28.3%	28.3%	27.2%	28.5%	28.7%
Shareholders' equity ratio on market price basis (%)	60.2%	62.1%	81.9%	109.3%	86.9%
Years to debt repayment (years)	—	19.6	2.9	4.1	3.0
Interest coverage ratio (times)	—	2.2	12.6	9.9	14.7

*Shareholders' equity ratio: Total shareholders' equity/total assets
Shareholders' equity ratio on market price basis: Share market price/total assets
Years to debt repayment: Interest-bearing debt/cash flows from operating activities
Interest coverage ratio: Cash flows from operating activities/interest payments

1. Indices are calculated using consolidated figures.
2. Share market price is calculated by multiplying the closing price at the end of the (interim) period by the number of outstanding shares at the end of the (interim) period (after excluding treasury stock).
3. Cash flows from operating activities reflect cash flows from operating activities as detailed in the Consolidated Statements of Cash Flows. Interest-bearing debt reflects all debt for which the Company is paying interest as detailed in the Consolidated Balance Sheets. Interest payments reflect interest paid as detailed in the Consolidated Statements of Cash Flows.
4. Years to debt repayment and interest coverage ratio figures for the interim period ending September 30, 2004, are not reported due to the fact that the cash flows from operating activities for that period were negative.

(6) Outlook for the Term

Looking ahead, total demand for hydraulic excavators is expected to remain strong in Japan; Europe, Africa, and the Middle East; Oceania and Asia; and China. In North America, slowing housing investment and other factors are contributing to a lack of clarity with regard to the future direction of the economy despite robust private capital investment and highway investment, triggering expectations that year-on-year growth in hydraulic excavator demand will remain flat. Demand for mining machinery is expected to continue its high rate of increase thanks to the growing worldwide appetite for resources.

To keep pace with brisk demand, HCM plans to increase its production capacity by beefing up production systems at existing plants around the world as well as by constructing a series of new facilities, including an assembly plant for ultra-large hydraulic excavators and a hydraulic equipment component manufacturing plant in Japan and a hydraulic excavator assembly plant in India.

The completely redesigned next-generation global medium and large hydraulic excavator and wheel loader models launched by the consolidated group in January have been well received by customers, who praise their performance, operability, and compliance with environmental regulations.

In Japan, HCM will move to more aggressively promote industry-specific marketing while working to further deepen market penetration and increase sales of Hi-OSS brand products that precisely target customer needs.

Overseas, the Company will seek to realize further improvements in its market standing in the United States through its ongoing partnership with Deere & Company. In Europe, the focus will be on growing the business and increasing market share by introducing completely redesigned hydraulic excavator and wheel loader models. HCM will strengthen its production system in China to meet growing demand while working to achieve a position of overwhelming market dominance in rapidly growing Asian markets such as India and Vietnam. At the same time, the consolidated group will maintain an awareness of the critical importance of corporate social responsibility as it implements these measures in order to meet the goals outlined in its medium-term management plan, cement its brand strength, and increase both corporate and shareholder value.

The following table shows the present outlook for consolidated and non-consolidated results in for the fiscal year ending March 31, 2007:

(100 million yen; %)

	Consolidated (Change)	Non-consolidated (Change)
Net sales	7,400 (+18%)	4,090 (+23%)
Operating income	770 (+35%)	257 (+52%)
Ordinary income	660 (+44%)	355 (+63%)
Net income	350 (+44%)	258 (+63%)

Note: Figures under ¥100 million are rounded down.

*These projections assume an exchange rate of ¥115 to the U.S. dollar and ¥144 to the Euro.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Interim As of Sept. 30, 2006 (A)	Year-end As of Mar. 31, 2006 (B)	Interim As of Sept. 30, 2005	(A)-(B)
ASSETS				
Ⅰ Current assets				
1. Cash and bank deposits	54,400	37,073	40,082	17,327
2. Notes and accounts receivable	154,530	165,353	145,104	(10,823)
3. Inventories	160,415	138,297	128,616	22,118
4. Others	32,999	34,758	40,248	(1,759)
5. Less: Allowance for doubtful accounts	(8,431)	(9,493)	(10,088)	1,062
Total current assets	393,913	365,988	343,962	27,925
Ⅱ Fixed assets				
(1) Property, plant and equipment				
1. Property held for lease	30,820	25,437	23,744	5,383
2. Buildings and structures	34,895	33,120	32,660	1,775
3. Machinery and equipment	24,508	23,077	20,989	1,431
4. Land	45,779	44,312	44,281	1,467
5. Others	10,154	8,536	7,000	1,618
Net property, plant and equipment	146,156	134,482	128,674	11,674
(2) Intangible assets	6,889	5,719	5,458	1,170
(3) Investments and other assets				
1. Investments in securities	25,428	27,738	21,279	(2,310)
2. Others	20,011	19,570	17,313	441
3. Less: Allowance for doubtful accounts	(1,130)	(1,156)	(1,207)	26
Total investments and other assets	44,309	46,152	37,385	(1,843)
Total fixed assets	197,354	186,353	171,517	11,001
Total assets	591,267	552,341	515,479	38,926

