

Hitachi Construction Machinery

Financial Results for the

Third Quarter Ended December 31, 2006

Consolidated Financial Results for the Third Quarter Ended December 31, 2006

January 31, 2007

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)
 Stock exchange: Tokyo, Osaka Code number: 6305 URL <http://www.hitachi-c-m.com/>
 Representative: Michijiro Kikawa, President and Chief Executive Officer

1. Notes to consolidated financial statements for the nine months ended December 31, 2006

Adoption of simplified accounting methods:

The simplified methods have been used in certain cases to calculate income tax and other parts of the expenses.

Accounting policy changes from the year ended March 31, 2006: None

Change in scope of consolidation and equity method:

Newly consolidated: 9 companies Removed from consolidation: 4 companies

Newly subjected to the equity method: 1 company Removed from the equity method: None

2. Cumulative consolidated results for the third quarter ended December 31, 2006 (April 1 to December 31, 2006)

(1) Consolidated results

(Rounded off to the nearest million)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2006	533,737	21.9	52,141	29.0	45,200	40.9	25,693	44.9
December 31, 2005	437,964	36.4	40,409	29.8	32,083	23.4	17,734	29.5
March 31, 2006	626,457	-	57,177	-	45,783	-	24,223	-

	Net income per share	Diluted net income per share
	Yen	Yen
December 31, 2006	131.93	131.50
December 31, 2005	91.04	90.79
March 31, 2006	124.37	124.00

Notes:

1) Average number of shares outstanding during the term (consolidated)

December 2006: 194,743,355 December 2005: 194,787,792 March 2006: 194,770,688

2) Percentages indicated for net sales, operating income, ordinary income and net income are increases/(decreases) as compared to the third quarter of the preceding fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2006	642,186	210,149	28.2	928.82
December 31, 2005	557,255	149,805	26.9	769.55
March 31, 2006	552,341	157,173	28.5	807.17

Note:

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

December 2006: 194,710,749 December 2005: 194,666,128 March 2006: 194,721,507

(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 period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2006	10,584	(18,785)	23,310	57,720
December 31, 2005	32,366	(13,888)	(17,583)	56,534
March 31, 2006	37,379	(18,572)	(33,113)	41,954

3. Overview of the Third Quarter Ended December 31, 2006

In the quarter ended December 31, 2006, the Hitachi Construction Machinery Group's operating environment was characterized by growth in demand on the back of increased capital investment and continued stock adjustments for hydraulic excavators as well as expanded sales for such non-civil engineering applications as demolition and metal scrap operations, although public investment in Japan was on a declining trend.

Overseas, while housing investment declined in North America, the overall global economy has continued expanding, and demand for construction machinery has been brisk.

HCM launched construction of a hydraulic machinery component factory in Hitachinaka, Ibaraki, in December 2006 to meet growing demand worldwide, with line production scheduled to begin in September 2007.

The new ZAXIS-3 hydraulic excavators and the new ZW Series wheel loaders, which meet Tier III emissions regulations, are highly regarded in the market, and are currently available in the markets of Europe, North America, Japan, China and Russia.

Performance by regional segment is outlined below.

Japan

Demand has increased owing to higher capital investment and stock adjustments for hydraulic excavators as well as expanded applications for demolitions and metal scrap operations. Net sales rose 11% to ¥172,096 million.

The Americas

While the market was strong as a result of capital investment in commercial and other facilities, road repairs and construction investment for highways and other structures, infrastructure rebuilding projects and demand for resource-related mining machinery, lackluster residential housing investment has impacted demand for small-sized hydraulic excavators from the beginning of the interim period. In aggregate, net sales rose 29% to ¥95,393 million following partial stock adjustments in the United States.

Europe, Africa and the Middle East

In Europe, sales grew against the backdrop of expanded construction investment in Germany, which is a high-demand country, increased residential housing investment in France and the release of such new global models as the ZW Series wheel loaders and ZAXIS-3 hydraulic excavators.

