

# **Hitachi Construction Machinery**

**Financial Results for the  
Second Quarter Ended September 30, 2008**

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

## Consolidated Financial Results for the Second Quarter Ended September 30, 2008

October 28, 2008

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)

Stock exchange: Tokyo, Osaka (first section) Code number: 6305

URL <http://www.hitachi-c-m.com/>

Representative: Michijiro Kikawa, President and Chief Executive Officer

Scheduled date for submission of Quarterly Securities Report: November 13, 2008

Scheduled date of commencement of payment of dividends: December 1, 2008

U.S. Accounting Standards are not applied.

### 1. Consolidated results for the second quarter ended September 2008 (April 1, 2008 to September 30, 2008)

#### (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 | %    |
| Sep. 30, 2008 | 454,052         | -    | 47,129           | -    | 45,452          | -    | 22,225          | -    |
| Sep. 30, 2007 | 415,926         | 18.2 | 50,985           | 43.7 | 46,661          | 54.9 | 23,335          | 70.3 |

|               | Net income per share | Net income per share<br>(Diluted) |
|---------------|----------------------|-----------------------------------|
|               | Yen                  | Yen                               |
| Sep. 30, 2008 | 103.91               | 103.75                            |
| Sep. 30, 2007 | 116.47               | 116.07                            |

Notes:

- 1) Percentages indicated for net sales, operating income, ordinary income and net income for the second quarter ended September 2007 are increases compared with the same period of the previous fiscal year. Due to changes in the accounting methods as a result of quarterly reporting becoming legally mandatory in Japan from the current fiscal year, this indicator is omitted for the second quarter ended September 2008.

#### (2) Consolidated financial position

|               | Total assets    | Net assets      | Equity ratio | Net assets per share |
|---------------|-----------------|-----------------|--------------|----------------------|
|               | Millions of yen | Millions of yen | %            | Yen                  |
| Sep. 30, 2008 | 886,842         | 366,933         | 36.5         | 1,514.52             |
| Mar. 31, 2008 | 833,096         | 346,618         | 37.1         | 1,446.55             |

Note:

Total equity at the end of the period

September 2008: ¥323,981 million

March 2008: ¥309,359 million

### 2. Dividends status

|                       | Cash dividends per share |                |               |          |  |
|-----------------------|--------------------------|----------------|---------------|----------|--|
|                       | First Quarter            | Second Quarter | Third Quarter | Year-end | Total cash dividends per share for the fiscal year |
|                       | Yen                      | Yen            | Yen           | Yen      | Yen  |
| Mar. 31, 2008         | -                        | 20.00          | -             | 22.00    | 42.00  |
| Mar 31, 2009 (Result) | -                        | 22.00          |               |          |  |
| (Projection)          |                          |                | -             | 22.00    | 44.00  |

Note:

Revisions to projected dividends in this quarter: None

3. Projected consolidated results for the fiscal year ending March 2009 (April 1, 2008 to March 31, 2009)

|                    | Net sales       |       | Operating income |        | Ordinary income |        |
|--------------------|-----------------|-------|------------------|--------|-----------------|--------|
|                    | Millions of yen | %     | Millions of yen  | %      | Millions of yen | %      |
| Entire fiscal year | 940,000         | (0.1) | 94,000           | (13.3) | 90,000          | (10.5) |

|                    | Net income      |        | Net income per share |
|--------------------|-----------------|--------|----------------------|
|                    | Millions of yen | %      | Yen                  |
| Entire fiscal year | 48,000          | (14.3) | 224.40               |

Notes:

- 1) Revisions to projected consolidated results at the end of the first quarter: Yes
- 2) Percentages show changes from the previous fiscal year.

4. Others

(1) Significant changes involving subsidiaries during the period (changes involving specific subsidiaries accompanying changes in the scope of consolidation): None

(2) Adoption of simplified accounting methods and special accounting procedures for the compilation of quarterly consolidated financial statements: Yes

Note:

For detailed information, please refer to “4. Others” on page 9.

(3) Changes in accounting principles and procedures in the preparation of the Quarterly Consolidated Financial Statements and changes in presentation methods (changes in principal items that serve as the basis for preparing the Quarterly Consolidated Financial Statements)

[1] Changes accompanying revision of accounting standards Yes

[2] Changes other than those in [1] Yes

Note:

For detailed information, please refer to “4. Others” on page 9.

(4) Number of shares issued (common shares)

[1] Number of shares issued at the end of period (including treasury shares)

September 2008: 215,115,038                      March 2008: 215,115,038

[2] Number of treasury shares at the end of period

September 2008: 1,198,764                      March 2008: 1,254,982

[3] Average number of shares during the period (from April 1 to September 30)

September 2008: 213,887,118                      September 2007: 200,344,211

Note: Explanation on the appropriate use of results forecasts and other important items

1. Any forward-looking statements in the report, including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially.
2. Starting with this consolidated fiscal year, the Group is applying the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12) and Guidance on Accounting Standard for Quarterly Financial Reporting (ASBJ Guidance No. 14). Quarterly financial statements are compiled in accordance with the Quarterly Consolidated Financial Statement Rules.

## Qualitative Information and Financial Statements

### 1. Qualitative Information Concerning Consolidated Business Performance

#### [1] Overview of Market Conditions During the Second Quarter Ended September 30, 2008

In the business environment facing the Group in the second quarter of the fiscal year (“second quarter”) (April, 1, 2008 to September 30, 2008), the financial crisis triggered by the U.S. subprime loan problem spread to virtually all areas of the world, exerting an adverse impact on the entire global economy. Global demand for hydraulic excavators in the fiscal year ending March 2009, which as of the first quarter was forecast to record year-on-year growth, turned downward and is now expected to post a decline.

In Japan, while construction investment was expected to continue declining, there has also been a diminished willingness to make capital investments due to uncertainty about future economic conditions, and demand for construction machinery fell below the level recorded in the same period of the previous year.

