

Hitachi Construction Machinery  
Financial Results for the six months  
ended September 30, 2003

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

**Interim Financial Statement (Consolidated) for Fiscal Year Ending March 2004** October 28, 2003

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

Stock exchange: Tokyo, Osaka

Code number: 6305

URL <http://www.hitachi-kenki.co.jp>

Location of head office: Tokyo

Representative: Shungo Dazai, President and Chief Executive Officer

Date of convening of the Board of Directors for financial settlement: October 28, 2003

Parent company: Hitachi, Ltd. (code number: 6501)

Ratio of HCM shares held by the parent company: 51.6%

U.S. Accounting Standards are not applied.

1. Consolidated results for the half-year ended September 2003 (April 1 to September 30, 2003)

(1) Consolidated results

(Rounded off to the nearest million)

|                             | Net sales       |      | Operating income |      | Ordinary income |       |
|-----------------------------|-----------------|------|------------------|------|-----------------|-------|
|                             | Millions of yen | %    | Millions of yen  | %    | Millions of yen | %     |
| September 2003<br>(interim) | 194,779         | 26.3 | 12,440           | 89.9 | 9,746           | 224.8 |
| September 2002<br>(interim) | 154,163         | 2.4  | 6,552            | -    | 3,001           | -     |
| March 2003                  | 328,496         | 10.0 | 16,399           | -    | 9,880           | -     |

(Rounded off to the nearest million, except per share amounts)

|                             | Net income      |       | Net income per share | Net income per share after<br>adjusting for latent shares |
|-----------------------------|-----------------|-------|----------------------|---|
|                             | Millions of yen | %     | Yen                  | Yen   |
| September 2003<br>(interim) | 4,872           | 165.1 | 28.86                | 27.61   |
| September 2002<br>(interim) | 1,838           | -     | 12.79                | -   |
| March 2003                  | 3,883           | -     | 25.90                | 24.35   |

Notes:

- Equity-method investment profit (loss)  
September 2003 (interim): (¥477 million) September 2002 (interim): (¥650 million) March 2003: (¥1,035 million)
- Average number of shares during the term (consolidated)  
September 2003 (interim): 168,809,230 September 2002 (interim): 143,723,335 March 2003: 145,282,840
- Changes in the method of accounting: None
- Percentages indicated for sales, operating income and net income are increases/(decreases) compared to the interim period of the preceding fiscal year.

(2) Consolidated financial position

(Rounded off to the nearest million, except equity ratio and shareholders' equity per share)

|                             | Total assets    | Shareholders' equity | Equity ratio | Shareholders' equity<br>per share |
|-----------------------------|-----------------|----------------------|--------------|-----------------------------------|
|                             | Millions of yen | Millions of yen      | %            | Yen                               |
| September 2003<br>(interim) | 394,002         | 85,826               | 21.8         | 491.05                            |
| September 2002<br>(interim) | 354,246         | 63,934               | 18.0         | 444.87                            |
| March 2003                  | 373,755         | 74,321               | 19.9         | 460.98                            |

Note:

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

September 2003 (interim): 174,781,397 September 2002 (interim): 143,713,352 March 2003: 160,963,004

## (3) Consolidated cash flows

(Rounded off to the nearest million)

|                             | Net cash provided by<br>(used in) in operating<br>activities | Net cash provided by<br>(used in) in investing<br>activities | Net cash provided by<br>(used in) in financial<br>activities | Cash and cash<br>equivalents at end of<br>term |
|-----------------------------|--|--|--|--|
|                             | Millions of yen  | Millions of yen  | Millions of yen  | Millions of yen                                |
| September 2003<br>(interim) | 8,061  | (4,172)  | 1,858  | 50,154   |
| September 2002<br>(interim) | 9,329  | 5,756  | 1,023  | 48,293   |
| March 2003                  | 17,384   | 1,666  | (7,450)  | 44,234   |

## (4) Scope of consolidation and application of equity method:

Number of consolidated subsidiaries: 49

Number of unconsolidated subsidiaries subject to the equity method: None

Number of affiliates subject to the equity method: 9

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

Newly consolidated: 1 company

Newly unconsolidated: None

Newly subjected to the equity method: 1 company

Newly excluded from the equity method: None

## 2. Projected consolidated results for the fiscal year ending March 31, 2004

(Rounded off to the nearest million)

|            | Net Sales       | Ordinary income | Net income      |
|------------|-----------------|-----------------|-----------------|
|            | Millions of yen | Millions of yen | Millions of yen |
| March 2004 | 390,000         | 19,000          | 9,500           |

Supplementary information: Projected net income per share for the fiscal year: ¥54.35