In Africa, demand grew for mining machinery for use in resource extraction of iron ore, coal, gold and copper, and in addition to areas already receiving shipments, such as South Africa, large-scale contracts were also concluded in such emerging markets as Zambia. A bulk order for hydraulic excavators was also received in preparation for the construction of an expressway in Algeria.

In the Middle East, demand for hydraulic excavators and cranes continued to rise amid an increase in infrastructure development and plant construction funded by petrodollars recycling.

In the emerging market of Russia, the single-distributor system is performing efficiently, and the company is garnering a strong reputation and higher market share owing to thorough after-service care and parts supply.

In these regions, net sales rose 34% to ¥129,846 million.

Oceania and Asia

In Oceania and Asia, the Thai economy was temporarily disrupted due to the military coup within the government, but demand for hydraulic excavators remained brisk across the region. Particularly in India, management decided to construct a third plant to meet growing demand being fueled by infrastructure development. Demand for mining machinery was also strong in such countries as Australia and Indonesia.

Net sales for this segment rose 22% to ¥90,904 million.

China

In China, with infrastructure development-fueled demand growth not only in eastern coastline locations but spreading across the country, as well as strong customer praise for the new ZAXIS-3 Series of Tier III-compliant hydraulic excavator released in November 2006, net sales increased 24% to ¥45,498 million.

Consolidated sales by geographic area

(Millions of yen)

	Third Quarter ended Dec. 31, 2006 (A)	Third Quarter ended Dec. 31, 2005 (B)	Change	
			Amount change (A)-(B)	% change
The Americas	95,393	73,943	21,450	29.0
Europe, Africa and the Middle East	129,846	96,931	32,915	34.0
Oceania and Asia	90,904	74,722	16,182	21.7
China	45,498	36,722	8,776	23.9
Sub-total	361,641	282,318	79,323	28.1
Japan	172,096	155,646	16,450	10.6
Total	533,737	437,964	95,773	21.9

Note: Within the China region, the consolidated accounting periods for Hitachi Construction Machinery (China) Co., Ltd. and Hitachi Construction Machinery (Shanghai) Co., Ltd. were synchronized with the parent company from end of the previous fiscal year. Consequently, the third quarter of the previous fiscal year spanning January to September is recorded in the current quarter as April to December.

4. Status of Consolidated Cash Flows

At the end of the third quarter, cash and cash equivalents totaled ¥57,720 million, which was an increase of ¥15,766 million. Factors relating to perspective cash flows are described below.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥10,584 million, which was down ¥21,782 million from ¥32,366 million for the same period last year. Despite a ¥11,961 million increase in income before income taxes and minority interests to ¥45,200 million, key factors were an increase in inventories of ¥34,613 million, up ¥17,537 million year on year, on the back of increased global demand, as well as a ¥6,237 million increase in income taxes paid to ¥15,962 million.

Cash flows from investing activities

Net cash used in investing activities totaled ¥18,785 million. This was chiefly the result of acquisitions of property, plant and equipment of ¥16,266 million chiefly for capital investment to ramp up production at domestic and overseas 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 a deficit of ¥8,201 million.

Cash flows from financing activities

Net cash provided by financing activities totaled ¥23,310 million. Key factors included proceeds from long-term debt of ¥10,836 million and net increase in short-term debt of ¥35,586 million, which were allocated to free cash flows outlined above, as well as to redemption of debenture and repayments of long-term debt of ¥14,548 million and dividends paid to shareholders of ¥4,673 million.

5. 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: ¥179.72

There have been no revisions to the above projections as announced on October 26, 2006.

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

In Japan, Europe, Africa and the Middle East, Oceania and Asia and China, demand for hydraulic excavators is projected to be strong. Similarly, in North America, capital investment and public investment will remain strong, the latter due to road repairs on highways, and while housing investment is waning, projections for hydraulic excavator demand during the current fiscal year have been slightly adjusted downwardly from 31,700 as of the end of the interim period to 30,600 units.