Overseas, demand for hydraulic excavators and other construction machinery declined from the same period in the previous year in the United States and all regions of Europe as a result of the credit crunch and a decline in housing investments.

In emerging nations and regions, demand for construction machinery was robust in China and Southeast Asia, mainly Indonesia. However, a conspicuous slowing of growth in demand for construction machinery in Russia and India, where demand had previously continued to rise sharply, resulted from a tightening of credit.

Conversely, buoyed by firm demand for natural resources, demand for mining machinery in such regions as Oceania, Africa and Indonesia expanded briskly and exceeded the level recorded in the same period of previous fiscal year.

Consolidated business results for the second quarter were as follows.

The following table summarizes consolidated results for the period:

(100 million yen; %)

|                  | Current<br>Second Quarter<br>(Apr. 1, 2008 - Sep.30, 2008)<br>(A) | Previous<br>Second Quarter<br>(Apr. 1, 2007 - Sep.30, 2007)<br>(B) | Year-on-year change |         |
|------------------|---|--|---------------------|---------|
|                  |   |  | (A)-(B)             | (A)/(B) |
| Net sales        | 4,541   | 4,159  | 382                 | 109%    |
| Operating income | 471   | 510  | (39)                | 92%     |
| Ordinary income  | 455   | 467  | (12)                | 97%     |
| Net income       | 222   | 233  | (11)                | 95%     |

Note: Figures are rounded off to the nearest 100 million.

#### [2] Overview of Consolidated Sales by Regional Segment

##### Japan

Domestic demand declined compared with the same period of the previous fiscal year due to lower construction investments in addition to a diminished willingness by company managers to make investments owing to the uncertainty of future business conditions.

Amid a worsening demand environment, by strengthening the RSS system that combines Rental (R), Sales (S), and Service (S), the HCM Group actively carried out business targeting various industrial fields, such as demolition and scrap, and worked to improve sales prices.

In our rental business, since April 2008 we have carried out operations under a new structure formed by merging eight REC Group consolidated subsidiaries to establish Hitachi Construction Machinery REC Co., Ltd. We worked to further strengthen our rental business by utilizing synergies from this merger, which include the optimal allocation and efficient redeployment of rental assets.

As a result of the previous, net sales declined 6% from the same period of the previous year to ¥109,182 million.

### **The Americas**

Construction investment continued trending downward from the first quarter while demand for hydraulic excavators and other construction machinery decreased compared with the same period of the previous fiscal year. Nonetheless, Deere-Hitachi Construction Machinery Corporation completed its stock adjustments by the end of March 2008 and its production during the second quarter proceeded virtually as planned. We improved market share for hydraulic excavators from the previous year, which underpinned a 10% rise in net sales to ¥46,075 million.

### **Europe, Russia-CIS, Africa and the Middle East**

In Europe, demand for principal types of construction machinery, beginning with hydraulic excavators, fell sharply in all regions owing to such factors as a decrease in housing investment due to the effects of the U.S. financial crisis. Demand in Germany and France, which had been robust up to the first quarter, turned downward amid a declining willingness to invest due to the impact of financial uncertainties.

In the United Kingdom, demand for hydraulic excavators fell further amid deteriorating business sentiment. Under these conditions, the HCM Group was able to raise market share by implementing measures that included making unprecedented efforts to strengthen our industry-specific sales, fortifying our ability to introduce wheeled machinery, for which there is a high need, and bolstering our distributors.

As a result, net sales in Europe declined 10.0% from the same period of the previous year to ¥70,895 million.

In Russia-CIS, Russia experienced a particularly sharp slowdown in growth in demand for hydraulic excavators from the first quarter, reflecting a slowing economy due to declining crude oil prices as well as concerns about inflation and the withdrawal of U.S. and European capital owing to issues concerning the conflict in the Republic of Georgia. Along with slowing growth in demand, we are proceeding with stock adjustments, including those of local dealers.

On the other hand, favorable demand in Africa for hydraulic excavators, including mining machinery, was driven by mine development and infrastructure investment.

In the Middle East, demand for hydraulic excavators in Turkey continued declining due to the effects of changes to the tax system at the beginning of the year. However, demand for hydraulic excavators in such Gulf nations as Saudi Arabia, Iraq, and Kuwait continued trending upward on the back of robust economic activities in these countries. Accordingly, overall net sales in the Middle East rose above the level recorded in the same period of the previous fiscal year.

As a result, net sales in Russia-CIS, Africa and the Middle East jumped 35% from the same period of the previous year to ¥66,862 million.

### **Oceania and Asia**

In Indonesia, demand for construction machinery for use in forestry and palm oil plantations remained brisk, while natural resource development demand was also strong. Conversely, although first-quarter demand for hydraulic excavators in India recorded sharp growth from the same period of the previous year, the rate of this growth began decelerating owing to delays in infrastructure projects and monetary tightening to curb inflation.

As a result, net sales in Oceania and Asia rose 18% from the same period of the previous year to ¥90,788 million.

### **China**

In China, despite slowing growth in east and south central China owing to the effects of

monetary tightening, overall demand for hydraulic excavators increased from the same period of the previous year due to investments for mine development and the establishment of social infrastructure, mainly in interior regions. In addition to robust local production, export sales from Japan were also brisk and total net sales jumped 36% from the same period of the previous year to ¥70,250 million.

