

Hitachi Construction Machinery

Financial Results for the year ended

March 31, 2006

Financial Statement (Consolidated) for Fiscal Year Ending March 2006

April 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: April 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 year ended March 2006 (April 1, 2005 to March 31, 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	%
March 31, 2006	626,457	39.8	57,177	42.5	45,783	36.2
March 31, 2005	448,043	11.4	40,120	22.1	33,609	29.3

	Net income		Net income per share	Net income per share (Diluted)	Return on equity	Ordinary income to total assets	Ordinary income to sales
	Millions of yen	%	Yen	Yen	%	%	%
March 31, 2006	24,223	39.8	124.37	124.00	16.8	9.0	7.3
March 31, 2005	17,325	38.7	91.05	90.88	15.6	7.7	7.5

Notes:

1) Equity-method investment profit March 2006: ¥131 million

Equity-method investment loss March 2005: ¥855 million

2) Average number of shares during the term (consolidated)

March 2006: 194,770,688 March 2005: 190,278,052

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 period of the preceding fiscal year.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2006	552,341	157,173	28.5	807.17
March 31, 2005	463,812	131,318	28.3	673.81

Note:

Number of outstanding shares at the end of the term (consolidated)

March 2006: 194,721,507

March 2005: 194,887,811

(3) Consolidated cash flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financial activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2006	37,379	(18,572)	(33,113)	41,954
March 31, 2005	7,899	(17,133)	17,594	49,534

(4) Scope of consolidation and application of equity method

Number of consolidated subsidiaries: 67

Number of unconsolidated subsidiaries subject to the equity method: None

Number of affiliates subjected to the equity method: 17

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

Newly consolidated: 26 companies

Newly unconsolidated: 4 companies

Newly subjected to the equity method: 10 companies

Newly excluded from the equity method: 1 company

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
September 2006 (Interim)	343,700	22,600	9,400
March 2007	710,000	56,000	29,000

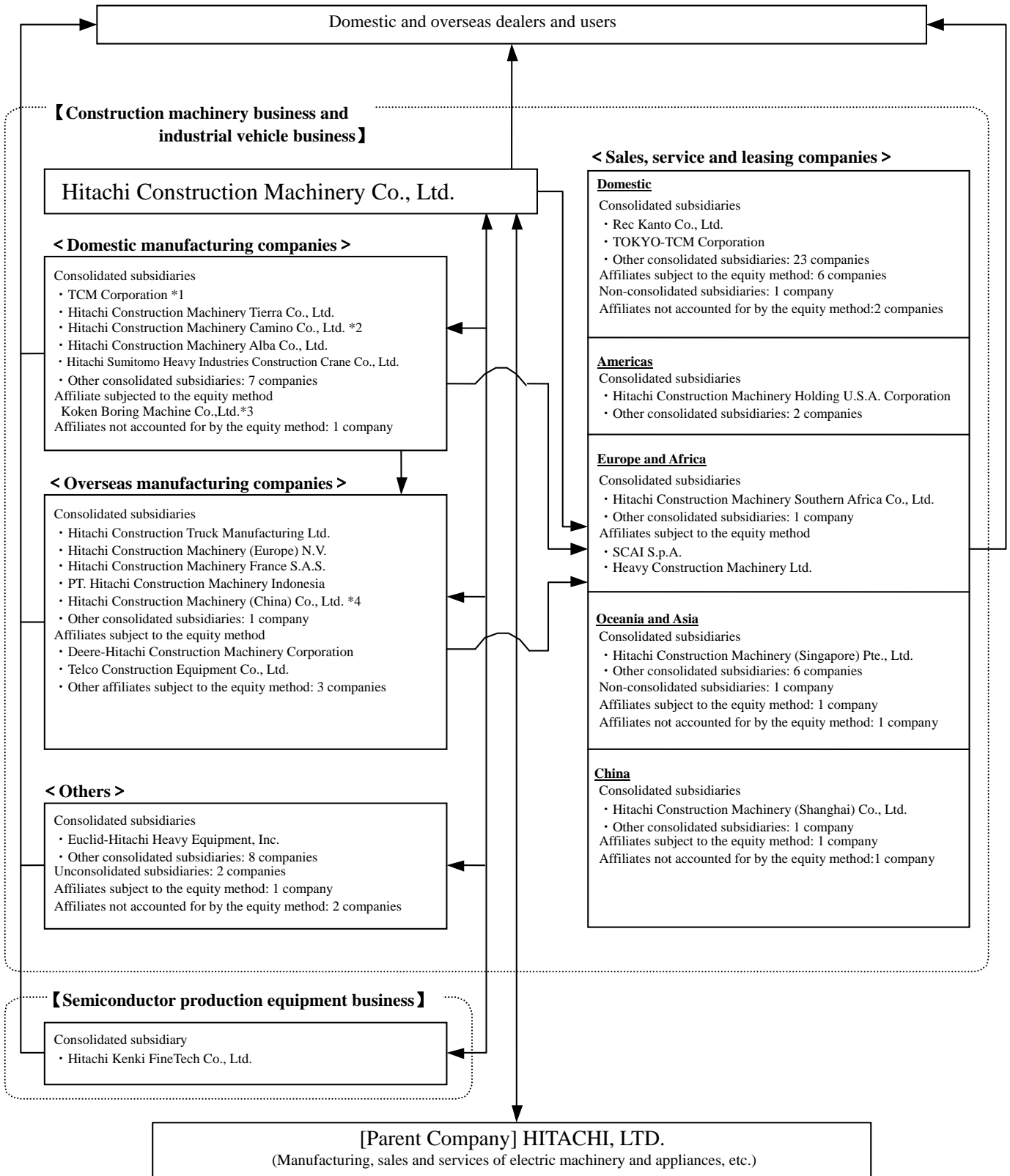
Supplementary information: Projected net income per share for the fiscal year: ¥148.93

Note: The above projections are based on information available as of the time of this announcement Corporation's conversion to a wholly owned subsidiary. 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 71 subsidiaries and its 24 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 1st Section of the Tokyo Stock Exchange and the Osaka Securities Exchange

*2. From January 2006, Yamagata Hitachi Construction Machinery Co., Ltd. became known as Hitachi Construction Machinery Camino Co., Ltd.

*3. Listed on the JASDAC

*4. From April 2005, Hefei Hitachi Construction Machinery Co., Ltd. became known as Hitachi Construction Machinery (China) Co., Ltd.

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

The basic focus is on maintaining stable dividends while giving due consideration to the future business plans, financial conditions and profitability of the HCM Group, and linking the distribution of profits to corporate performance. Internal reserves are used to reinforce the Group’s financial structure while concurrently, efforts are undertaken in developing technologies, rationalizing production equipment, augmenting sales capabilities and growing 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 has been pursuing “SOH 21-Creative Value UP,” a medium-term management plan launched in April 2003, through the attainment of objectives targeted for the fiscal year ending March 31, 2007.

The aim of the plan is 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, the plan emphasizes 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 finally, strengthening the Company’s financial structure. In this regard, HCM intends to predominate in the construction machinery industry in terms of technological capabilities and product strength, cost-competitiveness, sales and service capabilities, and brand strength.