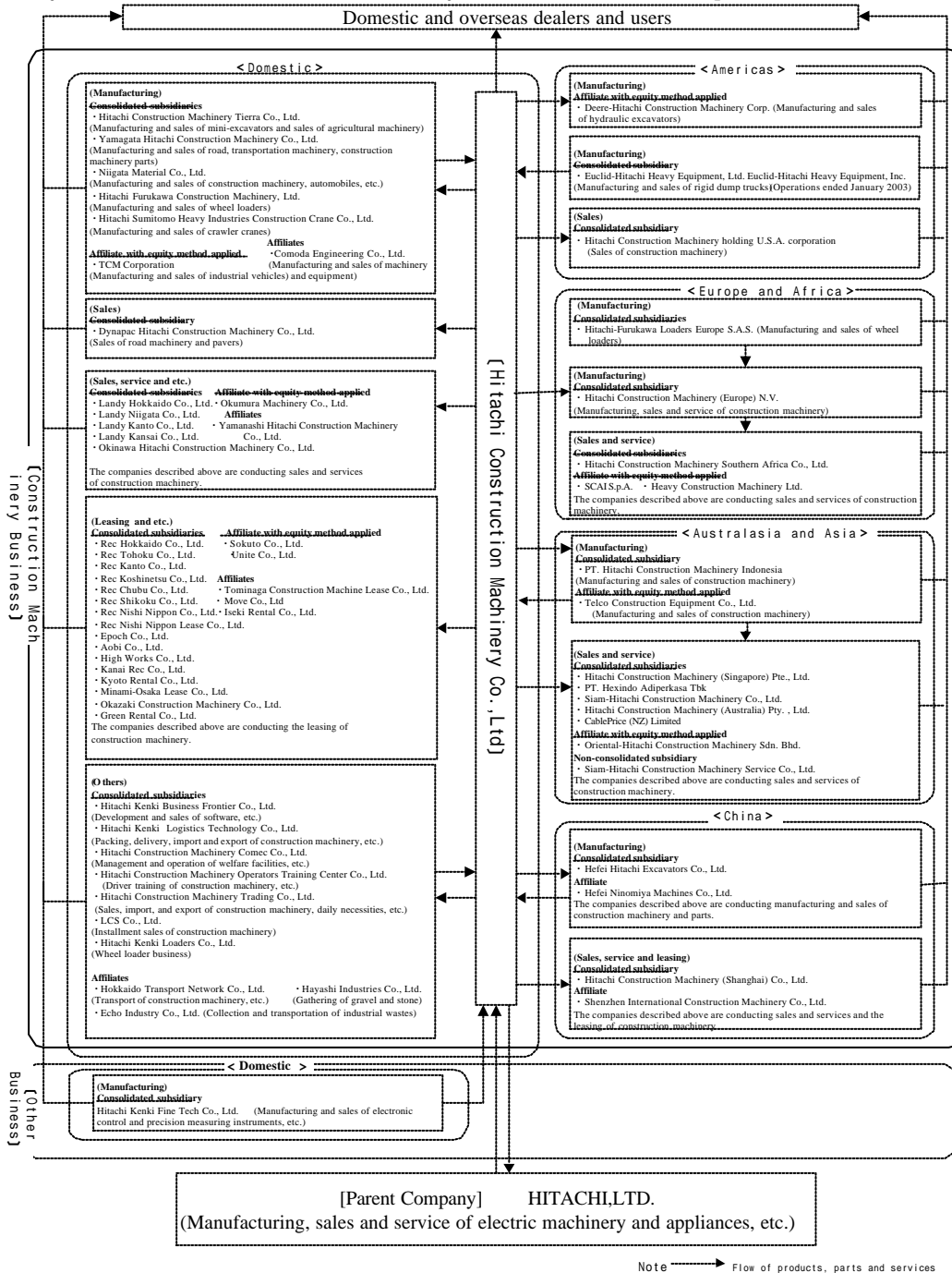
Note: The above projections are based on information available as of the time of the announcement. Actual results may differ due to various factors.

# Attachment

## 1. Status of the corporate Group

This consolidated Group consists of Hitachi Construction Machinery, its parent company, its 50 subsidiaries and its 19 affiliates. Its business mainly involves the manufacture, sale, service, and lending of construction machinery. It also manufactures and sells electronics controllers.

Here is a system chart of business conducted by this consolidated Group.



## **2. Management Principles**

### **(1) Basic Principles**

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

To establish a firm position in the construction machinery markets of the world, by strengthening alliances in Japan and overseas to provide a fuller lineup of products, as part of an ongoing development of global operations in the five regions of Japan; the Americas; Europe, Africa and the Middle East; Australasia and Asia; and China.

In all areas of operation, to diversify and develop as a group supplier of total solutions that encompass both hardware and software.

To ensure the ability to achieve these objectives, throughout the group there is a strong emphasis on developing global personnel and utilizing IT to implement “total management,” “superfast management” and “information management.”

### **(2) Basic principles on profit distribution**

The basic focus is on maintaining stable dividends while giving due consideration to the future business plans, financial conditions and profitability of the HCM group, and linking the distribution of profits to corporate performance. Internal reserves are used to develop technologies, rationalize production equipment and grow subsidiaries in Japan and overseas.

### **(3) Concept and principle relating to reduction of investment unit**

The HCM group understands that reducing the investment unit is an effective way of increasing the number of its shareholders and making its stock more fluid. The group is carefully studying the matter, giving particular regard to such factors as corporate performance, share price, the composition of shareholders, liquidity and the cost-effectiveness of implementation. However, nothing has yet been decided with respect to timing and other details of any such move.

### **(4) Management goals**

In line with the basic principles on the distribution of profits, HCM intends to continue to provide stable dividends on a long-term basis. Enterprise value will be grown by maintaining and increasing a positive FIV, and in order to ensure the requisite level of profits, the target is to achieve a consolidated return on equity (ROE) of at least 10%, and to keep the debt-to-equity (D/E) ratio to not more than 1.3.

### **(5) Interim/Long-term strategies**

To win out in the increasingly intense arena of global competition, in April HCM launched “SOH 21-Creative Value Up,” a medium-term management plan that targets the fiscal year ending March 31, 2007. The aim of the plan is to achieve the company’s goal of consolidating its position as a global manufacturer of construction machinery that always puts the customer first. HCM plans to establish the industry’s number one profit structure, embark on further globalization, and regain an “A” rating on its long-term bonds.

Specifically, there will be a four-fold emphasis, on expanding the role of international business as a pillar of profits, restructuring of domestic business operations, promoting global product strategies and becoming the world’s number one in terms of cost-competitiveness, and strengthening the company’s financial structure. For this, HCM intends to become predominant in terms of technology capabilities and product strength, cost-competitiveness, service and sales

capabilities, and brand strength.

(6) Issues to be tackled

Expanding international business

On a consolidated basis, the ratio of overseas sales has been increased from 49% in fiscal 2001 to 56% in fiscal 2002 and 62% in the first half of fiscal 2003. HCM is expanding overseas operations to push the ratio up to 70%.

In the Americas, the single-management, two-brand marketing system established with Deere & Company has increased the competitiveness of both companies' brand products in North and Latin America. HCM has also focused on strengthening its mining business, which includes large hydraulic excavators and dump trucks.

