

Hitachi Construction Machinery

**Financial Results for the
First Quarter Ended June 30, 2006**

Consolidated Financial Results for the First Quarter Ended June 30, 2006

July 28, 2006

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 three months ended June 30, 2006

Adoption of simplified accounting methods:

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

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

Change in scope of consolidation and equity method:

Newly consolidated: 2 companies Removed from consolidation: None

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

2. Consolidated results for the first quarter ended June 30, 2006 (April 1 to June 30, 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	%
June 30, 2006	172,925	40.2	16,219	41.0	13,252	47.6	5,582	89.6
June 30, 2005	123,362	10.8	11,504	36.5	8,976	33.0	2,944	(18.2)
March 31, 2006	626,457	-	57,177	-	45,783	-	24,223	-

	Net income per share	Diluted net income per share
	Yen	Yen
June 30, 2006	28.66	28.55
June 30, 2005	15.11	15.05
March 31, 2006	124.37	124.00

Notes:

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

June 2006: 194,752,106 June 2005: 194,901,946 March 2006: 194,770,688

2) Percentage indicated for net sales, operating income, ordinary income and net income are increases/(decreases) as compared to the first quarter 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
June 30, 2006	561,764	186,448	28.7	826.65
June 30, 2005	509,383	132,683	26.0	680.74
March 31, 2006	552,341	157,173	28.5	807.17

Note:

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

June 2006: 194,774,345 June 2005: 194,909,787 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 year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2006	4,391	(5,746)	2,276	42,567
June 30, 2005	184	(1,434)	(8,351)	45,277
March 31, 2006	37,379	(18,572)	(33,113)	41,954

(English translation of "ZAIMU / GYOSEKI NO GAIKYO" originally issued in Japanese language.)

3. Overview of the First Quarter Ended June 30, 2006

In addition to increased capital spending and continued stock adjustments, the inclusion of sales from former equity-method affiliate TCM Corporation in the first quarter of the previous fiscal year contributed to consolidated net sales in Japan of ¥45,391 million.

In the Americas, despite a slight slowdown in housing investment, net sales were ¥44,837 million on the back of brisk demand in construction machinery, including housing investment in commercial properties, highway repairs and infrastructure restoration. In Europe, Africa and the Middle East, net sales were ¥40,835 million. This performance was the result of increased sales in Europe amid strengthening and expanding independent sales networks, robust growth in demand for mining equipment in Africa due to active resource mining, increased infrastructure development and plant construction in the Middle East amid recycling of oil money, as well as higher demand in Russia on the back of resource and infrastructure development. In Oceania and Asia, net sales were ¥26,287 million as a result of brisk demand for mining equipment in Australia, despite weaker demand for hydraulic excavators in Indonesia on the back of escalating crude oil prices. While a slowdown in demand was feared from the effects of such financial policies as interest rate hikes, demand grew throughout China owing to infrastructure development. Net sales were ¥15,575 million due to a continued increase in demand for mini-excavators in such urban areas as Shanghai.

Consequently, consolidated net sales for the first quarter rose 40% to ¥172,925 million; operating income increased 41% to ¥16,219 million; ordinary income rose 48% to ¥13,252 million; and net income jumped 90% to ¥5,582 million, compared with the first quarter of the previous fiscal year.

In the first quarter of the previous fiscal year, TCM Corporation changed from an equity-method affiliate to a consolidated subsidiary. Consequently, while TCM Corporation was treated as a consolidated subsidiary in calculating the Consolidated Balance Sheets and treated as an equity-method affiliate in calculating the Consolidated Statements of Income in the first quarter of the previous fiscal year, it has been treated as a consolidated subsidiary in all statements since the second quarter.

Accordingly, consolidated net sales increased by roughly ¥21,100 million, and consolidated operating income rose by roughly ¥600 million in the first quarter under review.