2) Consolidated Numerical targets (For period ending March 2007)

	Target
Ratio of operating income to net sales	10%
Ratio of ordinary income to net sales	Over 8%
ROE	Over 10%
D/E Ratio	Not to exceed 1.0 time

3) International Business

In the Americas, the HCM Group will maintain its strong relationship with Deere & Company. In North America, the key challenge will be to secure supply capabilities to meet the rise in demand for mini-excavators and expanding sales as a result of higher market share. Efforts will be made to expand sales of ultra-large hydraulic excavators and large dump trucks in the Central and South American region, where demand is growing. Moreover, the HCM Group will work to develop markets for its general-purpose machinery.

In Europe, Africa and the Middle East, the Group will continue to expand business in Europe by introducing the new global model-style wheel loaders as well as develop and augment the independent sales networks in the high-demand countries of Germany and France. Concurrently, the HCM Group's relationship will be strengthened with HM Plant Ltd. and SCAI S.p.A., which are sub-dealers in the key markets of the United Kingdom and Italy.

In Africa, the Middle East and Russia, HCM will continue to expand sales in South Africa, where demand is increasing for mining machinery owing to coal and gold mining development, the Middle East, which is projected to see increased demand as oil dollars are recycled in infrastructure development, and Russia, where demand is also expected to rise as a result of housing construction and mining.

In Oceania and Asia, the Group is carving out a high share in the mining market through the packaged sale of ultra-large hydraulic excavators and large dump trucks. In the term ahead, HCM intends to refine full maintenance contract services for purchased machinery in order to establish a solid market position in these regions. Capitalizing on the strengths of the Group's direct marketing and service structure, efforts will be made to continue the sale of new machinery and expand sales for components, used machinery and services. Moreover, in the Indian market, where demand is rapidly rising, HCM will further expand sales through its alliance with local partner Telco Construction Equipment Co., Ltd. In the Vietnamese market, where rapid market growth has been recently recorded, an office will be opened from April 2006 and a large hydraulic excavator maintenance base will be opened in June to bolster support for sales distributors. From April, organization restructuring and personnel hiring will be initiated for Hitachi Construction Machinery (Singapore) Pte., Ltd. in order to augment marketing in the region as well as the sales and service support structure for such emerging markets as Indonesia. On April 1, 2006, HCM Singapore's company name was changed to Hitachi Construction Asia Pacific Pte. Ltd.

In China, a steady recovery has been under way as demand for hydraulic excavators rebounded from May 2005 following a bottoming out in September 2004. In the month of March 2006, sales reached a monthly record high. Hitachi Construction Machinery (Shanghai) Co., Ltd. will closely monitor demand trends and work to expand sales and protect its account receivables. Similarly, Hitachi Construction Machinery (China) Co., Ltd. will work to diversify its businesses by raising production of general-purpose hydraulic excavators, supplying structural welding materials to plants outside China and launching production of cranes.

4) Domestic Business

The HCM Group has established an RSS system consisting of three major elements—rental (R), sales (S) and service (S)—and is improving customer satisfaction and consolidated management efficiency.

In order to further raise profits and establish a strong market position, the Group successively released from January 2006 the ZAXIS-3 Series of Hydraulic excavators that meet Tier III emissions regulations as well as the ZW Series of wheel loaders.

In the rental business, the HCM Group will reduce costs and further raise profitability through efficient use of assets by utilizing the new IT-based rental system and systematic employment of Rental-Value Engineering for Customers (R-VEC), together with preservation, recovery and unified management of assets through expansion of regional equipment centers. The subsequent result has been a return to profitability. In the future, the Group will maintain profitability while aggressively raising sales as well as the profit margin.

With respect to services, in order to provide customers with new value and raise satisfaction as a “close and trusted partner,” more emphasis will be placed on IT-driven e-business and enhancing such contract services as value packs to enable control and reduction of administrative and maintenance expenses and budgeting.

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

The HCM Group will promote its region-specific marketing approach, reinforce its proprietary development structure and maximize the effects of alliances in order to develop world-class products in a manner that matches the needs of customers throughout the world. In addition, HCM will advance production and procurement systems from the best locations worldwide while reducing costs, shortening lead times and improving cash flows by optimizing fixed expenses on a consolidated basis and increasing the efficiency of the supply chain.

6) Strengthening the Financial Structure

HCM was able to regain an “A” rating on its long-term bonds, one of the goals of the medium-term management plan, by reinforcing its balance sheets and strengthening the financial structure. In order to further strengthen the balance sheets, the HCM Group will continue to shorten the number of retention days of sales credits and inventories on a consolidated basis by promoting the C Project II (Cash Flow Project II) and supply chain management. HCM will continue to curb fixed assets through the integration of bases. In addition, consolidated cash flows will be improved using a cash management system (CMS) that centralizes Group funds.

7) Efforts in Corporate Social Responsibility (CSR)

HCM established the CSR Committee in April 2005 and a special CSR Promotion Department in August 2005. HCM will work to improve corporate value by undertaking activities to fulfill the Group’s social responsibilities and improve overall stakeholder satisfaction. To that end, HCM will contribute to society through such businesses as soil purification and component recycling in the Environment-related Products Development Business, as well as redouble efforts to promote environmental management, compliance and brand management.

As a recent CSR activity, HCM became a special co-sponsor of the Kasumigaura Marathon and the International Visually Impaired Kasumigaura Marathon held in Tsuchiura city, Ibaraki Prefecture, in April 2006. In addition, HCM continues to contribute to the international community through its efforts in demining equipment (53 units delivered to six countries as of March 2006).

(4) Basic Policies Extending to Relations with the Parent Company

As a member of the Hitachi Group, which shares a common management vision and brand, the HCM Group maintains a cooperative relationship with the parent company, Hitachi, Ltd., and the companies of the Hitachi Group, thereby contributing to maximizing the enterprise value of the Hitachi Group and increasing the strength of the Hitachi brand as well as improving shareholder value.

In addition, the HCM Group also borrows and deposits short-term funds using the Hitachi Group Fund pooling system, which is centralized at Hitachi, Ltd.

Items Pertaining to the Parent Company (As of March 31, 2006)

Company	Affiliations	Proportion of Voting Rights	Securities Exchanges where Parent Company Stock is Traded
Hitachi, Ltd.	Parent company	51.3 (0.9)	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Luxembourg, Frankfurt, Amsterdam, Paris, New York

Note: The proportion of voting rights within parenthesis is the amount held indirectly through a stake in other companies.

3. Management Results and Financial Position

(1) Overview of the Current Fiscal Year

During the fiscal year under review, the Japanese economy made marked progress toward a recovery as capital investment rose amid improved corporate earnings, the job market picked up and consumer spending rose slightly. Overseas, the global economy as a whole was robust as economic expansion continued in the United States, where consumer spending remained stable. In China, exports were brisk, while Europe also displayed signs of a recovery as evidenced by increased exports and production.

Against this backdrop, based on the “SOH 21-Creative Value UP” core policies of establishing the industry’s number-one profit structure and embarking on further globalization (including restructuring domestic bases), the HCM Group worked to establish a solid earnings framework within its five-region structure and conduct business operations toward expanding the full lineup of construction machinery.

In particular regard to its business strategy, HCM added momentum toward making the wheel loader business its second pillar of operations after hydraulic excavators with the spin-off of TCM Corporation into a consolidated subsidiary.

In marketing, the Group aggressively entered the non-civil engineering market by pursuing industry-specific marketing, while in overseas expansion, the Group further expanded sales in the Americas, Europe, the Middle East, Africa, Russia and Oceania and Asia. In China, HCM experienced a rebound in demand and promoted the sale of mini-shovels, the market for which is rapidly expanding.