In Europe, where the company started building its own sales network in July of 2002, the scale and pace of growth of the new network exceeded initial expectations. Now the emphasis is on providing dealerships with a stable supply of products and services, and further strengthening the sales network. In addition, HCM is filling out its lineup by introducing a wider range of models as production ramps up. In the Middle East, where growth is projected for infrastructure-related demand, the company is developing a regional strategy centering on the its Middle East Center, which opened this September. Sales are also being increased to Russia, which is endeavoring to develop its rich, natural resources.

In Australasia and Asia, HCM is concentrating on the mining market as it seeks to strengthen the marketing of large dump trucks sold as sets with ultra-large hydraulic excavators. In this way, the company is developing new customer sectors, growing sales and expanding its market share. Sales are also rising in Southeast Asia, where demand is firmly on the road to recovery.

In China, production and sales are both going well. HCM is providing local sales companies and dealers with support to strengthen liability management and after-sales services to cope with the intensifying level of sales competition and the rapid rise in unit sales. Looking to the future, HCM is planning to start local production of large hydraulic excavators and mini-excavators, for which fresh demand is expected. Following the decision of the World Trade Organization making it easier to obtain import licenses, the company is moving to strike the right balance between locally-manufactured products and imports (of both new and used products), as it becomes necessary to have a flexible production system able to nimbly respond to market changes.

Restructuring of domestic business operations

HCM continues to improve customer satisfaction levels and the efficiency of consolidated management through its "RSS system" encompassing rental, sales and service operations.

With respect to sales, in order to increase sales by market creation that matches demand, the company is moving from a region-based sales system to one that is segment-specific.

In rental operations, the focus is on an early move into the black. This will be done by the setting-up and strengthening of direct sales systems, using rental systems to efficiently utilize assets, and using Rental-Value Engineering for Customers (R-VEC) to reduce costs.

With respect to environmental systems and other new businesses, HCM is concentrating on developing distinctive products and systems that reflect the needs of customers, growing sales, and improving profitability. With respect to services, to provide customers with new value, more emphasis is being placed on IT-driven e-business and e-services.

Promoting global product strategies and becoming world's number one in cost-competitiveness

In order to develop global products that match the needs of customers throughout the world, HCM is promoting regional marketing, strengthening its in-house development system and

making optimum use of alliances. Global production and procurement are being optimized and strengthened to optimize fixed costs on a consolidated and global basis, and the efficiency of supply chains is being increased to reduce lead times and improve cash flows.

To reduce costs, all divisions are continuing to implement and strengthen their Value Engineering for Customers (VEC).

#### Strengthening the financial structure

Reducing interest-bearing is an important challenge for HCM, which is working to regain an “A” rating on its long-term bonds. The company is using its “cash-flow project II” to reduce the amount of consolidated accounts receivable and the level of inventories on hand, and is reducing its fixed assets by closing or consolidating bases. For these moves, operational reforms are being forcefully implemented in accordance with a reappraisal of the supply chain management of HCM and the companies of the HCM group. In the current fiscal year, with a view to improving consolidated cash flows, a cash management system (CMS) has been introduced to centralize the management of group funds. While these measures are currently being implemented just in Japan, they will be implemented on a global basis in the future.

#### (7) Corporate governance

Following approval of changes to the HCM’s Articles of Incorporation at the Annual General Meeting of Shareholders held in June 2003, the company adopted a committee system. This was carried out in accordance with recent revisions to Japan’s Commercial Code. The new system provides for an executive officer system, the establishment of a nominating committee, an audit committee and a compensation committee, and the use of outside directors. HCM is using the new system to implement management strategies more speedily, achieve more reliable management, promote global management, and respond to the new management of the Hitachi group.

#### (8) Basic policies covering relations with the parent company

As a member of the Hitachi group, which shares a common management vision and brand, the HCM group maintains a cooperative relationship with Hitachi, Ltd. and the companies of the Hitachi group, thereby contributing to maximizing the enterprise value of the Hitachi group and increasing the strength of the Hitachi brand. HCM has two outside directors from Hitachi, Ltd.

HCM is utilizing the funds pooling system of the Hitachi group to borrow ¥4,839 million.

### 3. Business Results and Financial Condition

#### (1) Overview of the interim period

During the first half of the fiscal year, in Japan, the business environment continued to be a severe one, marked by cutbacks in public works investment. However, progress made in adjusting inventories of hydraulic excavators was a sign that demand is starting to improve. Overseas, demand showed steady growth in China, and in North America, too, demand grew, reflecting the firm level of investment in housing construction.

Export sales and sales of overseas subsidiaries grew at a pace that exceeded projections, helped by factors such as the group's new European strategy getting solidly on track.

As a result, overseas sales by the HCM group exceeded domestic sales, accounting for 64% of total sales, representing a year-on-year increase of 7%.

Consolidated net sales for the half-year period rose 26% year on year, to ¥194,779 million. Consolidated ordinary income increased 225%, to ¥9,746 million, and consolidated net income amounted to ¥4,872 million, an increase of 165%.

On a non-consolidated basis, HCM recorded sales of ¥118,189 million, a year-on-year increase of 27%. Ordinary income rose 138%, to ¥6,827 million, and net income decreased 40%, to ¥1,523 million.

#### (2) Consolidated sales, by region

The following is an outline of the sales by each of the HCM group's five global regions.

In Japan, sales amounted to ¥73,731 million, a year-on-year increase of 12%, as demand for hydraulic excavators was again higher on a year-on-year basis and the HCM group steadily increased its market share.

In the Americas, sales rose 35% year on year, to ¥25,449 million. Here, one factor was the upswing in the economy, which boosted investment in housing construction and pushed up replacement demand for construction machinery. Another factor was the progress in inventory adjustments, which translated into higher sales, and sales based on the single-management system established by HCM and Deere & Company, which exceeded projections.