#### Consolidated Sales by Geographic Area

(Millions of yen)

|   | Current Second Quarter<br>(April 1, 2008 –<br>September 30, 2008) |                   | Previous Second Quarter<br>(April 1, 2007 –<br>September 30, 2007) |                   | Increase (Decrease) |             |
|---|---|-------------------|--|-------------------|---------------------|-------------|
|   | Sales   | Proportion<br>(%) | Sales  | Proportion<br>(%) | Amount of<br>change | %<br>change |
| The Americas                                      | 46,075  | 10.2              | 41,841   | 10.1              | 4,234               | 10.1        |
| Western Europe                                    | 70,895  | 15.6              | 79,193   | 19.0              | (8,298)             | (10.5)      |
| Russia-CIS, Africa and<br>the Middle East         | 66,862  | 14.7              | 49,654   | 11.9              | 17,208              | 34.7        |
| Europe, Russia-CIS, Africa<br>and the Middle East | 137,757   | 30.3              | 128,847  | 31.0              | 8,910               | 6.9         |
| Oceania and Asia                                  | 90,788  | 20.0              | 77,118   | 18.5              | 13,670              | 17.7        |
| China   | 70,250  | 15.5              | 51,853   | 12.5              | 18,397              | 35.5        |
| Sub-total   | 344,870   | 76.0              | 299,659  | 72.0              | 45,211              | 15.1        |
| Japan   | 109,182   | 24.0              | 116,267  | 28.0              | (7,085)             | (6.1)       |
| Total   | 454,052   | 100.0             | 415,926  | 100.0             | 38,126              | 9.2         |

Note: Figures are rounded off to the nearest million.

### [3] Overview of Consolidated Sales by Business Segment

A summary of second-quarter results by business segment is as follows.

#### (a) Construction Machinery Business

Consolidated net sales in the Construction Machinery Business rose 9% from the same period of the previous year to ¥407,192 million.

Regarding new construction-related machinery, we worked to expand sales of the ZAXIS-3 Series of new-model hydraulic excavators and the ZW Series of new-model wheel loaders. We also worked to raise sales prices by stressing the overwhelmingly superior economic performance (low fuel consumption) of our construction machinery as well as our strong service capabilities that utilize the Global e-Service system installed on individual machinery.

Meanwhile, we responded to brisk natural resource demand by commencing sales of such new products as the EX1200-6 hydraulic excavator, which is equipped with an environmentally friendly engine, as well as the EH3500AC II rigid dump truck, which realizes high driving performance using an AC electric-drive system. We commenced production of large and ultra-large dump trucks at the Hitachinaka-Rinko Works, which was completed in August 2008, thereby firmly putting into place a structure for increased production.

#### (b) Industrial Vehicle Business

Consolidated net sales for the industrial vehicle business rose 16% from the same period of the previous year to ¥46,187 million.

In new products, we launched sales of the FRB-VIII series of electrically driven forklifts that achieve world-top-class performance of nine hours of operation per charge.

In production, a new production plant in China that will efficiently supply products to the robust Chinese market was completed, and operations at the plant began in July 2008. This new plant in China will produce the latest models ranging from small-sized models to large-sized 10-ton-class forklifts (loading capacity). At the same time, the plant will produce other models designed exclusively for the Chinese market. A foundry at the same location manufactures counterweights that attach to the rear portion of forklifts and has begun supplying these counterweights to production bases in China other than the new production plant.

### **(c) Semiconductor Production Equipment Business**

Consolidated net sales in the semiconductor production equipment business decreased 34% from the same period of the previous year to ¥673 million.

Hitachi Kenki FineTech Co., Ltd. worked to expand sales of ultrasonic imaging devices used for inspections to manufacturers of in-vehicle semiconductor and electronic components, as well as to expand sales of atomic force microscopes to major overseas semiconductor manufacturers. On October 1, 2008, Hitachi Kenki FineTech was absorbed into the operations of HCM with the aim of consolidating leading-edge technologies cultivated to date in electric and electronic fields and further advancing the level of the HCM Group's products and strengthen its development capabilities.

## **2. Qualitative Information Concerning Consolidated Financial Statements**

### **[1] Status of Assets, Liabilities and Net Assets**

#### **(a) Assets**

Current assets at the end of the second quarter amounted to ¥588,870 million, an increase of ¥30,899 million from the previous fiscal year-end. This was due mainly to an increase of ¥57,241 million in inventories, which consist of merchandise and finished goods, work in progress and materials and supplies.

Fixed assets rose ¥22,847 million from the end of the previous fiscal year to ¥297,972 million, due to an increase in property, plant and equipment of ¥17,949 million for responding to increased production.

As a result, total assets increased ¥53,746 million from the previous fiscal year-end to ¥886,842 million.

#### **(b) Liabilities**

Current liabilities at the end of the second quarter amounted to ¥418,174 million, an increase of ¥16,104 million from the previous fiscal year-end. This was due mainly to an increase of ¥23,247 million in short-term loans.

Long-term liabilities increased ¥17,327 million from the previous fiscal year-end to ¥101,735 million due to an increase in long-term loans. As a result, total liabilities increased ¥33,431 million from the previous fiscal year-end to ¥519,909 million.

#### **(c) Net Assets**

Net assets, including minority interests, increased ¥20,315 million from the previous fiscal year-end to ¥366,933 million, due mainly to an increase in retained earnings.

### **[2] Status of Consolidated Cash Flows**

Cash and cash equivalents at the end of the second quarter totaled ¥43,810 million, a decrease of ¥24,916 million from the previous fiscal year-end. Factors relating to each cash flow

category were as follows.

#### **Cash Flows From Operating Activities**

Net cash provided by operating activities totaled ¥5,169 million, an increase of ¥3,389 million versus an increase of ¥1,780 million in the previous period. Cash-increasing factors included an ¥18,399 million decrease in notes and accounts receivable, an improvement of ¥12,654 million compared with a decrease of ¥5,745 million in the previous period; a ¥5,046 million reduction in purchase of property held for lease to ¥2,801 million from ¥7,847 million in the previous period, as a result of the improved asset efficiency realized through the merger of rental companies; and a ¥14,217 million increase in notes and accounts payable, a rise of ¥8,312 million compared with an increase of ¥5,905 million in the previous period, that resulted from the purchase of materials accompanying increased production in Japan and overseas. On the other hand, a cash-reducing factor was a ¥63,314 increase in inventories.