Within the production structure, in order to meet burgeoning demand, HCM reorganized and streamlined the layout as well as augmented and updated the manufacturing equipment at the mainstay plant Tsuchiura Works, dramatically raising productive capacity. The Group also began construction of a new wing at the Kasumigaura Works, which manufactures core components.

To meet the continued expansion in demand, HCM built a new production line at Japan-based Hitachi Construction Machinery Tierra Co., Ltd., which manufactures mini-shovels, began expanding the facilities of the Amsterdam Works in Holland, and invested in expanding production at overseas bases in the United States and Indonesia.

As a result, the HCM Group achieved its fourth consecutive year of increased sales and income and third straight year of record income.

From the current fiscal year under review, HCM consolidated the results until March of Hitachi Construction Machinery (China) and Hitachi Construction Machinery (Shanghai), whose fiscal year runs from January to December. This makes the fiscal years of these companies consistent with the fiscal year of HCM.

The subsequent results for the term are as follows:

(100 million yen; %)

	Consolidated (Change)	Non-consolidated (Change)
Net sales	6,264 (+40)	3,334 (+16)
Operating income	571 (+43)	168 (+21)
Ordinary income	457 (+36)	217 (+21)
Net income	242 (+40)	158 (+58)

Note: Figures under ¥100 million are rounded down.

Note: Results for the two Chinese companies above between January and March comprised net sales of ¥16.9 billion, operating income of ¥2.8 billion and ordinary income of ¥3.6 billion.

(2) Overview by Industry Segment

An overview of sales by region is shown below.

1) Japan

Demand for new hydraulic excavators rose 10% as a result of disaster recovery projects, where stock adjustments have taken place. The rental and service businesses generally achieved their designated targets for the fiscal year.

Net sales rose 35% to ¥215,153 million.

2) The Americas

Demand for hydraulic excavators rose as a result of brisk housing investment, highways repairs and infrastructure restoration. Performance exceeded projections from the efficient functioning of sales activities with partner Deere & Company. Net sales rose 30% to ¥107,494 million.

3) Europe, Africa and the Middle East

Sales rose in Europe from the strengthening and expanding of independent sales networks, demand rose in Africa for mining equipment owing to active resource mining, oil dollars were recycled in infrastructure development and plant construction in the Middle East, and demand grew in Russia on the back of resource and infrastructure development. Consequently, net sales grew 44% to ¥132,647 million.

4) Oceania and Asia

Demand for hydraulic excavators were strong for all regions, while demand remained brisk for mining machinery chiefly in Australia and Indonesia, producing a 37% increase in net sales to ¥103,608 million.

5) China

In China, while demand for hydraulic excavators declined 54% between January and April 2005 compared to the same term last year from the effects of such macro-economic policies as money-tightening measures of the Chinese government, a rebound occurred in May to produce 60% growth in demand between May and December 2005 and 72% increase between January and March 2006, compared to the same term last year. This nationwide growth in demand coupled with a continued increase in demand for mini-shovels in such urban areas as Shanghai resulted in a 74% increase in net sales to ¥67,555 million.

(3) Overview by Industry Segment

1) Construction Machinery Business

Consolidated net sales in the construction machinery business rose 29% to ¥573,941 million.

The HCM Group is promoting a full product lineup using alliances and other measures to support businesses that employ a wide range of construction machinery and is concentrating on an industry-specific marketing approach that can meet the need of a diverse customer base in order to expand global business.

a. Construction-related Products Business

In mainstay hydraulic excavators, HCM worked to develop new customer bases in Japan through active promotion of industry-specific marketing in non-civil engineering fields. The HCM Group worked actively to address demand from housing investment and public works in the United States and demand from infrastructure development in various Asian countries, while in Europe, it

developed and expanded independent sales networks and improved market position. Moreover, demand for hydraulic excavators in China has displayed a recovery since May 2005, and HCM bolstered its manufacturing supply structure and worked to accurately address such dramatic changes in the market environment as rising demand for mini-shovels in urban areas.

In the wheel loader business, HCM augmented product capabilities by jointly developing with TCM Corporation new wheel loaders that meet global environmental standards, and worked to expand sales by promoting industry-specific marketing in fields that each specializes in, reorganizing regional strategies and promoting intra-operational sharing among bases.

In new products, HCM tailored three models of ultra-short swing radius mini-excavators and ultra-short rear swing radius mini-excavators to Tier III emissions regulations and European noise pollution standards. Moreover, HCM conducted a full model change and developed and successively released seven models of 23- to 85-ton global-model hydraulic excavators and three models of 17- to 22-ton large wheel loaders with enhanced functionality.

b. Resource Development-related Products Business

Increased vigor in the mining business owing to increased global demand for natural resources fueled higher demand for ultra-large hydraulic excavators and large dump trucks chiefly in the Americas, Oceania and Indonesia. HCM's ultra-large hydraulic excavators have been highly regarded for such core functions as digging as well as for high durability supported by such after-services as component repair and maintenance. In addition, the Group acquired bulk orders as a result of aggressively promoting combination sales for hydraulic excavators and large dump trucks, and is further augmenting productive capacity.

c. Environment-related Products Business

HCM works to market customers systems that efficiently sort, process and recycle industrial waste on-site through the inclusion of self-propelled components under the Hitachi Onsite Screening & Solution (Hi-OSS) brand.

HCM undertook aggressive marketing and worked to achieve brand penetration and develop a new customer base for this revolutionary and proprietary system, which can efficiently and environmentally process industrial waste and soil pollutants without the need to remove them from the site.

In new products, HCM released a number of machines within the Hi-OSS brand, including a compact, self-propelled vibration screen with superb maneuverability and carrying capacity, a self-propelled shredder that can chop and shred plastics and tires as well as a self-propelled lumber recycler that can quickly shred materials from demolished houses and convert them to wood chips.

d. Product Development Business

Based on hydraulic excavator designs, HCM is developing demolition and crushing machines that meet a wide array of demolition needs, ranging from metal recyclers, which efficiently break down and process various metal waste products, to high-rise demolishers and timber-frame houses.

In new products, HCM released hydraulic power units for use as power sources for crawler drills as well as timber-frame demolishers that can operate in the tight spaces of urban sites and similar locations.

e. Rental Business

Within the directly managed rental group REC, HCM worked to reduce costs and raise operational efficiency through centralized management of rental assets using

the “R-NET1” IT network in combination with augmenting sales capabilities using industry-specific marketing within a mutually-supporting framework.

In the future, HCM will aggressively implement measures to expand the number of profitable businesses, including expanding on non-civil engineering rental products and Hi-OSS related products, further improving asset efficiency and bolstering credit management.

f. Used Machinery Business

Used machinery inquiries rose chiefly in Southeast Asia, China, Russia and the Middle East on the back of higher demand for new hydraulic excavators.

Chiefly through Hitachi Construction Trading Co., Ltd., HCM provides fully-inspected, highly-reliable construction machinery at an increasing number of nationwide service centers, and addresses domestic and overseas demand through individual business negotiations as well as in tri-annual parade auctions and monthly Internet auctions.

In order to expand the used machinery business throughout the Group, HCM will establish a new Used Equipment Planning Department and further promote global distribution of used machinery.

g. Service Business

While strengthening the service structure for industry-specific marketing in traditional civil engineering as well as non-civil engineering fields, HCM will improve maintenance flexibility using Global e-Service, which provides optimal management of machinery by sharing machinery status data with customers via satellite.