Worldwide supply still lags behind demand despite inventory adjustments being carried out, including production volume in North America, as well as a redirecting to China and Europe of a portion of machinery and components originally intended for the U.S. market. Moreover, mining machinery continues to enjoy active demand and fuel continued high levels of back orders. HCM is pursuing various measures to ramp up production capacity through capital investment and other means in order to meet the rising demand outlined above.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Third Quarter As of Dec. 31, 2006 (A)	Year-end As of Mar. 31, 2006 (B)	Third Quarter As of Dec. 31, 2005	(A)-(B)		Third Quarter As of Dec. 31, 2006 (A)	Year-end As of Mar. 31, 2006 (B)	Third Quarter As of Dec. 31, 2005	(A)-(B)
ASSETS					LIABILITIES				
Current assets					Current liabilities				
1. Cash and bank deposits	58,155	37,073	56,521	21,082	1. Notes and accounts payable	153,631	129,893	127,731	23,738
2. Notes and accounts receivable	170,866	165,353	146,057	5,513	2. Short-term loans	103,911	70,427	78,655	33,484
3. Inventories	177,537	138,297	146,085	39,240	3. Commercial paper	5,000	3,000	0	2,000
4. Others	37,139	34,758	37,361	2,381	4. Current portion of bonds	10,600	600	600	10,000
5. Less: Allowance for doubtful accounts	(8,502)	(9,493)	(10,586)	991	5. Others	67,285	62,855	65,878	4,430
Total current assets	435,195	365,988	375,438	69,207	Total current liabilities	340,427	266,775	272,864	73,652
Fixed assets					Long-term liabilities				
(1) Property, plant and equipment					1. Bonds	15,300	25,600	25,900	(10,300)
1. Property held for lease	33,870	25,437	25,956	8,433	2. Long-term loans	51,021	53,326	60,567	(2,305)
2. Buildings and structures	35,619	33,120	32,792	2,499	3. Retirement and severance benefits	13,041	12,829	12,787	212
3. Machinery and equipment	26,454	23,077	21,320	3,377	4. Others	12,248	11,642	12,384	606
4. Land	46,160	44,312	44,318	1,848	Total long-term liabilities	91,610	103,397	111,638	(11,787)
5. Others	10,187	8,536	7,344	1,651	Total liabilities	432,037	370,172	384,502	61,865
Net property, plant and equipment	152,290	134,482	131,730	17,808	MINORITY INTERESTS				
(2) Intangible assets	8,230	5,719	5,212	2,511	Minority interests	-	24,996	22,948	-
(3) Investments and other assets					SHAREHOLDERS' EQUITY				
1. Investments in securities	28,274	27,738	27,830	536	Common stock	-	42,626	42,623	-
2. Others	19,325	19,570	18,249	(245)	Capital surplus	-	42,133	42,130	-
3. Less: Allowance for doubtful accounts	(1,128)	(1,156)	(1,204)	28	Retained earnings	-	70,392	63,910	-
Total investments and other assets	46,471	46,152	44,875	319	Net unrealized gain on securities held	-	2,730	2,499	-
Total fixed assets	206,991	186,353	181,817	20,638	Foreign currency translation adjustments	-	1,168	573	-
Total assets	642,186	552,341	557,255	89,845	Treasury stock	-	(1,876)	(1,930)	-
					Total shareholders' equity	-	157,173	149,805	-
					Total liabilities, minority interests and shareholder's equity	-	552,341	557,255	-
					Net assets				
					Shareholder's equity				
					1. Common stock	42,635	-	-	-
					2. Capital surplus	42,142	-	-	-
					3. Retained earnings	91,352	-	-	-
					4. Treasury stock	(2,318)	-	-	-
					Total shareholders' equity	173,811	-	-	-
					Valuation and translation adjustments				
					1. Net unrealized gain on securities held	2,336	-	-	-
					2. Gain (loss) on deferred hedge transaction	(477)	-	-	-
					3. Foreign currency translation adjustments	5,182	-	-	-
					Total valuation and translation adjustments	7,041	-	-	-
					Stock purchase warrant	41	-	-	-
					Minority interests	29,256	-	-	-
					Total net assets	210,149	-	-	-
					Total liabilities and net assets	642,186	-	-	-