#### **Cash Flows From Investing Activities**

Net cash used in investing activities was ¥35,974 million, an increase of ¥7,927 million from ¥28,047 million in the previous period. Key factors were a ¥5,273 million increase in acquisition of property, plant and equipment to ¥31,303 million versus ¥26,030 million in the previous period, chiefly for capital investment to raise production at various manufacturing bases. As a result, free cash flows, the sum of net cash provided by operating activities and cash used in investing activities, was a negative ¥30,805 million.

#### **Cash Flows From Financing Activities**

Net cash provided by financing activities totaled ¥6,245 million. The key factors were a net increase in short-term debt totaling ¥26,222 million and proceeds from long-term debt totaling ¥13,381 million for the purpose of repayment long-term debt, repayment of finance lease obligations, and redemption of debentures totaling ¥20,754 million in addition to paying interest on borrowings and paying dividends to shareholders. The difference in the amount between free cash flow and cash flows from financing activities was covered by drawing down cash on hand, including cash proceeds from a capital increase from a public offering at market price and a third-party allotment capital increase made in the previous fiscal year.

### **3. Qualitative Information Concerning Consolidated Results Forecast**

The financial crisis originating in the United States is affecting the global economy, with concerns about the impact of credit tightening on the real economy. Demand for hydraulic excavators in Japan, the United States, and Europe is expected to fall below the figures that were forecast in the first quarter. In emerging nations, which have compensated for declines in Japan, the United States, and Europe, demand in China is expected to grow steadily. However, compared with the first quarter, growth in demand is slowing markedly in such countries as Russia and India. Accordingly, global demand for hydraulic excavators on a full-year basis is anticipated to further decline below the levels forecast in the first quarter. In contrast, demand in markets for mining equipment and crawler cranes is expected to remain favorable.

Looking at future business environment, there are numerous reasons for concern that include a decline in global demand, soaring prices for materials, and exchange rate and interest rate movements, and these factors are evoking a growing sense of uncertainty.

As our basic approach, we will make our utmost efforts to curb increases in materials costs and strive to offset such increases by passing on price hikes to product sales prices. We will also work to hold down increases in fixed costs and work to absorb such rises via higher profits by expanding net sales. In Japan and Western Europe, where production level is trending downward, we will make efforts to achieve thorough improvement of productivity and further cost reductions by drastically reviewing and streamlining production structures.

Additionally, we will work to reap the benefits of investments to increase and strengthen production, and further promote production and procurement at strategic locations.

The present outlook for consolidated results for the fiscal year ending March 31, 2009 has been revised from that outlined in the Financial Results for the Year Ended March 31, 2008 (released on April 25, 2008) and the details of the revision are as follows.

(100 million yen)

|                  | Revised Forecast<br>as of Oct. 28, 2008<br>(A) | Previous Forecast<br>as of Apr. 25, 2008<br>(B) | (Reference)<br>Results for the fiscal year<br>ended Mar. 31, 2008<br>(based on conventional<br>accounting period) | Change  |         |
|------------------|--|---|---|---------|---------|
|                  |  |   |   | (A)-(B) | (A)/(B) |
| Net sales        | 9,400  | 10,200  | 9,036   | (800)   | 92.2%   |
| Operating income | 940  | 1,090   | 1,052   | (150)   | 86.2%   |
| Ordinary income  | 900  | 1,010   | 976   | (110)   | 89.1%   |
| Net income       | 480  | 580   | 545   | (100)   | 82.8%   |

Notes:

- 1) Figures are rounded off to the nearest 100 million.
- 2) These projections assume an exchange rate of ¥100 to the U.S. dollar and ¥135 to the Euro.
- 3) For the fiscal year ended March 31, 2008, to unify the settlement dates of 12 overseas consolidated subsidiaries which used different settlement dates than that of the parent company, a method of consolidation was adopted in the financial statements using a provisional settlement as of the consolidated settlement date of the parent company. Accordingly, the settlement figures for the year, which include 15-month results (January 1, 2007 to March 31, 2008) of these subsidiaries were consolidated net sales of ¥940,537 million, operating income of ¥108,458 million, ordinary income of ¥100,564 million, and net income of ¥55,985 million. For the sake of comparison, figures for conventional accounting period (12 months) are shown above.
- 4) Forecasts, plans and expectations regarding future performance contained in the aforementioned statements are based on information currently available and deemed rational by Company management. However, as various factors could change actual results, forecasts, plans and expectations may differ. These factors are considered to include the economic conditions in principal markets and fluctuations in demand, fluctuations in exchange rates and revisions to Japanese or international laws and regulations, accounting standards, practices or other policies.

**(Reference) Projected results for the fiscal year ending March 2009 (Non-consolidated)**

(100 million yen)

|                  | Revised Forecast<br>as of Oct. 28, 2008<br>(A) | Previous Forecast<br>as of Apr. 25, 2008<br>(B) | Change  |         |
|------------------|--|---|---------|---------|
|                  |  |   | (A)-(B) | (A)/(B) |
| Net sales        | 5,209  | 5,632   | (423)   | 92.5%   |
| Operating income | 144  | 198   | (54)    | 72.7%   |
| Ordinary income  | 302  | 328   | (26)    | 92.1%   |
| Net income       | 228  | 255   | (27)    | 89.4%   |

#### **4. Others**

- (1) Significant changes involving subsidiaries during the period (changes involving specific subsidiaries accompanying changes in the scope of consolidation): None
- (2) Simple accounting procedures and the application of special accounting procedures for the compilation of quarterly consolidated financial statements

##### **A. Method used to value inventory assets**

Inventory assets at the end of the second quarter of the fiscal year are calculated from actual inventory at the end of the previous fiscal year using a rational method rather than based on a physical inventory.