In Europe, Africa and the Middle East, sales amounted to ¥30,651 million, an increase of 68%. This was attributable to the independent sales network, being developed under Hitachi Construction Machinery (Europe) N.V., making progress at a faster pace than expected, and to steady demand in Russia and South Africa.

In Australasia and Asia, sales rose 9%, to ¥30,501 million. The increase was attributable to steady demand for hydraulic excavators in Australasia and throughout Southeast Asia. In Australasia demand focused on large hydraulic excavators for mining operations.

In China, demand continued to grow. Looking to the future, in order to ensure the stable growth of its China business operation, HCM is strengthening Hitachi Construction Machinery (Shanghai) Co., Ltd. and leading local dealerships to increase system capabilities in the areas of financing, parts supply and service. Sales in China amounted to ¥34,483 million, an increase of 49%.



### (3) Overview, by industry segment

#### Construction machinery

Consolidated sales of construction machinery rose 27% year on year, to ¥194,272 million. To meet customers' diverse needs in the area of construction machinery, the HCM group is promoting alliances to fill out its product lineup and, in the development of its global operations, is placing emphasis on a segment-specific sales approach.

In the construction machinery related product business, in Japan there was an undertone pointing towards a recovery in demand for hydraulic excavators, the segment's mainstay product, and demand also rose in overseas markets. In Europe, the company released new hydraulic excavators in both crawler and wheel configurations. As a result, sales made major gains. In Russia, the company won a major order from a large dealership requiring hydraulic excavators to rent out for infrastructure projects, and obtained other large orders for hydraulic excavators, wheel loaders and other equipment for pipeline construction work in Sakhalin. HCM is stepping up its sales efforts targeting the region, where there is going to be a strong increase in demand for construction machinery for use in projects relating to energy resources.

HCM was also able to increase sales of mini-excavators in North America, by utilizing sales channels developed for selling agricultural machinery.

New products released during the period included four models in the company's series of ultra-short swing radius mini-excavators, two low-wheel, low-floor step-in loaders, and a medium-sized crawler crane.

In the resources development related products business, HCM strengthened the synergy between its ultra-large hydraulic excavators and large dump trucks in the mining markets of the world to achieve higher sales, based on its reputation for product reliability underpinned by dominant technological capabilities. In Brazil, the company won an order for large hydraulic excavators for mining operations, securing a foothold to develop a new market.

In line with restructuring moves in North America to improve efficiency, the development and manufacture of Euclid-Hitachi Heavy Equipment, Ltd. dump trucks weighing more than 140 tons, used for mining applications, has been concentrated in Japan.

New products released during the period included a large hydraulic excavator powered by a new engine that meets the Class 2 emission standards of the Ministry of Land, Infrastructure and Transport and the U.S. Environmental Protection Agency.

In the environment related products business, with the implementation in February, 2003, of the Soil Contamination Countermeasures Law, HCM concentrated on soil improvers and recycling related products. The HCM group views environmental systems as a total solutions business, and engages in a broad range of sales activities that includes systems engineering consulting services. The group also supplies a diverse range of products for soil, wood, stone and mixed wastes.

New products included a crawler crusher and a crawler wood recycler.

In the product development business, there was a rise in sales of application products developed to meet a diverse range of market needs.

New products included two models of back-hoe dozers that combine hydraulic excavator and bulldozer functions; the “MiniMoku,” a wooden-house demolisher developed jointly with Sekisui House, Ltd.; and the Shake! container system that comes equipped with its own automatic unloader.

In rental operations, there was a focus on responding to structural changes in the domestic market and on ensuring profitability. With those goals in mind, the REC group of direct rental companies built an information network, the R-NET1, to help make efficient use of rental assets and to share sales and other information.

The used machinery business was impacted by the spread of SARS in Asia, which made it necessary to postpone auctions. In their stead, Hitachi Construction Machinery Trading Co., Ltd. resorted to Internet auctions.

On the service side, HCM utilized the e-functions of the ZAXIS series of hydraulic excavators to provide a preventive maintenance service that ensures customers' equipment is always in optimum working condition, and also developed and released the e-Guard II to protect equipment against theft.

In the area of software relating to the construction machinery business, the necessary expertise is provided by Hitachi Kenki Business Frontier Co., Ltd., which handles the development, sales and maintenance of software, Hitachi Kenki Logistics Technology Co., Ltd. which handles the packing, shipping and export/import aspects of the business, and LCS Co., Ltd. which handles the financing side, including installment payment sales and the like.

#### Other products business

Consolidated sales by this division came to ¥507 million, 20% less than for the corresponding period of the preceding fiscal year.

Hitachi Kenki FineTech Co., Ltd. develops, manufactures and sells ultrasonic inspection systems, atomic force microscopes, laser machine tools and controllers for construction machinery applications.

During the period, the company released an automatic laminated wafer inspection system equipped with a conveyor, and an ultrasonic imaging system equipped with a wide scanner.

#### (4) Disposition of profits

In fiscal 2002, with signs of a recovery in the HCM's results apparent, HCM paid an annual dividend of seven yen per share (consisting of an interim dividend of three yen and a year-end dividend of four yen per share). With respect to fiscal 2003, at a meeting of the Board of Directors held on October 28, 2003, it was decided to pay an interim dividend of four yen a share. The company plans to pay a year-end dividend of six yen a share, which includes a special dividend of one yen.

#### (5) Status of consolidated cash flows

Cash flows during the interim period were as follows. At the end of the interim period, on a consolidated basis, cash and cash equivalents stood at ¥50,154 million, ¥1,860 million more than at the end of the previous interim period. Factors relating to each cash flow were as follows.

#### Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥8,061 million, a decrease of ¥1,268 million compared to the ¥9,329 million at the end of the previous interim period. This was due primarily to the fact that although at ¥9,715 million, income before income taxes and minority interests showed an improvement of ¥6,495 million over the ¥3,220 million posted at the end of the previous interim period, overseas manufacturing and sales companies increased inventories by ¥4,933 million to cope with burgeoning demand, a major increase compared to the decrease of ¥5,167 million in the previous interim period.