Overseas, sales rose for ultra-large hydraulic excavators, and the number of full maintenance contracts for ensuring high machinery operability steadily increased.

h. Other Software Business

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

2) Industrial Vehicles Business

Consolidated net sales were ¥50,581 million.

TCM expanded the lineup for engine-powered compact forklifts and released a new model for the high-demand battery-powered three-wheeled forklift in overseas markets.

In harbor-related products, HCM developed and is expanding sales for transfer cranes for five-tiered containers in harbor operations as well as a battery-powered on-board truck, which is expected to experience increased demand given its suitability to ship environments.

3) Semiconductor Production Equipment Business

Consolidated sales decreased 18% to ¥1,935 million.

Hitachi Kenki FineTech Co., Ltd. (HKFT) promoted the sale of ultrasonic inspection video equipment amid forecasts of market expansion for onboard vehicle semi-conductors and flat panel displays for televisions.

In new products, HKFT developed such ultrasonic inspection systems as inspection

equipment for fuel cell vehicle components as well as an ultra-large scanner for scanning large glass substrates used in the latest eight-generation flat panel displays. In the construction machinery-related controller business, HKFT developed and ramped up production of controllers for the new ZAXIS-3 Series of hydraulic excavators.

(4) Disposition of Profit for the Current Term

HCM paid cash dividends of ¥8.00 per share for the fiscal 2005 interim period. At the Board of Directors' Meeting scheduled for May 29, 2006, a resolution will be proposed to issue year-end cash dividends of ¥10 per share. As a result, total cash dividends per share for the fiscal year will amount to ¥18 per share.

(5) Status of Consolidated Cash Flows

At the end of the fiscal year, cash and cash equivalents totaled ¥41,954 million, a decrease of ¥7,580 million from the same time last year. Factors relating to each cash flow were as follows.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥37,379 million, an increase of ¥29,480 million compared to the previous year. Key factors included income before income taxes and minority interests of ¥46,795 million, up ¥14,933 million, an increase in inventories from ¥25,265 million to ¥7,929 million, as well as a ¥6,061-million decrease in income taxes paid to ¥10,666 million.

Cash flows from investing activities

Net cash used in investing activities was ¥18,572 million. Key factors were acquisition of property, plant and equipment of ¥15,057 million chiefly for capital investment to raise production at various manufacturing bases, as well as purchases of investments in securities of ¥6,550 million toward such investments as Telco Construction Equipment Co., Ltd., which is a joint venture of Tata Motors Ltd. of India. As a result, free cash flows, the sum of net cash provided by operating activities and cash used in investing activities, amounted to ¥18,807 million.

Cash flows from financing activities

Net cash used in financing activities totaled ¥33,113 million. The key factors were repayment of bonds, short- and long-term bonds, as well as the reduction of interest-bearing debt by ¥26,424 million.

Cash flow indexes are as follows:

	FY2001	FY2002	FY2003	FY2004	FY2005
Shareholders' Equity Ratio	18.0%	19.9%	22.4%	28.3%	28.5%
Shareholders' Equity Ratio on a Market Price Basis	12.7%	25.3%	73.6%	62.1%	109.3%
Years to Debt Repayment (yrs)	-	8.8	19.0	19.6	4.1
Interest Coverage Ratio (times)	-	4.7	2.1	2.2	9.9

Notes:

Shareholders' Equity Ratio: Total shareholders' equity/total assets

Shareholders' Equity Ratio on a Market Price Basis: Share market price/total assets

Interest Coverage Ratio: Operating cash flows/interest paid

1. Indexes are calculated using consolidated figures.

2. Share market price is calculated by multiplying the closing price during the fiscal year by the number of issued shares during the term.

3. Operating cash flows are derived from the Cash flows from operating activities found on the Consolidated Statement of Cash Flows. Interest-bearing debt is derived from debt liabilities with owed interest found on the Liabilities portion

of the Consolidated Balance Sheets. Interest paid is derived from Interest expenses on the Consolidated Statements of Cash Flows.

4. Years to debt repayment and Interest coverage ratio are not included for fiscal 2001 since operating cash flows were negative for that period.

(6) Outlook for the Term

Looking ahead, while HCM faces such future uncertainties as raw materials prices and exchange rates, the environment surrounding the construction machinery market is expected to remain brisk as a result of an expansion of private capital investment in Japan, an increase in global demand for mining machinery, continued expansion of the market in the United States, Asia, Russia and the Middle East, as well as a recovery in the Chinese market.

To address these needs, the consolidated Group launched from January a succession of completely new models of large hydraulic excavators and wheel loaders.

In Japan, HCM aims to aggressively promote industry-specific marketing and achieve brand penetration and sales growth for the Hi-OSS brand, which accurately meets the needs of customers.

Overseas, HCM will further improve its market position in the United States through continued partnership with Deere & Company as well as further expand the scale of business in Europe through the introduction of a completely new model line of hydraulic excavators and wheel loaders. In addition, HCM will augment the production structure in China to meet a recovery in demand, and work to preserve its dominant market position in such emerging Asian markets as India and Vietnam, which are recording explosive growth.

In executing the aforementioned measures, HCM will work to improve corporate and shareholder value by maintaining an awareness of the importance of Corporate Social Responsibility (CSR) required of the HCM Group, working to achieve the targets of the medium-term management plan and establishing a strong brand.

The following shows the present outlook for consolidated and non-consolidated results in fiscal 2006.

(100 million; %)

	Consolidated (Change)	Non-consolidated (Change)
Net sales	7,100 (+13%)	3,840 (+15%)
Operating income	660 (+15%)	189 (+12%)
Ordinary income	560 (+22%)	296 (+36%)
Net income	290 (+20%)	219 (+38%)

Notes: 1) Figures under ¥100 million are rounded down.

2) These projections assume an exchange rate of ¥114 to the U.S. dollar and ¥138 to the Euro.