	Interim As of Sept. 30, 2006 (A)	Year-end As of Mar. 31, 2006 (B)	Interim As of Sept. 30, 2005	(A)-(B)
LIABILITIES				
Ⅰ Current liabilities				
1. Notes and accounts payable	147,457	129,893	111,825	17,564
2. Short-term loans	78,385	70,427	66,522	7,958
3. Commercial paper	3,000	3,000	0	0
4. Current portion of bonds	10,600	600	615	10,000
5. Others	64,546	62,855	63,637	1,691
Total current liabilities	303,988	266,775	242,599	37,213
Ⅱ Long-term liabilities				
1. Bonds	15,300	25,600	26,012	(10,300)
2. Long-term loans	50,059	53,326	60,352	(3,267)
3. Retirement and severance benefits	12,954	12,829	12,664	125
4. Others	12,436	11,642	12,398	794
Total long-term liabilities	90,749	103,397	111,426	(12,648)
Total liabilities	394,737	370,172	354,025	24,565
MINORITY INTERESTS				
Minority interests	-	24,996	21,389	-
SHAREHOLDERS' EQUITY				
Ⅰ Common stock	-	42,626	42,595	-
Ⅱ Capital surplus	-	42,133	42,108	-
Ⅲ Retained earnings	-	70,392	57,367	-
Ⅳ Net unrealized gain on securities held	-	2,730	1,940	-
Ⅴ Foreign currency translation adjustments	-	1,168	(1,955)	-
Ⅵ Treasury stock	-	(1,876)	(1,990)	-
Total shareholders' equity	-	157,173	140,065	-
Total liabilities, minority interests and shareholder's equity	-	552,341	515,479	-
Net assets				
Ⅰ Shareholder's equity				
1. Common stock	42,631	-	-	-
2. Capital surplus	42,139	-	-	-
3. Retained earnings	82,118	-	-	-
4. Treasury stock	(2,433)	-	-	-
Total shareholders' equity	164,455	-	-	-
Ⅱ Valuation and translation adjustments				
1. Net unrealized gain on securities held	2,215	-	-	-
2. Gain (loss) on deferred hedge transaction	(20)	-	-	-
3. Foreign currency translation adjustments	2,899	-	-	-
Total valuation and translation adjustments	5,094	-	-	-
Ⅲ Stock purchase warrant	27	-	-	-
Ⅳ Minority interests	26,954	-	-	-
Total net assets	196,530	-	-	-
Total liabilities and net assets	591,267	-	-	-

(Rounded off to the nearest million)

(English translation of "KESSAN TANSHIN" originally issued in Japanese language)

(2) Consolidated Statements of Income

(Millions of yen)

		Interim The half year ended Sept. 30, 2006 (A)	Interim The half year ended Sept. 30, 2005 (B)	Year-end Year ended Mar. 31, 2006	(A)/(B)×100 (%)
					%
Ⅰ	Net sales	351,890	283,641	626,457	124
Ⅱ	Cost of sales	255,095	204,628	453,461	125
	Gross profit before (realized) unrealized profit on installment sales	96,795	79,013	172,996	123
Ⅲ	(Realized) unrealized profit on installment sales	(237)	651	947	-
	Gross profit	97,032	78,362	172,049	124
Ⅳ	Selling, general and administrative expenses				
1．	Packing and shipping expenses	9,524	6,926	16,094	138
2．	Employees' salaries	17,489	17,237	37,020	101
3．	R&D expenditure	5,678	5,311	11,821	107
4．	Provision of reserve for bad debt	0	618	442	-
5．	Others	28,862	22,420	49,495	129
	Total selling, general and administrative expenses	61,553	52,512	114,872	117
	Operating income	35,479	25,850	57,177	137
Ⅴ	Non-operating income				
1.	Interest income	801	502	2,092	160
2.	Interest income from installment sales	347	386	627	90
3.	Dividends income	99	73	120	136
4.	Gain on equity of affiliated companies	0	0	131	-
5.	Others	1,385	1,228	2,235	113
	Total non-operating income	2,632	2,189	5,205	120
Ⅵ	Non-operating expenses				
1.	Interest expenses	1,650	1,787	3,598	92
2.	Loss on disposal of inventories	670	530	1,150	126
3.	Effect of exchange rate changes	2,438	1,987	6,473	123
4.	Loss on equity of affiliated companies	857	123	0	697
5.	Others	2,382	3,271	5,378	73
	Total non-operating expenses	7,997	7,698	16,599	104
	Ordinary income	30,114	20,341	45,783	148
Ⅶ	Extraordinary income				
1.	Gain on the elimination of the medical insurance system	0	2,227	2,314	-
	Total extraordinary income	0	2,227	2,314	-
Ⅷ	Extraordinary losses				
1.	Restructuring costs	0	1,110	1,111	-
2.	Impairment losses for long-lived assets	0	0	191	-
	Total extraordinary losses	0	1,110	1,302	-
	Income before income taxes and minority interests	30,114	21,458	46,795	140
	Income taxes				
	Current	10,145	8,590	15,853	118
	Deferred	3,926	1,252	1,353	314
	Minority interests	2,339	1,984	5,366	118
	Net income	13,704	9,632	24,223	142