#### Net cash used for investing activities

The decrease in net cash used for investing activities was ¥4,172 million. This was due primarily to the fact that, although the company held down to ¥2,315 million its expenditure to acquire manufacturing, sales and service related property, plant and equipment, an amount lower than the ¥3,846 million of the previous interim period, funds were decreased by the amount of ¥3,869 million used to acquire investment securities, which included investment in TCM Co., Ltd.

As a result, free cash amounted to ¥3,889 million.

### Net cash provided by financing activities

Net cash provided by financing activities increased ¥1,858 million. This was due primarily to the fact that, while there was an expenditure of ¥20,300 million for redemption of bonds during the interim period, ¥18,605 million was raised in long-term loans, including ¥10,000 million raised as a domestic, syndicated long-term loan, and ¥9,998 million was raised using yen-denominated, privately-subscribed bonds issued through the Euro market.

### (6) Outlook for the current term

In Japan, although there are some signs of an improvement in the business climate, such as an increase in private-sector investment in plant and equipment and a rise in exports, cutbacks in public works investment and the sluggish state of housing starts are expected to continue to create a severe market climate. Overseas, there are some concerns over the increasing intensity of competition in China, which continues to grow at a rapid pace, and the instability of the political situation in the Middle East and elsewhere. Thus, the outlook remains unclear. The appreciation of the yen and concerns about the revaluation of the renminbi are also expected to require a careful response.

For its part, in line with its medium-term management plan, overseas the HCM group intends to develop its sales network in Europe, strengthen its operations in China. In Japan, the company will use its integrated rental, sales and service operation to secure its market position and focus on increasing revenues and profits.

### Projected consolidated results ( ): year-on-year change

|                 |                         |
|-----------------|-------------------------|
| Net sales       | ¥390,000 million (+19%) |
| Ordinary income | ¥19,000 million (+92%)  |
| Net income      | ¥9,500 million (+145%)  |

### Projected non-consolidated results ( ): year-on-year change

|                 |                         |
|-----------------|-------------------------|
| Net sales       | ¥242,000 million (+20%) |
| Ordinary income | ¥16,000 million (+22%)  |
| Net income      | ¥6,000 million (+69%)   |

These projections assume an exchange rate of ¥110 to the U.S. dollar and ¥125 to the Euro.

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

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

|   | Interim<br>As of<br>Sept. 30,<br>2003 (A) | Interim<br>As of<br>Sept. 30,<br>2002 (B) | Year-end<br>As of<br>Mar. 31,<br>2003 | (A)-(B)       |   | Interim<br>As of<br>Sept. 30,<br>2003 (A) | Interim<br>As of<br>Sept. 30,<br>2002 (B) | Year-end<br>As of<br>Mar. 31,<br>2003 | (A)-(B)        |
|---|---|---|---------------------------------------|---------------|---|---|---|---------------------------------------|----------------|
| <b>ASSETS</b>                             |   |   |                                       |               | <b>LIABILITIES</b>  |   |   |                                       |                |
| Current assets                            |   |   |                                       |               | Current liabilities   |   |   |                                       |                |
| 1. Cash and bank deposits                 | 50,718                                    | 47,649                                    | 46,177                                | 3,069         | 1. Notes and accounts payable   | 74,752                                    | 64,111                                    | 74,704                                | 10,641         |
| 2. Notes and account receivable           | 109,843                                   | 107,502                                   | 110,981                               | 2,341         | 2. Short-term debt  | 43,704                                    | 63,902                                    | 40,631                                | (20,198)       |
| 3. Inventories                            | 83,928                                    | 65,771                                    | 78,376                                | 18,157        | 3. Current portion of bonds   | 15,600                                    | 22,000                                    | 25,600                                | (6,400)        |
| 4. Others                                 | 22,795                                    | 13,308                                    | 15,005                                | 9,487         | 4. Others   | 39,695                                    | 33,071                                    | 36,092                                | 6,624          |
| 5. Less: Allowance for doubtful accounts  | (13,725)                                  | (11,474)                                  | (11,777)                              | (2,251)       | <b>Total current liabilities</b>                                      | <b>173,751</b>                            | <b>183,084</b>                            | <b>177,027</b>                        | <b>(9,333)</b> |
| <b>Total current assets</b>               | <b>253,559</b>                            | <b>222,756</b>                            | <b>238,762</b>                        | <b>30,803</b> | Long-term liabilities   |   |   |                                       |                |
| Fixed assets                              |   |   |                                       |               | 1. Bonds  | 35,100                                    | 38,000                                    | 42,157                                | (2,900)        |
| (1) Property, plant and equipment         |   |   |                                       |               | 2. Long-term debt   | 61,197                                    | 40,366                                    | 44,615                                | 20,831         |
| 1. Property held for lease                | 21,653                                    | 14,244                                    | 18,770                                | 7,409         | 3. Retirement and severance benefits                                  | 12,476                                    | 10,153                                    | 12,233                                | 2,323          |
| 2. Buildings and structures               | 26,383                                    | 23,694                                    | 27,091                                | 2,689         | 4. Others   | 17,537                                    | 12,314                                    | 16,280                                | 5,223          |
| 3. Machinery and equipment                | 13,639                                    | 15,339                                    | 14,639                                | (1,700)       | <b>Total long-term liabilities</b>                                    | <b>126,310</b>                            | <b>100,833</b>                            | <b>115,285</b>                        | <b>25,477</b>  |
| 4. Land                                   | 31,805                                    | 30,751                                    | 31,774                                | 1,054         | <b>Total liabilities</b>  | <b>300,061</b>                            | <b>283,917</b>                            | <b>292,312</b>                        | <b>16,144</b>  |
| 5. Others                                 | 4,951                                     | 7,789                                     | 4,586                                 | (2,838)       | <b>MINORITY INTERESTS</b>   |   |   |                                       |                |
| Net property, plant and equipment         | 98,431                                    | 91,817                                    | 96,860                                | 6,614         | Minority interests  | 8,115                                     | 6,395                                     | 7,122                                 | 1,720          |
| (2) Intangible assets                     | 3,178                                     | 3,122                                     | 3,377                                 | 56            | <b>SHAREHOLDERS' EQUITY</b>   |   |   |                                       |                |
| (3) Investments and other assets          |   |   |                                       |               | Common stock  | 29,740                                    | 22,199                                    | 26,321                                | 7,541          |
| 1. Investments in securities              | 21,679                                    | 19,471                                    | 16,645                                | 2,208         | Capital surplus   | 29,268                                    | 21,727                                    | 25,848                                | 7,541          |
| 2. Others                                 | 17,964                                    | 17,888                                    | 18,969                                | 76            | Retained earnings   | 27,333                                    | 21,627                                    | 23,239                                | 5,706          |
| 3. Less: Allowance for doubtful accounts  | (809)                                     | (808)                                     | (858)                                 | (1)           | Net unrealized holding gain (loss) on securities                      | 851                                       | 254                                       | (276)                                 | 597            |
| <b>Total investments and other assets</b> | <b>38,834</b>                             | <b>36,551</b>                             | <b>34,756</b>                         | <b>2,283</b>  | Foreign currency translation adjustments                              | (657)                                     | (1,859)                                   | (764)                                 | 1,202          |
| <b>Total fixed assets</b>                 | <b>140,443</b>                            | <b>131,490</b>                            | <b>134,993</b>                        | <b>8,953</b>  | Treasury stock  | (709)                                     | (14)                                      | (47)                                  | (695)          |
|   |   |   |                                       |               | <b>Total shareholders' equity</b>                                     | <b>85,826</b>                             | <b>63,934</b>                             | <b>74,321</b>                         | <b>21,892</b>  |
| <b>Total assets</b>                       | <b>394,002</b>                            | <b>354,246</b>                            | <b>373,755</b>                        | <b>39,756</b> | <b>Total liabilities, minority interests and shareholders' equity</b> | <b>394,002</b>                            | <b>354,246</b>                            | <b>373,755</b>                        | <b>39,756</b>  |