* Statements in this document contain forward-looking statements, which reflect management's current views with respect to certain future events and financial performance. Words such as "forecast," "outlook," "intend," "plan," "project" and similar expressions, which indicate future events and trends, identify forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements. Factors that could cause actual results to differ materially from those projected or implied in the forward-looking statements include the general economic conditions in HCM's major markets, fluctuations in product demand, exchange rates and their fluctuations, and changes in the regulatory environment or in the accounting standards or practices in Japan or other countries.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Year-end	Previous year-end	(A)-(B)		Year-end	Previous year-end	(A)-(B)
	As of Mar. 31, 2006 (A)	As of Mar. 31, 2005 (B)			As of Mar. 31, 2006 (A)	As of Mar. 31, 2005 (B)	
ASSETS				LIABILITIES			
Current assets				Current liabilities			
1. Cash and bank deposits	37,073	32,522	4,551	1. Notes and accounts payable	129,893	90,692	39,201
2. Notes and accounts receivables	165,353	130,520	34,833	2. Short-term debt	73,427	57,989	15,438
3. Inventories	138,297	114,545	23,752	3. Current portion of bonds	600	10,615	(10,015)
4. Short term loans receivables	1,125	1,083	42	4. Income taxes payable	8,385	7,112	1,273
5. Deferred tax asset - current	15,089	9,716	5,373	5. Unrealized income on installment	1,661	714	947
6. Others	23,601	33,698	(10,097)	6. Deferred income on installment	632	561	71
7. Less: Allowance for doubtful accounts	(9,493)	(10,291)	798	7. Others	52,177	47,472	4,705
Total current assets	371,045	311,793	59,252	Total current liabilities	266,775	215,155	51,620
Fixed assets				Long-term liabilities			
(1) Property, plant and equipment				1. Bonds	25,600	24,320	1,280
1. Property held for lease	25,437	20,060	5,377	2. Long-term debt	53,326	61,862	(8,536)
2. Buildings and structures	33,120	27,840	5,280	3. Deferred long-term tax liability	2,633	725	1,908
3. Machinery and equipment	23,077	17,202	5,875	4. Retirement and severance benefits	12,829	7,181	5,648
4. Land	44,312	32,858	11,454	5. Others	9,009	14,026	(5,017)
5. Construction in progress	1,931	463	1,468	Total long-term liabilities	103,397	108,114	(4,717)
6. Tools, furniture and fixtures	6,605	5,151	1,454	Total liabilities	370,172	323,269	46,903
Net property, plant and equipment	134,482	103,574	30,908				
(2) Intangible assets				MINORITY INTERESTS			
1. Consolidated adjustment account	262	652	(390)	Minority interests	24,996	9,225	15,771
2. Others	5,457	2,732	2,725				
Total intangible assets	5,719	3,384	2,335				
(3) Investments and other assets				SHAREHOLDERS' EQUITY			
1. Investments in securities	27,738	27,403	335	Common stock	42,626	42,583	43
2. Long-term loans receivable	362	330	32	Capital surplus	42,133	42,092	41
3. Deferred long-term tax assets	5,159	10,038	(4,879)	Retained earnings	70,392	49,929	20,463
4. Others	8,992	8,256	736	Net unrealized gain on securities held	2,730	1,703	1,027
5. Less: Allowance for doubtful accounts	(1,156)	(966)	(190)	Foreign currency translation adjustments	1,168	(3,828)	4,996
Total investments and other assets	41,095	45,061	(3,966)	Treasury stock	(1,876)	(1,161)	(715)
Total fixed assets	181,296	152,019	29,277	Total shareholders' equity	157,173	131,318	25,855
Total assets	552,341	463,812	88,529	Total liabilities, minority interests and shareholders' equity	552,341	463,812	88,529

(2) Consolidated Statements of Income

(Millions of yen)

	Year-end Year ended Mar. 31, 2006 (A)	Previous year-end Year ended Mar. 31, 2005 (B)	(A)/(B)×100 (%)
			%
Net sales	626,457	448,043	140
Cost of sales	453,461	316,918	143
Gross profit before (realized) unrealized profit on installment sales	172,996	131,125	132
(Realized) unrealized profit on installment sales	947	(1,050)	-
Gross profit	172,049	132,175	130
Selling, general and administrative expenses			
1. Packing and shipping expenses	16,094	12,767	126
2. Employees' salaries	37,020	27,421	135
3. R&D expenditure	11,821	9,929	119
4. Provision of reserve for bad debt	442	202	219
5. Others	49,495	41,736	119
Total selling, general and administrative expenses	114,872	92,055	125
Operating income	57,177	40,120	143
Non-operating income			
1. Interest income	2,092	942	222
2. Interest income from installment sale	627	566	111
3. Dividends income	120	187	64
4. Foreign currency transaction gain	0	312	-
5. Gain on equity of affiliated companies	131	0	-
6. Others	2,235	1,653	135
Total non-operating income	5,205	3,660	142
Non-operating expenses			
1. Interest expenses	3,598	3,666	98
2. Loss on disposal of inventories	1,150	544	211
3. Loss on evaluation of inventories	1,307	0	-
4. Effect of exchange rate changes	6,473	0	-
5. New stock issuing expenses	-	765	-
6. Equity in losses of affiliated companies	0	855	-
7. Others	4,071	4,341	94
Total non-operating expenses	16,599	10,171	163
Ordinary income	45,783	33,609	136
Extraordinary income			
1. Gain on sale of property, plant and equipment	0	1,425	-
2. Gain on the elimination of the medical insurance system	2,314	0	-
Total extraordinary income	2,314	1,425	162
Extraordinary losses			
1. Amortization of transition difference	0	542	-
2. Loss on revision of retirement benefit system	0	1,542	-
3. Restructuring costs	1,111	800	139
4. Loss on disposal of inventories	0	147	-
5. Loss on sale of property, plant and equipment	0	141	-
6. Impairment losses for long-lived assets	191	0	-
Total extraordinary losses	1,302	3,172	41
Income before income taxes and minority interests	46,795	31,862	147
Income taxes			
Current	15,853	10,418	152
Deferred	1,353	2,488	54
Minority interests	5,366	1,631	329
Net income	24,223	17,325	140

(English Translation of "KESSAN TANSIN" originally issued in Japanese language.)

(3) Consolidated Statements of Retained Earnings

(Millions of yen)

	Year-end Year ended Mar. 31, 2006 (A)	Previous year-end Year ended Mar. 31, 2005(B)	(A)-(B)
ADDITIONAL PAID-IN CAPITAL			
Beginning balance	42,092	29,306	12,786
Increase in additional paid-in capital			
1. Exercise of stock purchase warrant	42	65	(23)
2. Proceeds from capital increase by issuance of new shares	0	12,720	(12,720)
3. Gain on sales of treasury stock	0	1	(1)
Total increase in additional paid-in capital	42	12,786	(12,744)
Decrease in additional paid-in capital			
1. Withdrawal from gain on sales of treasury stock	1	0	1
Total decrease in additional paid-in capital	1	0	1
Ending balance	42,133	42,092	41
RETAINED EARNINGS			
Beginning balance	49,929	34,296	15,633
Increase in retained earnings			
1. Effect of liquidation of consolidated subsidiaries	0	778	(778)
2. Effect of exclusion of affiliated companies	0	171	(171)
3. Net income	24,223	17,325	6,898
Total increase in retained earnings	24,223	18,274	5,949
Decrease in retained earnings			
1. Effect of newly consolidated company	716	0	716
2. Effect of newly affiliated company	114	0	114
3. Cash dividends	2,920	2,588	332
4. Loss of sales of treasury stock	10	0	10
5. Directors' bonuses	0	53	(53)
Total decrease in retained earnings	3,760	2,641	1,119
Ending balance	70,392	49,929	20,463