##### **B. Method used to calculate depreciation of fixed assets**

Projected annual depreciation incorporating estimates of anticipated acquisition, sale and

disposal of fixed assets throughout the year is allocated proportionally to the quarter.

Depreciation costs for assets using the declining-balance method are calculated by allocating depreciation costs for the consolidated fiscal year proportionally to the quarter.

### **C. Standard used to calculate income taxes**

Tax expenses are calculated by making a reasonable estimation of the effective tax rate on income before income taxes and minority interests for the fiscal year including the second quarter after the application of deferred tax accounting and applying the estimated effective tax rate to quarterly income before income taxes and minority interests. Income tax figures include deferred income taxes.

## **(3) Changes in accounting principles, procedures and presentation methods used in the preparation of the Quarterly Consolidated Financial Statements**

### **A. Changes in response to accounting standard revisions**

1. Starting from the first quarter of the current fiscal year, the Group is applying the Accounting Standard for Quarterly Financial Reporting (Accounting Standards Board of Japan Statement No. 12, issued on March 14, 2007) and Guidance on Accounting Standard for Quarterly Financial Reporting (Accounting Standards Board of Japan Guidance No. 14, issued March 14, 2007). Quarterly financial statements are compiled in accordance with the Quarterly Consolidated Financial Statement Rules.
2. Starting with the first quarter of this fiscal year, the Group is applying the Accounting Standards for Measurement of Inventories (Accounting Standards Board of Japan Statement No. 9, issued on July 5, 2006). The effect of the application of these standards on profit and loss is minimal.
3. Starting with the first quarter of this fiscal year, the Group is applying the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Accounting Standards Board of Japan PITF No. 18, issued May 17, 2006). The effect of the application of these standards on profit and loss is minimal.
4. Although the Group has previously used lease transaction methods to account for finance and lease transactions not involving transfers of ownership, it has elected to use accounting procedures for normal sales transactions to account for these transactions starting from the first quarter of the current fiscal year by applying Accounting Standards for Lease Transactions (Accounting Standards Board of Japan Statement No. 13) and Guidance on Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Guidance No. 16). Depreciation of leased assets for finance and lease transactions not involving transfers of ownership is calculated by means of the straight-line method using the lease term as the period of depreciation and a residual value of zero.

The effect of the change in these standards on profit and loss is minimal.

### **B. Changes other than those in (A)**

1. The Company and its domestic consolidated subsidiaries have changed the period of depreciation for machinery and other equipment following a review of asset utilization undertaken in response to revisions in the corporate tax code. The effect of these changes on profit and loss is minimal.

## 5. Consolidated Quarterly Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

|                                       | Second Quarter          | Previous year-end (Summary) |
|---------------------------------------|-------------------------|-----------------------------|
|                                       | 〔 As of Sep. 30, 2008 〕 | 〔 As of Mar. 31, 2008 〕     |
| <b>ASSETS</b>                         |                         |                             |
| Current assets                        |                         |                             |
| Cash and bank deposits                | 43,810                  | 53,264                      |
| Notes and accounts receivable         | 222,139                 | 238,851                     |
| Merchandise and finished goods        | 191,944                 | 148,293                     |
| Work in progress                      | 49,117                  | 35,348                      |
| Materials and supplies                | 23,152                  | 23,331                      |
| Others                                | 66,150                  | 66,594                      |
| Less: Allowance for doubtful accounts | (7,442)                 | (7,710)                     |
| Total current assets                  | 588,870                 | 557,971                     |
| Fixed assets                          |                         |                             |
| Property, plant and equipment         |                         |                             |
| Property held for lease (net)         | 40,136                  | 35,940                      |
| Buildings and structures (net)        | 60,844                  | 46,798                      |
| Machinery and equipment (net)         | 44,412                  | 38,841                      |
| Tools, furniture and fixtures (net)   | 7,107                   | 6,714                       |
| Land                                  | 54,825                  | 54,917                      |
| Construction in progress              | 15,212                  | 21,377                      |
| Net property, plant and equipment     | 222,536                 | 204,587                     |
| Intangible assets                     |                         |                             |
| Goodwill                              | 6,578                   | 6,998                       |
| Software                              | 14,347                  | 10,725                      |
| Others                                | 1,796                   | 1,589                       |
| Total intangible assets               | 22,721                  | 19,312                      |
| Investments and other assets          |                         |                             |
| Investments in securities             | 27,714                  | 26,736                      |
| Others                                | 26,680                  | 25,615                      |
| Less: Allowance for doubtful accounts | (1,679)                 | (1,125)                     |
| Total investments and other assets    | 52,715                  | 51,226                      |
| Total fixed assets                    | 297,972                 | 275,125                     |
| Total assets                          | 886,842                 | 833,096                     |

(Rounded off to the nearest million)

(Millions of yen)