## (2) Consolidated Statements of Income

|   | (Millions of yen)                                  |  |   |                 |
|---|--|--|---|-----------------|
|   | Interim<br>〔The half year ended〕<br>Sept. 30, 2003 | Interim<br>〔The half year ended〕<br>Sept. 30, 2002 | Year-end<br>〔Year ended〕<br>Mar. 31, 2003 | (A)/(B)×100 (%) |
|   |  |  |   | %               |
| Net sales   | 194,779  | 154,163  | 328,496                                   | 126             |
| Cost of sales   | 143,546  | 113,941  | 243,642                                   | 126             |
| Gross profit before (realized)<br>unrealized profit on installment sales  | 51,233   | 40,222   | 84,854                                    | 127             |
| (Realized) unrealized profit on<br>installment sales  | (412)  | 67   | (348)                                     | (615)           |
| Gross profit  | 51,645   | 40,155   | 85,202                                    | 129             |
| Selling, general and administrative<br>expenses   |  |  |   |                 |
| 1. Packing and shipping expenses  | 4,392  | 3,255  | 7,487                                     | 135             |
| 2. Employees' salaries  | 12,417   | 10,830   | 21,442                                    | 115             |
| 3. R&D expenditure  | 3,370  | 3,339  | 6,265                                     | 101             |
| 4. Provision of reserve for bad debt  | 1,285  | 2,559  | 4,054                                     | 50              |
| 5. Others   | 17,741   | 13,620   | 29,555                                    | 130             |
| Total selling, general and<br>administrative expenses   | 39,205   | 33,603   | 68,803                                    | 117             |
| Operating income  | 12,440   | 6,552  | 16,399                                    | 190             |
| Non-operating income  |  |  |   |                 |
| 1. Interest income  | 341  | 401  | 834                                       | 85              |
| 2. Interest income from installment<br>sales  | 279  | 475  | 996                                       | 59              |
| 3. Dividends income   | 50   | 53   | 66  | 94              |
| 4. Others   | 1,475  | 1,341  | 1,913                                     | 110             |
| Total non-operating income  | 2,145  | 2,270  | 3,809                                     | 94              |
| Non-operating expenses  |  |  |   |                 |
| 1. Interest expenses  | 1,675  | 1,933  | 3,721                                     | 87              |
| 2. Loss on disposal of inventories  | 91   | 480  | 1,210                                     | 19              |
| 3. Exchange loss  | 1,043  | -  | 222                                       | -               |
| 4. Equity in losses of affiliated<br>companies  | 477  | 650  | 1,035                                     | 73              |
| 5. Others   | 1,553  | 2,758  | 4,140                                     | 56              |
| Total non-operating expenses  | 4,839  | 5,821  | 10,328                                    | 83              |
| Ordinary income   | 9,746  | 3,001  | 9,880                                     | 325             |
| Extraordinary income  |  |  |   |                 |
| 1. Gain on sale of property, plant and<br>equipment   | 829  | 4,309  | 5,717                                     | 19              |
| 2. Gain on the transfer to Japanese Government of<br>the substitutional portion of employee pension<br>fund liabilities | 949  | 0  | 0   | -               |
| 3. Gain on sale of investments in<br>securities   | 0  | 206  | 206                                       | 0               |
| Total extraordinary income  | 1,778  | 4,515  | 5,923                                     | 39              |
| Extraordinary losses  |  |  |   |                 |
| 1. Amortization of transition difference  | 611  | 673  | 1,346                                     | 91              |
| 2. Loss on sale of fixed assets   | 46   | 0  | 0   | -               |
| 3. Restructuring costs  | 1,152  | 2,547  | 6,455                                     | 45              |
| 4. Loss on revaluation of investments in<br>securities  | 0  | 0  | 319                                       | -               |
| 5. Loss on disposal of inventories  | 0  | 1,076  | 1,197                                     | -               |
| Total extraordinary losses  | 1,809  | 4,296  | 9,317                                     | 42              |
| Income before income taxes and<br>minority interests  | 9,715  | 3,220  | 6,486                                     | 302             |
| Income taxes  |  |  |   |                 |
| current   | 5,981  | 1,192  | 3,015                                     | 502             |
| refund  | -  | -  | 651                                       | -               |
| deferred  | (2,335)  | (865)  | (2,077)                                   | 270             |
| Minority interests  | 1,197  | 1,055  | 2,316                                     | 113             |
| Net income  | 4,872  | 1,838  | 3,883                                     | 265             |