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year-end 〔 The year ended Mar. 31, 2006 〕	Previous year-end 〔 Year ended Mar. 31, 2005 〕
Cash flows from operating activities		
1. Income before income taxes and minority interests	46,795	31,862
2. Depreciation and amortization	19,470	14,381
3. Decrease in allowance for doubtful accounts	(1,205)	(4,238)
4. Interest and dividends income	(2,212)	(1,129)
5. Interest expenses	3,598	3,666
6. (Gain) Loss on equity earnings of affiliated companies	(131)	855
7. Increase in notes and accounts receivable	(9,318)	(57)
8. Increase in inventories	(7,929)	(25,265)
9. Purchase of property held for lease	(12,816)	(9,794)
10. Sales of property held for lease	3,506	3,835
11. Increase in notes and accounts payable	19,223	1,322
12. Gain on sales of property, plant and equipment	(2,154)	(2,031)
13. Loss on revaluation of investment in securities	29	14
14. Gain on sales of investment in securities	(395)	(197)
15. Others	(8,416)	11,402
Sub total	48,045	24,626
16. Income taxes paid	(10,666)	(16,727)
Net cash provided by operating activities	37,379	7,899
Cash flows from investing activities		
1. Investments in time deposits	(91)	(754)
2. Proceeds from time deposits	1,228	1,540
3. Acquisitions of property, plant and equipment	(15,057)	(14,783)
4. Proceeds from sale of property, plant and equipment	373	2,913
5. Purchases of investment in securities	(6,550)	(7,553)
6. Difference between the cash balance of newly consolidated companies and investment	0	(1,422)
7. Proceeds from sale of investments in securities	872	615
8. Interest and dividends received	2,215	1,146
9. Interest and dividends received from affiliated companies	356	288
10. Other, net	(1,918)	877
Net cash used in investing activities	(18,572)	(17,133)
Cash flows from financing activities		
1. Net decrease in short-term debt	(6,320)	(1,462)
2. Proceeds from long-term debt	12,411	31,897
3. Repayments of long-term debt	(19,780)	(20,933)
4. Repayments of redemption of debenture	(12,735)	(10,600)
5. Interest paid	(3,786)	(3,613)
6. Dividends paid to shareholders	(2,920)	(2,588)
7. Dividends paid to minority shareholders	(603)	(1,046)
8. Proceeds from issuance of stock	85	24,825
9. Issuance of common stock and investments by minority	1,254	1,500
10. Proceeds from treasury stock	187	3
11. Purchases of treasury stock	(906)	(389)
Net cash provided by (used in) financing activities	(33,113)	17,594
Effect of exchange rate changes on cash and cash equivalents	1,501	43
Net increase (decrease) in cash and cash equivalents	(12,805)	8,403
Cash and cash equivalents at beginning of year	49,534	41,131
Cash and cash equivalents of newly consolidated companies at beginning	5,225	0
Cash and cash equivalents at end of year	41,954	49,534

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

Important matters that form the basis for compiling consolidated financial statements

1. Scope of consolidation

Number of consolidated subsidiaries: 67

(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 Construction Machinery 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 (Singapore) Pte., Ltd.
<From April 2006, will be known as Hitachi Construction Machinery Asia and Pacific Pte. Ltd.>
- 13) Hitachi Construction Machinery (Shanghai) Co., Ltd.
- 14) Hitachi Construction Machinery Holdings U.S.A. Corporation

(2) Newly consolidated subsidiaries: 26

TCM Corporation and its 25 consolidated subsidiaries

(3) Newly unconsolidated subsidiaries: 4

- 1) REC Nishi Nihon Co., Ltd.
- 2) Hitachi Kenki Loaders Co., Ltd.
- 3) Epoch Co., Ltd.
- 4) HSC Crane Service Co., Ltd.

(4) Non-consolidated subsidiary: 4

- 1) Siam-Hitachi Construction Machinery Service Co., Ltd.
- 2) FFC Co., Ltd. and other two subsidiaries.

(5) Changes in Corporate Names

- 1) From April 2005, Hefei Hitachi Excavators Co., Ltd. became known as Hitachi Construction Machinery (China) Co., Ltd.
- 2) From October 2005, Dynapac Hitachi Construction Machinery Co., Ltd. became known as HKD Co., Ltd.
- 3) From January 2006, Yamagata Hitachi Construction Machinery Co., Ltd. became known as Hitachi Construction Machinery Camino Co., Ltd.

2. Application of the equity method

Number of affiliates subject to the equity method: 17

(1) Main affiliates subject to the equity method

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

(2) Newly subjected to the equity method: 10

- 1) P.T. Shibaura Shearing Indonesia
- 2) 8 affiliates of TCM Corporation
- 3) Koken Boring Machine Co., Ltd

(3) Excluded from the equity method: 1

TCM Corporation

3. Date of settlement of accounts for consolidated subsidiaries

Below is a list of the consolidated subsidiaries that settle their 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 Holdings U.S.A. Corporation
- 10) Hitachi Construction Machinery Thailand Co., Ltd.
- 11) Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai)
- 12) Hitachi Construction Machinery (Malaysia) Sdn. Bhd.

All the above firms settle their accounts on December 31. Financial statements as of the same date are used in preparing 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 consolidated settlement. The closing dates for earnings for the consolidated subsidiaries other than those listed above correspond to the closing date for consolidated accounting.

4. Items concerning accounting standards

(1) Securities

Securities held to maturity
Amortized cost method

Other Securities

Those with market value:

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

Those without market value:

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

(2) Derivatives trading

Determined mainly by the market-price valuation method.

(3) Inventories

Determined mainly 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: The straight-line method is mainly applied.

Other tangible fixed assets: The declining balance method is mainly applied.

2. Intangible fixed assets: The straight-line method is mainly applied.

(5) Accounting for deferred assets

New stock issue expenses

Entire amount is expensed as incurred.

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(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 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 subsidiaries have installment sales. Income on long-term installment is recognized as the related installment receivables become due.

Note: Interest from installment sales is included in Interest and dividend income.

(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 of the closing date for 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 of the closing date for accounting. Income and expenses are converted into yen according to mid-term average rates. The conversion difference is included in the adjustment account of exchange conversion in the Shareholders' Equity.

(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

Mainly by deferred hedge accounting.

2. Means and object of hedging

Forward exchange contracts are conducted 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 to procure corporate bonds, long-term loans and similar instruments by long-stabilized interest, so that the Company aims to solidify interest rates on levels that match the 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

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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 decision based on the changes and other factors of the two.

- (12) Other major items regarding the basis for preparing consolidated balance sheets
Consumption taxes and regional consumption taxes are treated outside the financial statements.

5. Policies concerning the valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries are valued using the all-fair-value method.

6. Policies concerning the consolidated adjustment accounts

The consolidation adjustment accounts are amortized uniformly over five years.

7. Policies concerning the appropriation of earnings, etc.

The consolidated retained earnings statement is based on appropriation of earnings of consolidated subsidiaries, as determined during the consolidated accounting period.

8. Scope of funds in the statement of 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.

Accompanying Notes

(Notes to Consolidated Balance Sheets)

(Millions of yen)

	As of March 31, 2006	As of March 31, 2005
1. Notes discounted and endorsed		
Notes receivable discounted	33	195
Notes receivable endorsed	134	53
2. Securitization		
Notes and accounts receivable	59,650	67,760
3. Accumulated depreciation on property, plant and equipment	173,639	131,489
4. Guarantee obligations		
Loans guaranteed	4,778	8,464
Commitments to provide guarantees for loans	575	600
Memorandum on management conduct	214	0
5. Assets pledged as collateral	19,522	17,546
Secured debt	22,080	19,598

(Shares)

6. Total shares issued	196,048,038	195,865,038
7. Common stock held by consolidated subsidiaries	1,326,531	977,227

(Notes to Consolidated Statements of Income)

(Millions of yen)

	Year ended March 31, 2006	Year ended March 31, 2005
Research and development costs included in general administrative expenses and manufacturing costs during the term	13,130	11,284

(Notes to Consolidated Statements of Cash Flows)

(Millions of yen)

	As of March 31, 2006	As of March 31, 2005
Cash and bank deposits	37,073	32,522
Deposit paid	4,946	17,158
Subtotal	42,019	49,680
Time deposits with a maturity of more than three months	(65)	(146)
Cash and cash equivalents	41,954	49,534

5. Securities

(1) Other securities with market value

(Millions of yen)

Category	As of March 31, 2006			As of March 31, 2005		
	Market value	Book value per consolidated balance sheet	Unrealized gain (loss)	Market value	Book value per consolidated balance sheet	Unrealized gain (loss)
Securities with Unrealized holding gain						
Stocks	2,644	8,304	5,660	1,950	4,062	2,112
Bonds	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	2,644	8,304	5,660	1,950	4,062	2,112
Securities with Unrealized holding loss						
Stocks	174	162	(12)	13	10	(3)
Bonds	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	174	162	(12)	13	10	(3)
Grand Total	2,818	8,466	5,648	1,963	4,072	2,109

(2) Available-for-sales securities sold for the year ended March 31, 2005 and 2004 were as follows.