(Rounded off to the nearest million)

(3) Consolidated Statements of Retained Earnings

(Millions of yen)

		Interim (The half year ended Sept. 30, 2005)	Year-end (Year ended Mar. 31, 2006)
	ADDITIONAL PAID-IN CAPITAL		
Ⅰ	Beginning balance	42,092	42,092
Ⅱ	Increase in additional paid-in capital		
	1. Exercise of stock purchase warrant	11	42
	2. Gain on sales of treasury stock	5	0
	Total increase in additional paid-in capital	16	42
Ⅲ	Decrease in additional paid-in capital		
	1. Withdrawal from gain on sales of treasury stock	0	1
	Total decrease in additional paid-in capital	0	1
Ⅳ	Ending balance	42,108	42,133
	RETAINED EARNINGS		
Ⅰ	Beginning balance	49,929	49,929
Ⅱ	Increase in retained earnings		
	1. Net income	9,632	24,223
	Total increase in retained earnings	9,632	24,223
Ⅲ	Decrease in retained earnings		
	1. Effect of newly consolidated companies	716	716
	2. Effect of newly affiliated companies	114	114
	3. Cash dividends	1,364	2,920
	4. Loss on sales of treasury stock	0	10
	Total decrease in retained earnings	2,194	3,760
Ⅳ	Ending balance	57,367	70,392

(Rounded off to the nearest million)

(4) Consolidated Statements of Shareholders' Equity

Half year ended Sept 30, 2006 (April 1, 2006- September 30, 2006)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2006	42,626	42,133	70,392	(1,876)	153,275
Changes during the interim period					
Newly issued	5	6			11
Cash dividends			(1,948)		(1,948)
Net income			13,704		13,704
Increase in treasury stock				(823)	(823)
Decrease in treasury stock			(30)	266	236
Net increase/decrease during the interim period of non-shareholders' equity items					
Total increase/decrease during the interim period	5	6	11,726	(557)	11,180
Balance at September 30, 2006	42,631	42,139	82,118	(2,433)	164,455

(Rounded off to the nearest million)

(Millions of yen)

	Valuation and translation adjustments				Stock purchase warrant	Minority interests	Total net assets
	Net unrealized holding gain (loss) on securities	Deferred hedge loss	Foreign currency translation adjustments	Total cumulative translation adjustments			
Balance at March 31, 2006	2,730	-	1,168	3,898	-	24,996	182,169
Changes during the interim period							
Newly issued							11
Cash dividends							(1,948)
Net income							13,704
Increase in treasury stock							(823)
Decrease in treasury stock							236
Net increase/decrease during the interim period of non-shareholders' equity items	(515)	(20)	1,731	1,196	27	1,958	3,181
Total increase/decrease during the interim period	(515)	(20)	1,731	1,196	27	1,958	14,361
Balance at September 30, 2006	2,215	(20)	2,899	5,094	27	26,954	196,530

(Rounded off to the nearest million)