|   | Second Quarter<br>As of<br>Sep. 30, 2008 | Previous year-end (Summary)<br>As of<br>Mar. 31, 2008 |
|---|--|---|
| <b>LIABILITIES</b>                            |  |   |
| Current liabilities                           |  |   |
| Notes and accounts payable                    | 180,001                                  | 166,517   |
| Short-term loans                              | 148,431                                  | 125,184   |
| Current portion of bonds                      | 3,500                                    | 13,000  |
| Income taxes payable                          | 14,046                                   | 21,038  |
| Others  | 72,196                                   | 76,331  |
| Total current liabilities                     | 418,174                                  | 402,070   |
| Long-term liabilities                         |  |   |
| Bonds   | 1,500                                    | 2,000   |
| Long-term loans                               | 59,823                                   | 50,466  |
| Retirement and severance benefits             | 11,811                                   | 12,085  |
| Others  | 28,601                                   | 19,857  |
| Total long-term liabilities                   | 101,735                                  | 84,408  |
| <b>Total liabilities</b>                      | <b>519,909</b>                           | <b>486,478</b>  |
| <b>Net assets</b>                             |  |   |
| Shareholder's equity                          |  |   |
| Common stock                                  | 81,577                                   | 81,577  |
| Capital surplus                               | 81,084                                   | 81,084  |
| Retained earnings                             | 168,405                                  | 150,942   |
| Treasury stock                                | (2,731)                                  | (2,856)   |
| Total shareholders' equity                    | 328,335                                  | 310,747   |
| Valuation and translation adjustments         |  |   |
| Net unrealized gain (loss) on securities held | (153)                                    | 722   |
| Gain on deferred hedge transactions           | 1,913                                    | 974   |
| Foreign currency translation adjustments      | (6,114)                                  | (3,084)   |
| Total valuation and translation adjustments   | (4,354)                                  | (1,388)   |
| Stock purchase warrants                       | 634                                      | 415   |
| Minority interests                            | 42,318                                   | 36,844  |
| <b>Total net assets</b>                       | <b>366,933</b>                           | <b>346,618</b>  |
| <b>Total liabilities and net assets</b>       | <b>886,842</b>                           | <b>833,096</b>  |

(Rounded off to the nearest million)

**(2) Consolidated Statements of Income**

(Millions of yen)

|  | Second Quarter<br>Six months ended<br>Sep. 30, 2008 |
|--|---|
| Net sales  | 454,052   |
| Cost of sales                                      | 328,554   |
| Gross profit                                       | 125,498   |
| Selling, general and administrative expenses       |   |
| Packing and shipping expenses                      | 12,842  |
| Employees' salaries and allowances                 | 22,717  |
| R&D expenditure                                    | 6,487   |
| Others   | 36,323  |
| Total selling, general and administrative expenses | 78,369  |
| Operating income                                   | 47,129  |
| Non-operating income                               |   |
| Interest income                                    | 2,890   |
| Interest income from installment sales             | 400   |
| Dividends income                                   | 142   |
| Gain on equity earnings of affiliated companies    | 826   |
| Others   | 3,105   |
| Total non-operating income                         | 7,363   |
| Non-operating expenses                             |   |
| Interest expenses                                  | 4,028   |
| Effect of exchange rate changes                    | 1,468   |
| Others   | 3,544   |
| Total non-operating expenses                       | 9,040   |
| Ordinary income                                    | 45,452  |
| Extraordinary losses                               |   |
| Loss on evaluation of investments in securities    | 598   |
| Loss on evaluation of inventories                  | 142   |
| Total extraordinary losses                         | 740   |
| Income before income taxes and minority interests  | 44,712  |
| Income taxes                                       | 16,274  |
| Minority interests                                 | 6,213   |
| Net income   | 22,225  |

(Rounded off to the nearest million)

**(3) Consolidated Statements of Cash Flows**

(Millions of yen)

|  | Second Quarter<br>[ Six months ended<br>Sep. 30, 2008 ] |
|--|---|
| Cash flows from operating activities                         |   |
| Income before income taxes and minority interests            | 44,712  |
| Depreciation and amortization                                | 15,500  |
| Increase in allowance for doubtful accounts                  | 233   |
| Interest and dividends income                                | (3,032)   |
| Interest expenses  | 4,028   |
| Gain on equity earnings of affiliated companies              | (823)   |
| Decrease in notes and accounts receivable                    | 18,399  |
| Increase in inventories                                      | (63,314)  |
| Purchase of property held for lease                          | (2,801)   |
| Sales of property held for lease                             | 2,005   |
| Increase in notes and accounts payable                       | 14,217  |
| Gain on sales of property, plant and equipment               | (1,720)   |
| Loss on evaluation of investments in securities              | 598   |
| Others   | (712)   |
| Sub-total  | 27,290  |
| Income taxes paid  | (22,121)  |
| Net cash provided by operating activities                    | 5,169   |
| Cash flows from investing activities                         |   |
| Acquisitions of property, plant and equipment                | (31,303)  |
| Purchase of intangible assets                                | (4,360)   |
| Purchase of investments in securities                        | (4,131)   |
| Interest and dividends received                              | 2,873   |
| Dividends received from affiliated companies                 | 846   |
| Other, net   | 101   |
| Net cash used in investing activities                        | (35,974)  |
| Cash flows from financing activities                         |   |
| Net increase in short-term debt                              | 26,222  |
| Proceeds from long-term debt                                 | 13,381  |
| Repayments of long-term debt                                 | (9,122)   |
| Repayments of finance lease obligations                      | (1,132)   |
| Redemption of debentures                                     | (10,500)  |
| Interest paid  | (4,429)   |
| Dividends paid to shareholders                               | (4,705)   |
| Dividends paid to minority shareholders by subsidiaries      | (3,538)   |
| Proceeds from sale of treasury stock                         | 82  |
| Purchase of treasury stock                                   | (14)  |
| Net cash provided by financing activities                    | 6,245   |
| Effect of exchange rate changes on cash and cash equivalents | (356)   |
| Net decrease in cash and cash equivalents                    | (24,916)  |
| Cash and cash equivalents at beginning of year               | 68,726  |
| Cash and cash equivalents at end of period                   | 43,810  |

(Rounded off to the nearest million)

Starting with this consolidated fiscal year, the Group is applying the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12) and Guidance on Accounting Standard for Quarterly Financial Reporting( ASBJ Guidance No. 14. Quarterly financial statements are compiled in accordance with the Quarterly Consolidated Financial Statement Rules.