(Rounded off to the nearest million)

(2) Consolidated Statements of Income

(Millions of yen)

	Third Quarter 〔 Nine months ended 〕 Dec. 31, 2006 (A)	Third Quarter 〔 Nine months ended 〕 Dec. 31, 2005 (B)	Year-end 〔 Year ended 〕 Mar. 31, 2006	(A)/(B)×100 (%)
				%
Net sales	533,737	437,964	626,457	122
Cost of sales	388,829	315,021	453,461	123
Gross profit before (realized) unrealized profit on installment sales	144,908	122,943	172,996	118
(Realized) unrealized profit on installment sales	(506)	579	947	-
Gross profit	145,414	122,364	172,049	119
Selling, general and administrative expenses	93,273	81,955	114,872	114
Operating income	52,141	40,409	57,177	129
Non-operating income				
1. Interest income	1,267	703	2,092	180
2. Interest income from installment sales	498	536	627	93
3. Dividends income	129	91	120	142
4. Gain on equity earnings of affiliated companies	515	0	131	-
5. Others	2,195	1,623	2,235	135
Total non-operating income	4,604	2,953	5,205	156
Non-operating expenses				
1. Interest expenses	2,836	2,616	3,598	108
2. Loss on disposal of inventories	900	869	1,150	104
3. Effect of exchange rate changes	4,303	4,275	6,473	101
4. Loss on equity earnings of affiliated companies	0	117	0	-
5. Others	3,506	3,402	5,378	103
Total non-operating expenses	11,545	11,279	16,599	102
Ordinary income	45,200	32,083	45,783	141
Extraordinary income				
1. Gain on the elimination of the medical insurance system	0	2,266	2,314	-
Total extraordinary income	0	2,266	2,314	-
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	45,200	33,239	46,795	136
Income taxes	15,511	12,608	17,206	123
Minority interests	3,996	2,897	5,366	138
Net income	25,693	17,734	24,223	145

(Rounded off to the nearest million)

(3) Consolidated Statements of Shareholders' Equity

Third quarter ended Dec. 31, 2006 (April 1, 2006- December 31, 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 third quarter					
Newly issued	9	9			18
Cash dividends			(4,673)		(4,673)
Net income			25,693		25,693
Increase in treasury stock				(831)	(831)
Decrease in treasury stock			(60)	389	329
Net increase/decrease during the third quarter of non-shareholders' equity items					0
Total increase/decrease during the third quarter	9	9	20,960	(442)	20,536
Balance at December 31, 2006	42,635	42,142	91,352	(2,318)	173,811

(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 third quarter							
Newly issued							18
Cash dividends							(4,673)
Net income							25,693
Increase in treasury stock							(831)
Decrease in treasury stock							329
Net increase/decrease during the third quarter of non-shareholders' equity items	(394)	(477)	4,014	3,143	41	4,260	7,444
Total increase/decrease during the third quarter	(394)	(477)	4,014	3,143	41	4,260	27,980
Balance at December 31, 2006	2,336	(477)	5,182	7,041	41	29,256	210,149

(Rounded off to the nearest million)