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Interim The half year ended Sept. 30, 2006	Interim The half year ended Sept. 30, 2005	Year-end Year ended Mar. 31, 2006
Ⅰ Cash flows from operating activities			
1. Income before income taxes and minority interests	30,114	21,458	46,795
2. Depreciation and amortization	10,989	8,419	19,470
3. Impairment losses for fixed assets	0	0	191
4. Decrease in allowance for doubtful accounts	(1,079)	(371)	(1,205)
5. Interest and dividends income	(900)	(575)	(2,212)
6. Interest expenses	1,650	1,787	3,598
7. (Gain) loss on equity earnings of affiliated companies	834	114	(131)
8. (Increase) decrease in notes and accounts receivable	12,375	4,157	(9,318)
9. Increase in inventories	(20,911)	(1,275)	(7,929)
10. Purchase of property held for lease	(9,159)	(4,834)	(12,816)
11. Sales of property held for lease	1,248	1,667	3,506
12. Increase in notes and accounts payable	15,791	4,596	19,223
13. Gain on sales of property, plant and equipment	(740)	(1,066)	(2,154)
14. Loss on revaluation of investments in securities	0	0	29
15. Gain on sales of investments in securities	(31)	(389)	(395)
16. Others	(1,987)	(877)	(8,607)
Sub-total	38,194	32,811	48,045
17. Income taxes paid	(12,185)	(5,950)	(10,666)
Net cash provided by operating activities	26,009	26,861	37,379
Ⅱ Cash flows from investing activities			
1. Investments in time deposits	(41)	(41)	(91)
2. Proceeds from time deposits	53	1,183	1,228
3. Acquisitions of property, plant and equipment	(12,107)	(6,424)	(15,057)
4. Proceeds from sales of property, plant and equipment	423	310	373
5. Purchase of investments in securities	(60)	(383)	(6,550)
6. Proceeds from sale of investments in securities	68	556	872
7. Interest and dividends received	919	603	2,215
8. Interest and dividends received from affiliated companies	169	281	356
9. Other, net	(3,022)	(958)	(1,918)
Net cash used in investing activities	(13,598)	(4,873)	(18,572)
Ⅲ Cash flows from financing activities			
1. Net increase (decrease) in short-term debt	9,901	(9,042)	(6,320)
2. Proceeds from long-term debt	6,044	6,803	12,411
3. Repayments of long-term debt	(10,236)	(8,398)	(19,780)
4. Redemption of debenture	(300)	(12,308)	(12,735)
5. Interest paid	(1,766)	(2,136)	(3,786)
6. Dividends paid to shareholders	(1,948)	(1,364)	(2,920)
7. Dividends paid to minority shareholders by subsidiaries	(1,446)	(590)	(603)
8. Proceeds from issuance of stock	11	23	85
9. Issuance of common stock and investments by minority	0	1,250	1,254
10. Proceeds from sale of treasury stock	236	82	187
11. Purchase of treasury stock	(823)	(906)	(906)
Net cash used in financing activities	(327)	(26,586)	(33,113)
Ⅳ Effect of exchange rate changes on cash and cash equivalents	278	293	1,501
Ⅴ Net increase (decrease) in cash and cash equivalents	12,362	(4,305)	(12,805)
Ⅵ Cash and cash equivalents at beginning of year	41,954	49,534	49,534
Ⅶ Cash and cash equivalents of newly consolidated companies at beginning of year	39	5,225	5,225
Ⅷ Cash and cash equivalents at end of year	54,355	50,454	41,954

(Rounded off to the nearest million)

Important matters that form the basis for compiling interim consolidated financial statements

1. Scope of consolidation

Number of consolidated subsidiaries: 66

(1) Main consolidated subsidiaries

1) TCM Corporation
2) Hitachi Construction Machinery Tierra Co., Ltd.
3) Hitachi Construction Machinery Camino Co., Ltd.
4) Hitachi Construction Machinery Alba Co., Ltd.
5) Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.
6) Hitachi Kenki FineTech Co., Ltd.
7) Hitachi Construction Truck Manufacturing Ltd.
8) Hitachi Construction Machinery France S.A.S.
9) Hitachi Construction Machinery (Europe) N.V.
10) PT. Hitachi Construction Machinery Indonesia
11) Hitachi Construction Machinery (China) Co., Ltd.
12) Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
13) Hitachi Construction Machinery (Shanghai) Co., Ltd.
14) Hitachi Construction Machinery Holding U.S.A. Corporation

(2) Number of newly consolidated subsidiaries: 2

1) FFC Co., Ltd.
2) Nara Hauling Equipment Co., Ltd.

(3) Number of excluded consolidated subsidiaries: 3

1) HKD Co., Ltd.
2) Kyoto TCM Co., Ltd.
3) Tokai TCM Co., Ltd.

(4) Number of non-consolidated subsidiaries: 1

1) Siam-Hitachi Construction Machinery Service Co., Ltd.

(5) Change in company name

1) Effective April 2006, Hitachi Construction Machinery (Singapore) Pte. Ltd. changed its name to Hitachi Construction Machinery Asia and Pacific Pte. Ltd.

2. Application of the equity method

Number of affiliates subject to the equity method: 18

(1) Main affiliates subject to the equity method

1) Deere-Hitachi Construction Machinery Corporation
2) Telco Construction Equipment Co., Ltd.
3) Koken Boring Machine Co., Ltd.

(2) Number of affiliates newly subjected to the equity method: 1

1) Hokkaido TCM Co., Ltd.