#### (4) Notes Concerning Premise of Going Concern

None

#### (5) Segment Information

##### Segment information by business category

Second Quarter Ended September 30, 2008 (From April 1, 2008 to September 30, 2008) (Millions of yen)

|                                       | Construction Machinery Business | Industrial Vehicles Business | Semiconductor or Production Equipment Business | Total          | Elimination or Corporate | Consolidated   |
|---------------------------------------|---------------------------------|------------------------------|--|----------------|--------------------------|----------------|
| <b>Net Sales and Operating Income</b> |                                 |                              |  |                |                          |                |
| Net Sales                             |                                 |                              |  |                |                          |                |
| (1) Net Sales to Outside Customers    | 407,192                         | 46,187                       | 673  | 454,052        |                          | 454,052        |
| (2) Inter-segment Sales/Transfers     | 15                              | 0                            | 768  | 783            | (783)                    |                |
| <b>Total</b>                          | <b>407,207</b>                  | <b>46,187</b>                | <b>1,441</b>                                   | <b>454,835</b> | <b>(783)</b>             | <b>454,052</b> |
| <b>Operating Income</b>               | <b>45,817</b>                   | <b>1,341</b>                 | <b>(30)</b>                                    | <b>47,128</b>  | <b>1</b>                 | <b>47,129</b>  |

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

##### Segment information by area

Second Quarter Ended September 30, 2008 (From April 1, 2008 to September 30, 2008) (Millions of yen)

|                                       | Japan          | Asia           | Europe         | The Americas  | Others        | Total          | Elimination or Corporate | Consolidated   |
|---------------------------------------|----------------|----------------|----------------|---------------|---------------|----------------|--------------------------|----------------|
| <b>Net Sales and Operating Income</b> |                |                |                |               |               |                |                          |                |
| Net Sales                             |                |                |                |               |               |                |                          |                |
| (1) Net Sales to Outside Customers    | 180,163        | 85,269         | 100,167        | 28,406        | 60,047        | 454,052        |                          | 454,052        |
| (2) Inter-segment Sales/Transfers     | 176,905        | 15,067         | 7,398          | 10,251        | 24            | 209,645        | (209,645)                |                |
| <b>Total</b>                          | <b>357,068</b> | <b>100,336</b> | <b>107,565</b> | <b>38,657</b> | <b>60,071</b> | <b>663,697</b> | <b>(209,645)</b>         | <b>454,052</b> |
| <b>Operating Income</b>               | <b>21,555</b>  | <b>13,640</b>  | <b>6,592</b>   | <b>2,838</b>  | <b>5,560</b>  | <b>50,185</b>  | <b>(3,056)</b>           | <b>47,129</b>  |

Note: Countries included in each segment are as follows:

- (1) Asia: China, Indonesia, Singapore, Thailand and Malaysia
- (2) Europe: Holland, France and United Kingdom
- (3) The Americas: United States and Canada
- (4) Other: Australia, New Zealand and South Africa

## Overseas sales

Second Quarter Ended September 30, 2008 (From April 1, 2008 to September 30, 2008)

(Millions of yen)

|   | The Americas | Europe, Africa<br>& Middle East | Oceania &<br>Asia | China  | Total   |
|---|--------------|---------------------------------|-------------------|--------|---------|
| I Overseas sales  | 46,075       | 137,757                         | 90,788            | 70,250 | 344,870 |
| II Consolidated sales                                     |              |                                 |                   |        | 454,052 |
| III Percentage of overseas sales<br>to consolidated sales | 10.2%        | 30.3%                           | 20.0%             | 15.5%  | 76.0%   |

Notes:

- 1) National and regional categories are based on geographic proximity.
- 2) Countries included in each segment are as follows:
  1. The Americas: United States and Canada
  2. Europe, Africa & the Middle East: Holland, United Kingdom, Italy, South Africa and United Arab Emirates
  3. Oceania & Asia: Indonesia, Australia and New Zealand
  4. China: China
- 3) Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.

## (6) Notes on Significant Fluctuations in Shareholder's Equity

None

**Reference: Financial Statements for the Six Months Ended September 30, 2007****(1) Consolidated Statements of Income**

(Millions of yen)

|  | Previous Second Quarter<br>〔 Six months ended<br>Sep. 30, 2007 〕 |
|--|--|
| I Net sales  | 415,926  |
| II Cost of sales                                   | 291,809  |
| Gross profit                                       | 124,117  |
| III Selling, general and administrative expenses   | 73,132   |
| Operating income                                   | 50,985   |
| IV Non-operating income                            |  |
| 1. Interest income                                 | 1,957  |
| 2. Interest income from installment sales          | 313  |
| 3. Dividends income                                | 137  |
| 4. Gain on equity earnings of affiliated companies | 1,655  |
| 5. Others  | 1,298  |
| Total non-operating income                         | 5,360  |
| V Non-operating expenses                           |  |
| 1. Interest expenses                               | 2,489  |
| 2. Loss on disposal of inventories                 | 535  |
| 3. Loss on evaluation of inventories               | 990  |
| 4. Effect of exchange rate changes                 | 1,603  |
| 5. Others  | 4,067  |
| Total non-operating expenses                       | 9,684  |
| Ordinary income                                    | 46,661   |
| Income before income taxes and minority interests  | 46,661   |
| Income taxes                                       | 18,579   |
| Minority interests                                 | 4,747  |
| Net income   | 23,335   |

(Rounded off to the nearest million)