Fiscal year ended March 31, 2006

(Millions of yen)

Total sale amount	Total gain	Total loss
846	392	0

Fiscal year ended March 31, 2005

(Millions of yen)

Total sale amount	Total gain	Total loss
26	5	0

(3) Main securities not valued at market prices

(Millions of yen)

Category	As of March 31, 2006	As of March 31, 2005
	Book value per consolidated balance sheet	Book value per consolidated balance sheet
(1) Securities held to maturity Bonds	10	10
Total	10	10
(2) Other securities		
Unlisted stocks other than OTC stocks	2,168	1,619
Unlisted foreign bonds	1,000	1,000
Fund	10	0
Total	3,178	2,619

(4) Maturities of available-for-sales securities and held-to-maturity bonds as of March 31, 2006 and 2005 were as follows.

(Millions of yen)

Bond (corporate bond)	As of March 31, 2005	As of March 31, 2004
Within one year	0	0
More than one year but within five years	10	10
More than five years but within ten years	1,000	1,000
More than ten years	0	0

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

(1) Currencies

(Millions of yen)

Category	Type	Fiscal year ended March 31, 2006				Fiscal year ended March 31, 2005			
		Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain
			Due after one year				Due after one year		
Transactions other than market transactions	Forward exchange contracts								
	Selling in Japanese Yen	0	0	0	0	327	0	333	(6)
	US dollar	44,700	0	45,224	(524)	38,341	0	39,824	(1,483)
	Euro	23,524	0	24,214	(690)	22,026	0	22,546	(520)
	Buying in Japanese yen	6,970	0	7,094	124	4,199	0	4,108	(91)
	US dollar	3,169	0	3,352	183	1,687	0	1,637	(50)
	Euro	479	0	500	21	437	0	435	(2)
	Australian dollar	5	0	5	0	23	0	23	0
	Total	-	-	-	(886)	-	-	-	(2,152)

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.

(2) Interest rates

(Millions of yen)

Category	Type	Fiscal year ended March 31, 2006			Fiscal year ended March 31, 2005				
		Contractual or other amount		Market value	Unrealized gain	Contractual or other amount		Market value	Unrealized gain
			Due after one year				Due after one year		
	Interest swaps								
	Payment fixed, receipts fluctuated	7,500	7,000	(21)	(21)	7,000	7,000	(64)	(64)
	Total	7,500	7,000	(21)	(21)	7,000	7,000	(64)	(64)

Notes:

- 1)The market prices are based on prices presented by financial establishments with which the HCM and subsidiaries have interest swaps.
- 2)The above table excludes the derivative transactions subjected to hedge accounting.

7. Retirement and severance benefits

1. For use as defined benefit pension plans, the Company employs defined-benefit corporate pension plans, lump-sum retirement plans and defined contribution plans. Moreover, some consolidated subsidiaries use qualified pension plans and lump-sum retirement plans, and at designated times, make additional severance payments upon retirement of employees and similar occasions.

2. The funded status of the Company's pension plans as of March 31, 2005 is summarized as follows:

	(Millions of yen)	
	(As of March 31, 2006)	(As of March 31, 2005)
Projected benefit obligation	(68,539)	(57,757)
Plan assets at fair value	51,898	39,156
Funded status	(16,641)	(18,601)
Unrecognized actuarial loss	15,301	19,977
Unrecognized prior service cost	(5,763)	(6,182)
Total	(7,103)	(4,806)
Prepaid benefit cost	5,726	2,375
Retirement and severance benefit on balance sheet	(12,829)	(7,181)

3. Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the year ended March 31, 2006 consisted of the following components.

	(Millions of yen)	
	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
Service cost	2,112	1,879
Interest cost	1,742	2,033
Expected return on plan assets	(1,262)	(989)
Participant contributions	0	(59)
Amortization of transition difference	0	542
Recognized actuarial (gain) or loss	1,842	1,720
Amortization of prior service cost	(393)	(188)
Cost for defined contributed pension plan	950	715
Cost for installment of defined contribution pension plan	301	157
Loss on revision of retirement benefit plan	0	1,542
Loss associated with termination of subsidiary pension plans	61	800
Net periodic benefit cost	5,353	8,152

4. Actuarial assumption and the basis used in accounting for Company's plans are principally as follows:

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005
Discount rate: 0.00%	2.70%	2.60%
Expected long-term rate of return on plan assets: 0.0%	2.5%	2.5%
Term of amortization of unrecognized prior service cost	10~23years	10~23years
Term of amortization of unrecognized actuarial loss	10~23years	10~23years
Term of amortization of unrecognized transition difference	-	5 years

8. Segment Information

(1) Segment information by business category

Fiscal Year ended March 31, 2006

(Millions of yen)

	Construction Machinery Business	Industrial Vehicles Business	Semiconductor Production Equipment Business	Total	Eliminations and 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
Asset, depreciation, capital expenditures						
Asset	502,601	37,099	1,589	541,289	11,052	552,341
Depreciation	16,859	2,392	30	19,281	189	19,470
Capital expenditures	26,494	3,189	27	29,710	276	29,986

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
- 3) Additions and changes in categories

The addition of TCM Corporation and its subsidiaries to the scope of consolidation during the fiscal year under review has resulted in the addition of the Industrial Vehicles Business category to the HCM Group. The category was added from the fiscal year under review given its prospects for playing an increasing role in the strategy of the HCM Group.
- 4) During the preceding fiscal year (from April 1, 2004 through March 31, 2005), the Construction Machinery Business exceeded 90% of the total business of the HCM Group with respect to both sales, operating income. The segment information by business category was therefore omitted.

(2) Segment information by area

Fiscal Year ended March 31, 2006							(Millions of yen)	
	Japan	Asia	Europe	The Americas	Others	Total	Eliminations and 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
Asset	455,101	86,046	70,060	47,311	41,642	700,160	(147,819)	552,341

Fiscal Year ended March 31, 2005							(Millions of yen)	
	Japan	Asia	Europe	The Americas	Others	Total	Eliminations and Corporate	Consolidated
Net Sales and Operating Income								
Net Sales								
(1) Net Sales to Outside Customers	219,626	52,124	77,679	47,184	51,430	448,043		448,043
(2) Inter-segment sales/transfers	136,047	12,620	3,235	8,660	66	160,628	(160,628)	0
Total	355,673	64,744	80,914	55,844	51,496	608,671	(160,628)	448,043
Operating expenses	337,040	58,207	76,848	48,464	49,275	569,834	(161,911)	407,923
Operating income	18,633	6,537	4,066	7,380	2,221	38,837	1,283	40,120
Asset	391,757	59,858	62,415	39,887	34,012	587,929	(124,117)	463,812

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

2) Changes in area segments:

Although the Americas was originally included in "Others," it has taken on greater strategic importance within the Group given changes in marketing strategy since June 2004. Since this strategy will continue well into the future, management has decided to give the Americas a separate column from the fiscal year under review to provide more detailed geographical information and improve the usefulness of the segment information. Moreover, the previous fiscal year are displayed with the revised segments.