### (3) Consolidated Statements of Retained Earnings

(Millions of yen)

|  | Interim<br>〔The half year ended<br>Sept. 30, 2003 (A)〕 | Interim<br>〔The half year ended<br>Sept. 30, 2003 (B)〕 | Year-end<br>Year ended<br>Mar. 31, 2003 | (A)-(B) |
|--|--|--|---|---------|
| <b>ADDITIONAL PAID-IN CAPITAL</b>            |  |  |   |         |
| Beginning balance                            | 25,848   | 21,727   | 21,727                                  | 4,121   |
| Increase in additional paid-in capital       |  |  |   |         |
| 1. Exercise of stock purchase warrant        | 3,420  | 0  | 4,121                                   | 3,420   |
| 2. Gain on sales of treasury stock           | -  | 0  | 0                                       | -       |
| Total increase in additional paid-in capital | 3,420  | 0  | 4,121                                   | 3,420   |
| Decrease in additional paid-in capital       | 0  | 0  | 0                                       | 0       |
| Ending balance                               | 29,268   | 21,727   | 25,848                                  | 7,541   |
| <b>RETAINED EARNINGS</b>                     |  |  |   |         |
| Beginning balance                            | 23,239   | 19,897   | 19,897                                  | 3,342   |
| Increase in retained earnings                |  |  |   |         |
| Net income                                   | 4,872  | 1,838  | 3,883                                   | 3,034   |
| Total increase in retained earnings          | 4,872  | 1,838  | 3,883                                   | 3,034   |
| Decrease in retained earnings                |  |  |   |         |
| 1. Effect of newly affiliated company        | 9  | 0  | 0                                       | 9       |
| 2. Cash dividends                            | 643  | 0  | 431                                     | 643     |
| 3. Directors' bonuses                        | 126  | 108  | 110                                     | 18      |
| Total decrease in retained earnings          | 778  | 108  | 541                                     | 670     |
| Ending balance                               | 27,333   | 21,627   | 23,239                                  | 5,706   |

## (4) Consolidated Statements of Cash Flows

|   | (Millions of yen)                                    |  |   |
|---|--|--|---|
|   | Interim<br>[ The half year ended<br>Sept. 30, 2003 ] | Interim<br>[ The half year ended<br>Sept. 30, 2002 ] | Year-end<br>Year ended<br>Mar. 31, 2003 ] |
| Cash flows from operating activities  |  |  |   |
| 1. Income before income taxes and minority interests                                  | 9,715  | 3,220  | 6,486                                     |
| 2. Depreciation and amortization  | 6,441  | 5,217  | 10,605                                    |
| 3. Increase in allowance for doubtful   | 1,832  | 3,290  | 3,650                                     |
| 4. Interest and dividends income  | (391)  | (454)  | (900)                                     |
| 5. Interest expenses  | 1,675  | 1,933  | 3,721                                     |
| 6. Equity in losses of affiliate companies  | 438  | 650  | 1,035                                     |
| 7. Decrease in notes and accounts receivable  | 1,440  | 5,067  | 3,934                                     |
| 8. (Increase) decrease in inventories   | (4,933)  | 5,167  | (6,130)                                   |
| 9. Purchase of property held for lease  | (3,955)  | (3,898)  | (6,272)                                   |
| 10. Sales of property held for lease  | 1,342  | 1,003  | 1,904                                     |
| 11. Increase (decrease) in notes and accounts payable                                 | (438)  | (4,769)  | 4,597                                     |
| 12. Gain on sales of property, plant and equipment                                    | (1,104)  | (4,309)  | (5,717)                                   |
| 13. Loss on revaluation of investment in securities                                   | 0  | 0  | 319                                       |
| 14. Gain on sales of investment in securities   | 0  | (206)  | (206)                                     |
| 15. Others  | (1,786)  | (1,370)  | 1,585                                     |
| Sub total   | 10,276   | 10,541   | 18,611                                    |
| 16. Income taxes paid   | (2,215)  | (1,212)  | (1,227)                                   |
| Net cash provided by operating activities   | 8,061  | 9,329  | 17,384                                    |
| Cash flows from investing activities  |  |  |   |
| 1. Net increase in time deposits  | (7)  | (37)   | (3,467)                                   |
| 2. Proceeds from time deposits  | 1,392  | 955  | 2,768                                     |
| 3. Acquisitions of property, plant and equipment                                      | (2,315)  | (3,846)  | (6,607)                                   |
| 4. Proceeds from sale of property, plant and equipment                                | 1,124  | 2,579  | 4,026                                     |
| 5. Purchases of investment in securities  | (3,869)  | (316)  | (3,107)                                   |
| 6. The difference the cash balance of newly consolidated companies and the investment | 0  | 717  | 717                                       |
| 7. Proceed from sale of investments in securities                                     | 0  | 4,949  | 5,682                                     |
| 8. Interest and dividends received  | 390  | 454  | 900                                       |
| 9. Interest and dividends received from affiliated companies                          | 8  | 14   | 14  |
| 10. Other, net  | (895)  | 287  | 740                                       |
| Net cash provided by (used in) investing activities                                   | (4,172)  | 5,756  | 1,666                                     |
| Cash flows from financing activities  |  |  |   |
| 1. Net increase (decrease) in short-term debt and current portion of long-term debt   | 999  | 4,752  | (18,135)                                  |
| 2. Proceeds from long-term debt   | 18,605   | 10,254   | 16,645                                    |
| 3. Repayments of long-term debt   | (3,506)  | (2,507)  | (7,432)                                   |
| 4. Proceeds from issuance of bonds  | 9,998  | 9,973  | 12,937                                    |
| 5. Repayments of redemption of debenture  | (20,300)   | (20,000)   | (22,000)                                  |
| 6. Proceeds from issuance of bonds with warrants                                      | 0  | 0  | 14,747                                    |
| 7. Interest paid  | (1,931)  | (2,070)  | (3,682)                                   |
| 8. Dividends paid to shareholders   | (643)  | 0  | (431)                                     |
| 9. Dividends paid to minority shareholders of subsidiaries                            | (784)  | (222)  | (909)                                     |
| 10. Proceeds from issuance of stock   | 82   | 0  | 0   |
| 11. Issuance of common stock to minority shareholders by subsidiaries                 | 0  | 850  | 850                                       |
| 12. Purchases of treasury stock   | (662)  | (7)  | (40)                                      |
| Net cash provided by (used in) financing activities                                   | 1,858  | 1,023  | (7,450)                                   |
| Effect of exchange rate changes on cash and cash equivalents                          | 173  | (917)  | (468)                                     |
| Net increase (decrease) in cash and cash equivalents                                  | 5,920  | 15,191   | 11,132                                    |
| Cash and cash equivalents at beginning of year  | 44,234   | 33,102   | 33,102                                    |
| Cash and cash equivalents at end of year  | 50,154   | 48,293   | 44,234                                    |