(3) Number of companies excluded from the equity method: 0

3. Date of settlement of interim accounts for consolidated subsidiaries

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

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

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

The 12 firms listed above settle their interim accounts on June 30. Interim Financial statements as of the same date are used in preparing interim consolidated financial statements, and the required adjustments are performed for the consolidated Group when handling any major transactions that may have arisen between the date of settlement among these companies and the date of interim consolidated settlement. The closing dates for interim earnings for the consolidated subsidiaries other than those listed above correspond to the closing date for interim consolidated accounting.

4. Items concerning accounting standards

(1) Securities

1) Securities held to maturity: Determined by the amortized cost method.

2) Other Securities

Securities with market value:

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

Securities without market value:

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

(2) Derivatives trading

Determined primarily by the market-price valuation method.

(3) Inventories

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

(4) Depreciation of major depreciable assets

1) Tangible fixed assets

Assets for leases: Determined primarily by the straight-line method.

Other tangible fixed assets: Determined primarily by the declining balance method.

2) Intangible fixed assets: Determined primarily by the straight-line method.

3)

(5) Accounting for deferred assets

New stock issue expenses

Entire amount is expensed as incurred.

(6) Allowance for doubtful accounts

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

(7) Reserve for retirement and severance benefits

In preparations for employees' retirement benefits, the Company and a portion of its domestic consolidated subsidiaries have posted the amounts, which are projected to occur at the end of the interim period under review based on the projected amount of retirement benefit obligations and pension assets at the end of this fiscal year.

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

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

(8) Income on installment sales

The Company and some of its subsidiaries sell products on installment. The sales basis of revenue recognition used for installment sales is the same as for ordinary sales, with the total sales amount of installment sales being included in sales data. However, interest from installment sales is included in interest income from installment sales under non-operating income.

Sales profit on long-term installment sales (derived by reducing installment sales by the corresponding cost of sales) is recognized as related installment receivables become due.

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

Foreign currency-denominated financial claims and liabilities are converted into yen according to the spot exchange rates on the closing date for interim accounting, and the conversion balance is recognized as a profit or loss. The assets and liabilities of subsidiaries abroad and other entities are converted into yen according to the spot exchange rates on the closing date for accounting, while income and expenses are converted into yen according to the average exchange rates that prevailed during the term. In both instances the conversion difference is included in the adjustment account of exchange conversion in the Net Assets.

(10) Accounting for leases

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

(11) Method of major hedge accounting

1) Method of hedge accounting

As a rule, HCM uses deferred hedge accounting.

2) Means and object of hedging

Forward exchange contracts are used to alleviate foreign exchange risks in overseas transactions. Interest-rate swaps are conducted according to their procurement periods to solidify the fluctuation risks of cash flows by corporate bonds, long-term loans and other instruments.

3) Hedging policy

Derivatives trading in currency-related operations is designed mainly to hedge sales contracts denominated in foreign currencies. As for interest-related derivatives trading the Company considers its first priority is the procurement of corporate bonds, long-term loans, and similar instruments with interest that remains stable over the long term. For this reason, the Company aims to fix interest rates at levels that match actual market rates at the time of procurement.

4) Method of evaluating the effectiveness of hedging

During the period from the commencement of hedging to the point at which effectiveness is assessed, the Company compares the cumulative total of market changes in the targeted objects of hedging or cash flow changes with the cumulative total of market changes in the hedging instruments or cash flow changes. The Company then makes a judgment of effectiveness based on factors such as the amount of difference between the two.

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

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

2) Corporate tax, inhabitant tax, business tax and deferred income tax are calculated on the precondition that the reserve for special depreciation is accumulated and applied for the appropriation of retained earnings scheduled for the current period.

5. Scope of funds in the statement of interim consolidated cash flows

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

Accounting standards related to the net assets section of the balance sheets

Starting with this interim period, HCM has implemented “Accounting Standards for the Indication of Net Assets in Balance Sheets” (Corporate Accounting Standard No. 5, December 9, 2005) and “Guidelines for Implementing Accounting Standards for the Indication of Net Assets in Balance Sheets” (Corporate Accounting Standard Implementation Guideline No. 8, December 9, 2005).

The total amount corresponding to the assets section as calculated using the previous method is ¥169,549 million.

For this interim period, the net assets section of the Interim Consolidated Balance Sheets has been created in accordance with the revised version of the conventions governing the compilation of interim consolidated financial statements.

Accounting standards related to stock options

Starting with this interim period, HCM has implemented “Accounting Standards Relating to Stock Options” (Corporate Accounting Standard No. 8, December 27, 2005) and “Guidelines for Implementing Accounting Standards Relating to Stock Options” (Corporate Accounting Standard Implementation Guideline No. 11, May 31, 2006).