Consolidated sales by geographic area

(Millions of yen)

	First Quarter ended June 30, 2006 (A)	First Quarter ended June 30, 2005 (B)	Change	
			Amount change (A)-(B)	% change
The Americas	44,837	27,403	17,434	63.6
Europe, Africa and the Middle East	40,835	28,925	11,910	41.2
Oceania and Asia	26,287	22,661	3,626	16.0
China	15,575	11,773	3,802	32.3
Sub-total	127,534	90,762	36,772	40.5
Japan	45,391	32,600	12,791	39.2
Total	172,925	123,362	49,563	40.2

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 first quarter of the previous fiscal year spanning January to March is recorded in the current quarter as April to June.

4. 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

There have been no revisions to the above projections as announced on April 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, despite some uncertainty regarding the direction of the economy owing to falling housing investment, private capital investment and investment in highway construction remain brisk, with overall demand growth expected to exceed that of the previous fiscal year even though demand may be below initial targets. Demand for mining equipment is also expected to remain high amid increasing global resource demand. In order to meet this intensity of demand, HCM continues to raise productive capacity through the expansion of production facilities. As a result of the above, performance is forecast to be brisk in both the interim period and the fiscal year under review.

Consolidated Balance Sheets

(Millions of yen)

	Year-end		(A)-(B)	As of June 30, 2005		Year-end		(A)-(B)	As of June 30, 2005
	As of June 30, 2006 (A)	As of March 31, 2006 (B)				As of June 30, 2006 (A)	As of March 31, 2006 (B)		
ASSETS					LIABILITIES				
Current assets					Current liabilities				
1. Cash and bank deposits	42,544	37,073	5,471	45,326	1. Notes and accounts payable	127,682	129,893	(2,211)	105,539
2. Notes and accounts receivable	161,204	165,353	(4,149)	136,850	2. Short-term loan	80,431	70,427	10,004	67,914
3. Inventories	148,605	138,297	10,308	135,209	3. Commercial papers	5,000	3,000	2,000	0
4. Others	28,906	34,758	(5,852)	31,718	4. Current portion of bonds	600	600	0	12,615
5. Less: Allowance for doubtful accounts	(8,737)	(9,493)	756	(10,311)	5. Others	61,231	62,855	(1,624)	54,904
Total current assets	372,522	365,988	6,534	338,792	Total current liabilities	274,944	266,775	8,169	240,972
Fixed assets					Long-term liabilities				
(1) Property, plant and equipment					1. Bond	25,600	25,600	0	26,320
1. Property held for lease	27,157	25,437	1,720	22,616	2. Long-term loan	50,618	53,326	(2,708)	62,234
2. Buildings and structures	34,290	33,120	1,170	32,377	3. Retirement and severance benefits	12,802	12,829	(27)	12,652
3. Machinery and equipment	22,946	23,077	(131)	19,266	4. Others	11,352	11,642	(290)	15,592
4. Land	45,078	44,312	766	44,909	Total long-term liabilities	100,372	103,397	(3,025)	116,798
5. Others	8,926	8,536	390	7,426	Total liabilities	375,316	370,172	5,144	357,770
Net property, plant and equipment	138,397	134,482	3,915	126,594	MINORITY INTERESTS				
					Minority interests	-	24,996	-	18,930
					SHAREHOLDERS' EQUITY				
					Common stock	-	42,626	-	42,585
					Capital surplus	-	42,133	-	42,102
					Retained earnings	-	70,392	-	50,679
					Net unrealized holding gain on securities	-	2,730	-	1,529
					Foreign currency translation adjustments	-	1,168	-	(3,055)
					Treasury stock	-	(1,876)	-	(1,157)
					Total shareholders' equity	-	157,173	-	132,683
					Total liabilities, minority interests and shareholder's equity	-	552,341	-	509,383
(2) Intangible assets					Net assets				
					Shareholder's equity				
1. Software	5,069	4,329	740	0	1. Common stock	42,629	-	-	-
2. Consolidated adjustment account	194	262	157	419	2. Capital surplus	42,137	-	-	-
3. Others	1,084	1,128	(44)	4,296	3. Retained earnings	74,019	-	-	-
Total intangible assets	6,347	5,719	628	4,715	4. Treasury stock	(1,827)	-	-	-
					Total shareholders' equity	156,958	-	-	-
(3) Investments and other assets					Cumulative translation adjustments				
					1. Net unrealized holding gain on securities	2,348	-	-	-
1. Investments in securities	25,993	27,738	(1,745)	19,664	2. Deferred hedge income	251	-	-	-
2. Others	19,642	19,570	72	20,852	3. Foreign currency translation adjustments	1,453	-	-	-
3. Less: Allowance for doubtful accounts	(1,137)	(1,156)	19	(1,234)	Total cumulative translation adjustments	4,052	-	-	-
Total investments and other assets	44,498	46,152	(1,654)	39,282	Minority interests	25,438	-	-	-
Total fixed assets	189,242	186,353	2,889	170,591	Total net assets	186,448	-	-	-
Total assets	561,764	552,341	9,423	509,383	Total liabilities and net assets	561,764	-	-	-