(3) Overseas sales

(Millions of yen)

	Fiscal year ended March 31, 2006		Fiscal year ended March 31, 2005	
	Sales	Percentage of sales in consolidated sales	Sales	Percentage of sales in consolidated sales
The Americas	107,494	17.2%	82,522	18.4%
Europe, Africa & Middle East	132,647	21.2	92,304	20.6
Oceania & Asia	103,608	16.5	75,423	16.8
China	67,555	10.8	38,797	8.7
Total Overseas sales	411,304	65.7	289,046	64.5
Consolidated sales	626,457	100.0	448,043	100.0

Note: Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.

9. Transactions with parties involved

(1) Parent company, major corporate stockholders, and other stakeholders

Attribute	Company	Address	Capital or capital subscriptions	Business	Holding (held) percentage of voting rights and other rights	Relationship		Nature of transactions	Amount of transaction	Subject	Amount as of end of year
						Concurrent office of officers, etc.	Virtual relationship				
Parent company	Hitachi, Ltd.	Chiyoda-ku, Tokyo	282,032 million yen	Manufacturing, sales, and service of electrical appliances, apparatus, and various other products	Held (%) Direct: 50.4 Indirect: 0.9	Concurrent office: 1	Sales of the Company's products and purchase of components	Fund raising (Note 1)	10,842 million yen	Short-term debt	0 million yen
								Fund deposit (Note 1)	103,162 million yen	Other current assets	4,158 million yen

Note: Terms of transactions, principles of determining terms of transactions, etc.

1. Regarding the borrowing and deposit of funds, loan and deposit interest is agreed on with consideration given to the market interest rates prevalent. These loans and deposits are based on monthly contracts. No collateral is provided.

(2) Subsidiaries, etc.

Attribute	Company	Address	Capital or capital subscriptions	Business	Holding (held) percentage of voting rights and other rights	Relationship		Nature of transactions	Amount of transaction	Subject	Amount as of end of year
						Concurrent office of officers, etc.	Virtual relationship				
Affiliates	Deere-Hitachi Construction Machinery Corp.	North Carolina USA	58,800 thousand US dollars	Manufacturing, sale and other operations of construction machinery	Holding (%) Direct: 50.0	Concurrent office: 2 On loan: 1	Supply, etc. of the company's products and components	Sales of construction machinery and components (Note 1, 2 & 3)	12,713 million yen	Accounts receivable	8,316 million yen

Note: Terms of transactions, principles of determining terms of transactions, etc.

1. The amounts of transaction and the balance of accounts receivable include the amounts of transactions conducted via large trading firms.
2. The amounts of transactions are indicated without consumption tax and other taxes. The balance at the term end is indicated including consumption tax and other taxes generated through the intermediary of trading firms.
3. The sale price is a local market price or export component price.

(3) Sibling companies, etc.

Attribute	Company	Address	Capital or capital subscriptions	Business	Holding (held) percentage of voting rights and other rights	Relationship		Nature of transactions	Amount of transaction	Subject	Amount as of end of year
						Concurrent office of officers, etc.	Virtual relationship				
Subsidiary of the parent company	Hitachi Capital Co., Ltd.	Minato-ku, Tokyo	9,983 million yen	Financial service enterprises, etc.	Holding (%) Direct: - Indirect: 0.1	None	Lease of the company's products, and commissioning of payment operations conducted to the company's suppliers and customers	Commissioning of payment operations to the company's suppliers (Note 1 & 2)	43,409 million yen	Accounts payable Accrued liability	16,513 million yen 466 million yen
Subsidiary of the parent company	Hitachi Asset Funding Corporation	Minato-ku, Tokyo	3 million yen	Securitization business	None	None	Assignment of account receivable claims	Assignment of account receivable claims (Note 3)	8,290 million yen	-	-

Note: Terms of transactions, principles of determining terms of transactions, etc.

- 1) Purchase prices are determined based on the market prices.
- 2) Amounts of transactions are indicated with consumption tax and other taxes excluded, and the balance at the term end is indicated with consumption and other taxes included.
- 3) Amounts of transactions are indicated with consumption tax.

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

10. Change in Officer Structure (As of June 26, 2006)

As the candidates for Director were finalized following a resolution by the Nominating Committee on April 26, 2005, a list of candidates for Director and Executive Officer are provided below.

In addition, the Directors are expected to be appointed at the 42nd Annual General Meeting of Shareholders scheduled for June 26, 2006, while the Executive Officers are expected to be appointed at a Board of Directors meeting later on the same day.

(1) Candidates for Director

Chairman of the Board	Shungo Dazai (Unchanged)
Director	Michijiro Kikawa (Unchanged)
Director	Yasuhiko Nakaura (Unchanged)
Director	Katsutoshi Arita (New; Executive Vice President and Executive Officer)
Director	Shuichi Ichiyama (New; Senior Vice President and Executive Officer)
Director	Morihisa Sugiyama (Unchanged)
Outside Director	Hisashi Hosokawa (Unchanged; Representative Director and CEO of Green ARM Co., Ltd.)
Outside Director	Kazuo Kumagai (Unchanged; Senior Adviser to Hitachi, Ltd.)
Outside Director	Reiji Tagaya (Unchanged; Senior Adviser to Hitachi, Ltd.)

* Hisashi Hosokawa, Kazuo Kumagai and Reiji Tagaya fulfill the requirements for outside directors as stipulated in Article 2, Paragraph 15 of the Corporate Law.

(2) Retiring Directors

Ryuichi Seguchi (Scheduled to assume post as Consultant to the Board of Directors)
Tadamichi Sakiyama

(3) Candidates for Executive Officer

Representative Executive Officer	Shungo Dazai (Unchanged)
President and Chief Executive Officer	Michijiro Kikawa (Unchanged)
Executive Vice President and Representative Executive Officer	Yasuhiko Nakaura (Unchanged)
Executive Vice President and Executive Officer	Katsutoshi Arita (Unchanged)
Senior Vice President and Executive Officer	Shuichi Ichiyama (Unchanged)
Senior Vice President and Executive Officer	Nobuhiko Kuwahara (Unchanged)
Vice President and Executive Officer	Hiromitsu Suzuki (Unchanged)
Vice President and Executive Officer	Yasuhiko Murata (Unchanged)
Vice President and Executive Officer	Toshiyuki Natake (Unchanged)
Vice President and Executive Officer	Mitsuo Mori (Unchanged)
Vice President and Executive Officer	Mitsuji Yamada (Unchanged)
Vice President and Executive Officer	Toru Sakai (Unchanged)
Executive Officer	Shinichi Mihara (Unchanged)
Executive Officer	Kiichi Uchibayashi (Unchanged)
Executive Officer	Takayoshi Honma (Unchanged)
Executive Officer	Hideo Arahata (Unchanged)
Executive Officer	Terumasa Otsuka (Unchanged)
Executive Officer	Toichi Hirata (Unchanged)
Executive Officer	Tsutomu Mizutani (Unchanged)