Due to this change, operating income, ordinary income, and income before taxes and minority interests have each been reduced by ¥27 million.

Accompanying Notes

(Notes to Interim Consolidated Balance Sheets)

(Millions of yen)

	(Current interim period)	(Previous interim period)	(Previous fiscal year)
1. Notes discounted and endorsed			
Notes receivable discounted	4	75	33
Notes receivable endorsed	213	140	134
2. Securitization			
Notes and accounts receivable	67,644	66,665	59,650
3. Accumulated depreciation on property, plant and equipment	180,666	167,510	173,639
4. Guarantee obligations			
Loans guaranteed	6,263	7,698	4,778
Commitments to provide guarantees for loans	562	587	575
Memorandum on management conduct	175	230	214
5. Assets pledged as collateral	21,885	19,072	19,522
Secured debt	23,874	21,111	22,080

6. Although financial institutions were closed on the final day of the interim period due to a banking holiday, notes maturing on the last day of the interim period have been treated as if they were settled on that date. The following notes maturing on the last day of the interim period have been excluded from the balance as of the end of the period:
   Notes receivable: ¥3,899 million
   Notes payable: ¥3,029 million
   Equipment- and plant-related notes payable: ¥551 million

(Notes to the Interim Consolidated Statements of Shareholders' Equity)

1. Outstanding shares

Type	At end of previous fiscal year (shares)	Increase (shares)	Decrease (shares)	At end of interim period (shares)
Common stock	196,048,038	27,000	---	196,075,038

Note: The increase in outstanding shares of common stock was the result of the exercise of 27,000 shares of stock options.

2. Treasury stock

Type	At end of previous fiscal year (shares)	Increase (shares)	Decrease (shares)	At end of interim period (shares)
Common stock (See note below)	1,326,531	308,932	186,106	1,449,357

Note: Of the increase in common treasury stock, a change of 305,000 shares was the result of acquisitions in accordance with the provisions of Article 459, Paragraph 1, Item 1 of Japanese Company Law. The remaining change of 3,932 shares was the result of the purchase of fractional unit shares. Of the decrease in common treasury stock, a change of 186,000 shares was the result of the exercise of stock options. The remaining change of 106 shares was the result of transfers of treasury stock.

3. Right to subscribe for new shares

	Description	Type of shares	Number of shares				Balance at end of interim period (millions of yen)
			At end of previous fiscal year	Increase for interim period	Decrease for interim period	At end of interim period	
Hitachi Construction Machinery Co., Ltd.	Right to subscribe for new shares as stock options	Common stock					22
TCM Corporation (consolidated subsidiary)	Right to subscribe for new shares as stock options	Common stock					5
Total		–					27

4. Dividends

(1) Paid dividends

Resolution	Type	Total dividend (millions of yen)	Dividend per share (yen)	Date of record	Effective date
Board of Directors meeting on May 29, 2006	Common stock	1,948	10	3/31/06	5/30/06

(2) Dividend payments with dates of record falling within the interim period and effective dates occurring after the interim period

Resolution	Type	Total dividend (millions of yen)	Dividend per share (yen)	Date of record	Effective date
Board of Directors meeting on October 26, 2006	Common stock	2,725	14	9/30/06	12/7/06

(Notes to Interim Consolidated Statements of Cash Flows)

(Millions of yen)

	(Current interim period)	(Previous interim period)	(Previous fiscal year)
Cash and bank deposits	54,400	40,082	37,073
Deposit paid	0	10,428	4,946
Subtotal	54,400	50,510	42,019
Time deposits with the maturity of more than three months	(45)	(56)	(65)
Total cash and cash equivalents	54,355	50,454	41,954

5. Securities

(1) Other securities with market value

(Millions of yen)

Category	Current interim period (As of September 30, 2006)			Previous interim period (As of September 30, 2005)			Previous period (As of March 31, 2006)		
	Acquisition cost	Book value per consolidated balance sheet	Unrealized gain	Acquisition cost	Book value per consolidated balance sheet	Unrealized gain	Acquisition cost	Book value per consolidated balance sheet	Unrealized gain
Stocks	2,736	7,296	4,560	2,811	6,702	3,891	2,818	8,466	5,648
Total	2,736	7,296	4,560	2,811	6,702	3,891	2,818	8,466	5,648

(2) Other securities not valuated at market prices

(Millions of yen)

Category	Current interim period (As of September 30, 2006)	Previous interim period (As of September 30, 2005)	Previous period (As of March 31, 2006)
	Book value per consolidated balance sheet	Book value per consolidated balance sheet	Book value per consolidated balance sheet
(1) Securities held to maturity			
Bonds	10	10	10
Total	10	10	10
(2) Other securities			
① Unlisted stocks	2,262	2,476	2,168
② Unlisted foreign bonds	1,000	1,000	1,000
③ Voluntary fund partnerships	8	29	10
Total	3,270	3,505	3,178