(Rounded off to the nearest million)

Consolidated Statements of Income

(Millions of yen)

	〔 Quarter ended June 30, 2006 (A) 〕	〔 Quarter ended June 30, 2005 (B) 〕	(A)/(B)×100(%)	〔 Year ended March 31, 2006 〕
			%	
Net sales	172,925	123,362	140	626,457
Cost of sales	126,015	87,771	144	453,461
Gross profit before (realized) unrealized profit on installment sales	46,910	35,591	132	172,996
(Realized) unrealized profit on installment sales	312	289	108	947
Gross profit	46,598	35,302	132	172,049
Selling, general and administrative expenses	30,379	23,798	128	114,872
Operating income	16,219	11,504	141	57,177
Non-operating income				
1. Interest income	271	131	207	2,092
2. Interest income from installment sales	233	200	117	627
3. Dividends income	64	55	116	120
4. Equity in gains of affiliated companies	0	0	-	131
5. Others	930	678	137	2,235
Total non-operating income	1,498	1,064	141	5,205
Non-operating expenses				
1. Interest expenses	909	868	105	3,598
2. Loss on disposal of inventories	353	137	258	1,150
3. Write-down of inventories	17	0	-	1,307
4. Exchange loss	1,234	982	126	6,473
5. Equity in losses of affiliated companies	741	285	260	0
6. Others	1,211	1,320	92	4,071
Total non-operating expenses	4,465	3,592	124	16,599
Ordinary income	13,252	8,976	148	45,783
Extraordinary income				
1. Gain on the elimination of the insurance system	0	0	-	2,314
Total extraordinary income	0	0	-	2,314
Extraordinary losses				
1. Restructuring costs	0	0	-	1,111
2. Impairment losses for long-lived assets	0	0	-	191
Total extraordinary losses	0	0	-	1,302
Income before income taxes and minority interests	13,252	8,976	148	46,795
Income taxes	6,833	5,300	129	17,206
Minority interests	837	732	114	5,366
Net income	5,582	2,944	190	24,223

(Rounded off to the nearest million)

Consolidated Statements of Shareholders' Equity

First quarter (April 1, 2006- June 30, 2006)

(Millions of yen)

	Shareholders' equity					Cumulative translation adjustments				Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gain (loss) on securities	Deferred hedge income (loss)	Foreign currency translation adjustments	Total cumulative translation adjustments		
Balance at March 31, 2006	42,626	42,133	70,392	(1,876)	153,275	2,730		1,168	3,898	24,996	182,169
First quarter fluctuations											
Newly issued	3	4			7						7
Distributions of capital surplus			(1,948)		(1,948)						(1,948)
Net income			5,582		5,582						5,582
Decrease in treasury stock			(7)	49	42						42
Consolidated fiscal-year fluctuations for line items other than shareholders' equity						(382)	251	285	154	442	596
Total first quarter fluctuations	3	4	3,627	49	3,683	(382)	251	285	154	442	4,279
Balance at June 30, 2006	42,629	42,137	74,019	(1,827)	156,958	2,348	251	1,453	4,052	25,438	186,448