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Third Quarter Nine months ended Dec. 31, 2006	Third Quarter Nine months ended Dec. 31, 2005	Year-end Year ended Mar. 31, 2006
Cash flows from operating activities			
1. Income before income taxes and minority interests	45,200	33,239	46,795
2. Depreciation and amortization	17,437	14,019	19,470
3. Impairment losses for fixed assets	0	0	191
4. Increase (decrease) in allowance for doubtful accounts	(1,049)	9	(1,205)
5. Interest and dividends income	(1,396)	(794)	(2,212)
6. Interest expenses	2,836	2,616	3,598
7. (Gain) loss on equity earnings of affiliated companies	(515)	118	(131)
8. (Increase) decrease in notes and accounts receivable	(326)	5,907	(9,318)
9. Increase in inventories	(34,613)	(17,076)	(7,929)
10. Purchase of property held for lease	(15,012)	(9,246)	(12,816)
11. Sales of property held for lease	1,388	1,844	3,506
12. Increase in notes and accounts payable	18,430	18,615	19,223
13. Gain on sales of property, plant and equipment	(894)	(1,115)	(2,154)
14. (Gain) loss on revaluation of investments in securities	(8)	0	29
15. Gain on sales of investments in securities	(31)	(389)	(395)
16. Others	(4,901)	(5,656)	(8,607)
Sub-total	26,546	42,091	48,045
17. Income taxes paid	(15,962)	(9,725)	(10,666)
Net cash provided by operating activities	10,584	32,366	37,379
Cash flows from investing activities			
1. Investments in time deposits	(443)	(519)	(91)
2. Proceeds from time deposits	95	1,181	1,228
3. Acquisitions of property, plant and equipment	(16,266)	(9,482)	(15,057)
4. Proceeds from sales of property, plant and equipment	682	307	373
5. Purchase of investments in securities	(72)	(6,002)	(6,550)
6. Proceeds from sale of investments in securities	68	856	872
7. Interest and dividends received	1,418	821	2,215
8. Interest and dividends received from affiliated companies	169	281	356
9. Other, net	(4,436)	(1,331)	(1,918)
Net cash used in investing activities	(18,785)	(13,888)	(18,572)
Cash flows from financing activities			
1. Net increase (decrease) in short-term debt	35,586	1,920	(6,320)
2. Proceeds from long-term debt	10,836	10,720	12,411
3. Repayments of long-term debt	(14,248)	(12,084)	(19,780)
4. Redemption of debenture	(300)	(12,435)	(12,735)
5. Interest paid	(2,658)	(2,750)	(3,786)
6. Dividends paid to shareholders	(4,673)	(2,920)	(2,920)
7. Dividends paid to minority shareholders by subsidiaries	(1,446)	(590)	(603)
8. Proceeds from issuance of stock	18	79	85
9. Issuance of common stock and investments by minority	697	1,250	1,254
10. Proceeds from sale of treasury stock	329	134	187
11. Purchase of treasury stock	(831)	(907)	(906)
Net cash provided by (used in) financing activities	23,310	(17,583)	(33,113)
Effect of exchange rate changes on cash and cash equivalents	618	880	1,501
Net increase (decrease) in cash and cash equivalents	15,727	1,775	(12,805)
Cash and cash equivalents at beginning of year	41,954	49,534	49,534
Cash and cash equivalents of newly consolidated companies at beginning of year	39	5,225	5,225
Cash and cash equivalents at end of period	57,720	56,534	41,954

(Rounded off to the nearest million)

Segment information by business category

Current third quarter (From April 1, 2006 to December 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	477,899	54,612	1,226	533,737		533,737
2) Inter-segment sales/transfers	22	0	944	966	(966)	0
Total	477,921	54,612	2,170	534,703	(966)	533,737
Operating Expenses	430,056	50,485	2,085	482,626	(1,030)	481,596
Operating Income	47,865	4,127	85	52,077	64	52,141

Previous third quarter (From April 1, 2005 to December 31, 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	404,302	32,158	1,504	437,964		437,964
2) Inter-segment sales/transfers	14	0	645	659	(659)	0
Total	404,316	32,158	2,149	438,623	(659)	437,964
Operating Expenses	366,024	30,209	2,030	398,263	(708)	397,555
Operating Income	38,292	1,949	119	40,360	49	40,409

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
- 3) The key unallocatable costs within the "Elimination or Corporate" column of operating expenses chiefly include expenses incurred by the administrative division of TCM Corporation and its consolidated subsidiaries.