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

(1) Currencies (Millions of yen)

Category	Type	Current interim period (As of September 30, 2006)				Previous interim period (As of September 30, 2005)				Previous fiscal year (As of March 31, 2006)			
		Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain
			Due after one year				Due after one year				Due after one year		
Transactions other than market transactions	Forward exchange contracts												
	Selling in												
	US dollar	44,375	0	45,763	(1,388)	30,614	0	31,858	(1,244)	44,700	0	45,224	(524)
	Euro	34,680	0	35,658	(978)	18,696	0	18,858	(162)	23,524	0	24,214	(690)
	Buying in												
	Japanese yen	5,270	0	5,098	(171)	4,468	0	4,357	(111)	6,970	0	7,094	124
	US dollar	1,236	0	1,225	(11)	3,655	0	3,665	10	3,169	0	3,352	183
	Euro	0	0	0	0	643	0	638	(5)	479	0	500	21
	Australian dollar	52	0	51	(0)	24	0	24	0	5	0	5	0
	Currency option contracts												
	Buying in												
	Japanese yen	1,655	0	5	5	0	0	0	0	0	0	0	0
	(Option fees)	(--)	(--)			(--)	(--)			(--)	(--)		
	US dollar	2,161	0	5	5	0	0	0	0	0	0	0	0
	(Option fees)	(--)	(--)			(--)	(--)			(--)	(--)		
	Euro	356	0	0	0	0	0	0	0	0	0	0	0
	(Option fees)	(--)	(--)			(--)	(--)			(--)	(--)		
	Selling in												
	Japanese yen	1,972	0	(65)	(65)	0	0	0	0	0	0	0	0
	(Option fees)	(--)	(--)			(--)	(--)			(--)	(--)		
	US dollar	2,174	0	(11)	(11)	0	0	0	0	0	0	0	0
	(Option fees)	(--)	(--)			(--)	(--)			(--)	(--)		
	Euro	356	0	(1)	(1)	0	0	0	0	0	0	0	0
	(Option fees)	(--)	(--)			(--)	(--)			(--)	(--)		
Total		—	—	—	(2,617)	—	—	—	(1,512)	—	—	—	(886)

Notes:
1) The exchange rates at the end of the term are the futures rates.
2) The above table excludes the derivative transactions subjected to hedge accounting.
3) The market prices for options at the end of the term are based on prices reported by the financial institution handling the transaction.

(2) Interest rates

(Millions of yen)

Category	Type	Current interim period (As of September 30, 2006)				Previous interim period (As of September 30, 2005)				Previous fiscal year (As of March 31, 2006)			
		Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain
			Due after one year				Due after one year				Due after one year		
Transactions other than market transactions	Interest swaps Payment fixed, receipts fluctuated	8,900	6,900	(8)	(8)	7,000	4,000	(45)	(45)	7,500	7,000	(21)	(21)
Total		8,900	6,900	(8)	(8)	7,000	4,000	(45)	(45)	7,500	7,000	(21)	(21)

Notes:
1) The market prices for swaps at the end of the term are based on prices reported by the financial institution handling the transaction.
2) The above table excludes the derivative transactions subjected to hedge accounting.

7. Segment Information

(1) Segment information by business category

Current interim period (From April 1, 2006 to September 30, 2006) (Millions of yen)

	Construction Machinery Business	Industrial Vehicles Business	Semiconductor Production Equipment Business	Total	Elimination or Corporate	Consolidated
Net Sales and Operating Income						
Net Sales						
1) Net Sales to Outside Customers	314,782	36,085	1,023	351,890		351,890
2) Inter-segment sales/transfers	14	0	585	599	(599)	0
Total	314,796	36,085	1,608	352,489	(599)	351,890
Operating Expenses	282,116	33,437	1,497	317,050	(639)	316,411
Operating Income	32,680	2,648	111	35,439	40	35,479

Previous interim period (From April 1, 2005 to September 30, 2005) (Millions of yen)

	Construction Machinery Business	Industrial Vehicles Business	Semiconductor Production Equipment Business	Total	Elimination or Corporate	Consolidated
Net Sales and Operating Income						
Net Sales						
1) Net Sales to Outside Customers	265,273	17,312	1,056	283,641		283,641
2) Inter-segment sales/transfers	9	0	423	432	(432)	0
Total	265,282	17,312	1,479	284,073	(432)	283,641
Operating Expenses	239,932	16,313	1,368	257,613	178	257,791
Operating Income	25,350	999	111	26,460	(610)	25,850