(Rounded off to the nearest million)

Consolidated Statements of Cash Flows

(Millions of yen)

	[Quarter ended June 30, 2006]	[Quarter ended June 30, 2005]	[Year ended March 31, 2006]
Cash flows from operating activities			
1. Income before income taxes and minority interests	13,252	8,976	46,795
2. Depreciation and amortization	5,239	4,007	19,470
3. Increase (Decrease) in allowance for doubtful accounts	(720)	(76)	(1,205)
4. Interest and dividends income	(335)	(186)	(2,212)
5. Interest expenses	909	868	3,598
6. Equity in losses of affiliated companies	741	285	(131)
7. (Increase) decrease in notes and accounts receivable	7,089	11,877	(9,318)
8. Increase in inventories	(13,522)	(8,917)	(7,929)
9. Purchase of property held for lease	(1,746)	(1,769)	(12,816)
10. Sale of property held for lease	409	948	3,506
11. Increase (decrease) in notes and accounts payable	(4,155)	(1,368)	19,223
12. Gain on sales of property, plant and equipment	(294)	(528)	(2,154)
13. Loss on revaluation of investments in securities	0	0	29
14. (Gain) loss on sales of investments in securities	0	(388)	(395)
15. Others	5,234	(9,106)	(8,416)
Sub-total	12,101	4,623	48,045
16. Income taxes paid	(7,710)	(4,439)	(10,666)
Net cash provided by operating activities	4,391	184	37,379
Cash flows from investing activities			
1. Investments in time deposits	(39)	(41)	(91)
2. Proceeds from time deposits	52	29	1,228
3. Acquisitions of property, plant and equipment	(5,262)	(2,151)	(15,057)
4. Proceeds from sales of property, plant and equipment	159	154	373
5. Purchases of investments in securities	(42)	0	(6,550)
6. Proceeds from sales of investments in securities	0	550	872
7. Interest and dividends received	308	198	2,215
8. Interest and dividends received from affiliated companies	4	185	356
9. Other, net	(926)	(358)	(1,918)
Net cash used in investing activities	(5,746)	(1,434)	(18,572)
Cash flows from financing activities			
1. Net increase (decrease) in short-term loan	7,519	(4,994)	(6,320)
2. Proceeds from long-term loan	1,434	1,259	12,411
3. Repayments of long-term loan	(3,436)	(2,389)	(19,780)
4. Repayments of bond	0	0	(12,735)
5. Interest paid	(875)	(641)	(3,786)
6. Dividends paid to shareholders	(1,948)	(1,364)	(2,920)
7. Dividends paid to minority shareholders by subsidiaries	(466)	(238)	(603)
8. Proceeds from issuance of common stock	7	4	85
9. Proceeds from issuance of common stock to minority shareholders by subsidiaries	0	0	1,254
10. Proceeds from sale of treasury stock	45	13	187
11. Purchase of treasury stock	(4)	(1)	(906)
Net cash provided by (used in) financing activities	2,276	(8,351)	(33,113)
Effect of exchange rate changes on cash and cash equivalents	(331)	119	1,501
Net increase (decrease) in cash and cash equivalents	590	(9,482)	(12,805)
Cash and cash equivalents at beginning of year	41,954	49,534	49,534
Increase in cash and cash equivalents from newly consolidated subsidiaries	23	5,225	5,225
Cash and cash equivalents at end of year	42,567	45,277	41,954

Note: Relationship between cash and cash equivalents at end of year and line item amounts on the Consolidated Balance Sheets

Cash and bank deposits	42,544	45,326	37,073
Deposits for affiliated company	64	160	4,946
Sub-total	42,608	45,486	42,019
Time deposits with the maturity longer than three months	(41)	(209)	(65)
Cash and cash equivalents at end of year	42,567	45,277	41,954

(Rounded off to the nearest million)

(English translation of "ZAIMU/GYOSEKI NO GAIKYO" originally issued in Japanese language)