## (2) Consolidated Statements of Cash Flows

(Millions of yen)

|   | Previous Second Quarter<br>〔 Six months ended 〕<br>Sep. 30, 2007 |
|---|--|
| I Cash flows from operating activities  |  |
| 1. Income before income taxes and minority interests                                      | 46,661   |
| 2. Depreciation and amortization  | 13,373   |
| 3. Decrease in allowance for doubtful accounts  | (181)  |
| 4. Interest and dividends income  | (2,094)  |
| 5. Interest expenses  | 2,489  |
| 6. Gain on equity earnings of affiliated companies  | (1,668)  |
| 7. Decrease in notes and accounts receivable  | 5,745  |
| 8. Increase in inventories  | (39,003)   |
| 9. Purchase of property held for lease  | (7,847)  |
| 10. Sales of property held for lease  | 1,618  |
| 11. Increase in notes and accounts payable  | 5,905  |
| 12. Gain on sales of property, plant and equipment  | (1,401)  |
| 13. Others  | (5,207)  |
| Sub-total   | 18,390   |
| Income taxes paid   | (16,610)   |
| Net cash provided by operating activities   | 1,780  |
| II Cash flows from investing activities   |  |
| 1. Acquisitions of property, plant and equipment  | (26,030)   |
| 2. Preceeds from sale of property, plant and equipment                                    | 1,436  |
| 3. Purchase of intangible assets  | (3,404)  |
| 4. Purchase of investments in securities  | (1,149)  |
| 5. Proceeds from sale of investments in securities  | 3  |
| 6. Acquisitions of subsidiaries' stock resulting in change in scope of consolidation, net | (1,872)  |
| 7. Interest and dividends received  | 2,220  |
| 8. Dividends received from affiliated companies   | 572  |
| 9. Other, net   | 177  |
| Net cash used in investing activities   | (28,047)   |
| III Cash flows from financing activities  |  |
| 1. Net increase in short-term debt  | 17,557   |
| 2. Proceeds from long-term debt   | 7,011  |
| 3. Repayments of long-term debt   | (9,113)  |
| 4. Redemption of debentures   | (10,300)   |
| 5. Interest paid  | (2,614)  |
| 6. Dividends paid to shareholders   | (2,728)  |
| 7. Dividends paid to minority shareholders by subsidiaries                                | (2,104)  |
| 8. Proceeds from issuance of stock  | 77,475   |
| 9. Issuance of common stock and investments by minority                                   | 689  |
| 10. Proceeds from sale of treasury stock  | 331  |
| 11. Purchase of treasury stock  | (25)   |
| Net cash provided by financing activities   | 76,179   |
| IV Effect of exchange rate changes on cash and cash equivalents                           | 642  |
| V Net increase in cash and cash equivalents   | 50,554   |
| VI Cash and cash equivalents at beginning of year   | 41,074   |
| VII Cash and cash equivalents of merged non-consolidated subsidiary                       | 37   |
| VIII Cash and cash equivalents at end of period   | 91,665   |

(Rounded off to the nearest million)

### (3) Segment Information

#### Segment information by business category

Second Quarter Ended September 30, 2007 (From April 1, 2007 to September 30, 2007)

(Millions of yen)

|                                       | Construction Machinery Business | Industrial Vehicles Business | Semiconductor or Production Equipment Business | Total   | Elimination or Corporate | Consolidated |
|---------------------------------------|---------------------------------|------------------------------|--|---------|--------------------------|--------------|
| <b>Net Sales and Operating Income</b> |                                 |                              |  |         |                          |              |
| Net Sales                             |                                 |                              |  |         |                          |              |
| (1) Net Sales to Outside Customers    | 374,932                         | 39,977                       | 1,017  | 415,926 |                          | 415,926      |
| (2) Inter-segment Sales/Transfers     | 18                              | 0                            | 861  | 879     | (879)                    |              |
| Total                                 | 374,950                         | 39,977                       | 1,878  | 416,805 | (879)                    | 415,926      |
| Operating Income                      | 49,448                          | 2,482                        | 297  | 52,227  | (1,242)                  | 50,985       |

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

#### Segment information by area

Second Quarter Ended September 30, 2007 (From April 1, 2007 to September 30, 2007)

(Millions of yen)

|                                       | Japan   | Asia   | Europe  | The Americas | Others | Total   | Elimination or Corporate | Consolidated |
|---------------------------------------|---------|--------|---------|--------------|--------|---------|--------------------------|--------------|
| <b>Net Sales and Operating Income</b> |         |        |         |              |        |         |                          |              |
| Net Sales                             |         |        |         |              |        |         |                          |              |
| (1) Net Sales to Outside Customers    | 172,227 | 61,352 | 103,193 | 25,596       | 53,558 | 415,926 |                          | 415,926      |
| (2) Inter-segment Sales/Transfers     | 150,578 | 12,906 | 10,240  | 12,779       | 0      | 186,503 | (186,503)                |              |
| Total                                 | 322,805 | 74,258 | 113,433 | 38,375       | 53,558 | 602,429 | (186,503)                | 415,926      |
| Operating Income                      | 29,492  | 10,925 | 9,287   | 4,970        | 4,723  | 59,397  | (8,412)                  | 50,985       |

Note: Countries included in each segment are as follows:

- (1) Asia: China, Indonesia, Singapore, Thailand and Malaysia
- (2) Europe: Holland and France
- (3) The Americas: United States and Canada
- (4) Other: Australia, New Zealand and South Africa

## Overseas sales

Second Quarter Ended September 30, 2007 (From April 1, 2007 to September 30, 2007)

(Millions of yen)

|   | The Americas | Europe, Africa<br>& Middle East | Oceania &<br>Asia | China  | Total   |
|---|--------------|---------------------------------|-------------------|--------|---------|
| I Overseas sales  | 41,841       | 128,847                         | 77,118            | 51,853 | 299,659 |
| II Consolidated sales                                     |              |                                 |                   |        | 415,926 |
| III Percentage of overseas sales<br>to consolidated sales | 10.1%        | 31.0%                           | 18.5%             | 12.5%  | 72.0%   |

Notes:

- 1) National and regional categories are based on geographic proximity.
- 2) Countries included in each segment are as follows:
  1. The Americas: United States and Canada
  2. Europe, Africa & the Middle East: Holland, United Kingdom, Italy, South Africa and United Arab Emirates
  3. Oceania & Asia: Indonesia, Australia and New Zealand
  4. China: China
- 3) Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.