Previous fiscal year (From April 1, 2005 to March 31, 2006) (Millions of yen)

	Construction Machinery Business	Industrial Vehicles Business	Semiconductor Production Equipment Business	Total	Elimination or Corporate	Consolidated
Net Sales and Operating Income						
Net Sales						
1) Net Sales to Outside Customers	573,941	50,581	1,935	626,457		626,457
2) Inter-segment sales/transfers	19	0	1,023	1,042	(1,042)	0
Total	573,960	50,581	2,958	627,499	(1,042)	626,457
Operating Expenses	517,890	47,618	2,932	568,440	840	569,280
Operating Income	56,070	2,963	26	59,059	(1,882)	57,177

Notes:
1)Business categories are based on internal segments used within HCM.
2)The products included in each category are as follows
1. Construction Machinery Business: Hydraulic excavators, mini-excavators, wheel loaders and crawler cranes
2. Industrial Vehicles Business: Forklifts, transfer cranes and container carriers
3. Semiconductor Production Equipment Business: Ultrasonic inspection video equipment and atomic force microscope equipment

(2) Segment information by area

Current interim period (From April 1, 2006 to September 30, 2006)

(Millions of yen)

	Japan	Asia	Europe	The Americas	Others	Total	Elimination or Corporate	Consolidated
Net Sales and Operating Income								
Net Sales								
1) Net Sales to Outside Customers	158,830	37,454	66,936	51,267	37,403	351,890		351,890
2) Inter-segment sales/transfers	112,636	10,211	2,456	8,377	0	133,680	(133,680)	0
Total	271,466	47,665	69,392	59,644	37,403	485,570	(133,680)	351,890
Operating Expenses	255,510	41,977	64,168	49,517	34,554	445,726	(129,315)	316,411
Operating Income	15,956	5,688	5,224	10,127	2,849	39,844	(4,365)	35,479

Previous interim period (From April 1, 2005 to September 30, 2005)

(Millions of yen)

	Japan	Asia	Europe	The Americas	Others	Total	Elimination or Corporate	Consolidated
Net Sales and Operating Income								
Net Sales								
1) Net Sales to Outside Customers	127,195	37,773	53,169	32,862	32,642	283,641		283,641
2) Inter-segment sales/transfers	76,902	6,693	2,629	6,473	4	92,701	(92,701)	0
Total	204,097	44,466	55,798	39,335	32,646	376,342	(92,701)	283,641
Operating Expenses	195,453	39,180	50,985	32,655	30,768	349,041	(91,250)	257,791
Operating Income	8,644	5,286	4,813	6,680	1,878	27,301	(1,451)	25,850

Previous fiscal year (From April 1, 2005 to March 31, 2006)

(Millions of yen)

	Japan	Asia	Europe	The Americas	Others	Total	Elimination or Corporate	Consolidated
Net Sales and Operating Income								
Net Sales								
1) Net Sales to Outside Customers	293,280	86,229	108,856	72,069	66,023	626,457		626,457
2) Inter-segment sales/transfers	182,789	16,120	4,722	14,312	6	217,949	(217,949)	0
Total	476,069	102,349	113,578	86,381	66,029	844,406	(217,949)	626,457
Operating Expenses	451,761	89,779	105,475	74,955	62,563	784,533	(215,253)	569,280
Operating Income	24,308	12,570	8,103	11,426	3,466	59,873	(2,696)	57,177

Notes:
1) The countries included in each segment are as follows:
(1) Asia: China, Indonesia, Singapore and Thailand
(2) Europe: Holland and France
(3) The Americas: The United States and Canada
(4) Other: New Zealand, Australia and South Africa

(3) Overseas sales

(Millions of yen)

	Current interim period (From April 1, 2006 to September 30, 2006)		Previous interim period (From April 1, 2005 to September 30, 2005)		Previous fiscal year (From April 1, 2005 to March 31, 2006)	
	Sales	Percentage of sales in consolidated sales	Sales	Percentage of sales in consolidated sales	Sales	Percentage of sales in consolidated sales
The Americas	72,797	20.7%	49,397	17.4%	107,494	17.2%
Europe, Africa & Middle East	85,919	24.4	63,111	22.3	132,647	21.2
Oceania & Asia	55,818	15.9	52,022	18.3	103,608	16.5
China	27,413	7.8	26,530	9.4	67,555	10.8
Total Overseas sales	241,947	68.8	191,060	67.4	411,304	65.7
Consolidated sales	351,890	100.0	283,641	100.0	626,457	100.0

Notes:
1) Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.
2) The sales figures covering indirect sales for the Americas and Japan in the previous interim and fiscal year reports were stated incorrectly. They have been changed to reflect the correct figures.