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

### **1. Scope of consolidation**

Number of consolidated subsidiaries: 49

(1) Main consolidated subsidiaries

- 1) Hitachi Construction Machinery Tierra Co., Ltd.
- 2) Yamagata Hitachi Construction Machinery Co., Ltd.
- 3) Euclid-Hitachi Heavy Equipment Ltd.
- 4) Hitachi Construction Machinery Europe N.V.
- 5) (PT) Hitachi Construction Machinery Indonesia
- 6) Hitachi Construction Machinery (Singapore) Pte., Ltd.
- 7) Hefei Hitachi Excavators Co., Ltd.

(2) Newly consolidated subsidiaries

- 1) Hitachi Construction Machinery Holdings U.S.A. Corporation

### **2. Application of the equity method**

Number of affiliates subject to the equity method: 9

(1) Main affiliates subject to the equity method

- 1) Deere-Hitachi Construction Machinery Corp.
- 2) Telco Construction Equipment Co., Ltd.
- 3) TCM Corporation

(2) Newly affiliated company

- 1) TCM Corporation

### **3. Date of settlement of interim accounts for consolidated subsidiaries**

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

- 1) Euclid-Hitachi Heavy Equipment, Ltd.
- 2) Euclid-Hitachi Heavy Equipment, Inc.
- 3) Hitachi-Furukawa Loaders Europe S.A.S.
- 4) Hitachi Construction Machinery Southern Africa Co., Ltd.
- 5) Siam-Hitachi Construction Machinery Co., Ltd.
- 6) PT. Hitachi Construction Machinery Indonesia
- 7) PT. Hexindo Adiperkasa Tbk.
- 8) Hefei Hitachi Excavators Co., Ltd.
- 9) Hitachi Construction Machinery (Shanghai) Co., Ltd.
- 10) Hitachi Construction Holdings U.S.A. Corporation

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

#### **4. Items concerning accounting standards**

(1) Securities

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

Those without market value: Determined mainly by the cost method based on the moving average method

(2) Derivatives trading

Determined by the market-price valuation method

(3) Inventories

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

(4) Depreciation of major depreciable assets

1. Tangible fixed assets

Assets for leases: The straight-line method is mainly applied.

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

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

(5) Accounting for deferred assets

1. Bond issue expenses

Entire amount is expensed as incurred

2. New stock issue expenses

Entire amount is expensed as incurred

(6) Allowance for doubtful accounts

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

(7) Reserve for retirement and severance benefits

In preparations for employees' retirement benefits, the Company and a portion of its domestic consolidated subsidiaries have posted the amounts which are projected to occur at the end of the interim period under review based on the projected amount of retirement benefit obligations and pension assets at the end of this fiscal year. For the difference (¥6,728 million) when the accounting standards were changed, the five-year prorated amount is recognized as an expense.

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

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

(8) Income on installment sales

The Company and some subsidiaries have installment sales. Income on long-term installment is recognized as the related installment receivables become due. Interest from installment sales is included in Interest and dividend income.

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

Foreign currency-denominated financial claims and liabilities are converted into yen according to the spot exchange rates of the closing date for interim accounting, and the conversion balance is recognized as a profit or loss. The assets and liabilities of subsidiaries abroad and other entities are converted into yen according to the spot exchange rates of the closing date for interim accounting. Income and expenses are converted into yen according to mid-term average rates. The conversion difference is included in the adjustment account of exchange conversion in the Shareholders' Equity.

(10) Accounting for leases

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

(11) Method of major hedge accounting

1) Method of hedge accounting

By deferred hedge accounting

2) Means and object of hedging

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

3) Hedging policy

Derivatives trading in currency-related operations is designed mainly to hedge sales contracts denominated in U.S. dollars, so that it is supposed to be conducted in the range of accounts receivable denominated in foreign currency and amounts of contracts established. As for interest-related derivatives trading, the Company considers its first priority to procure corporate bonds, long-term loans and similar instruments by long-stabilized interest, so that the Company aims to solidify interest rates on levels that match the actual market rates at the time of procurement.

4) Method of evaluating the effectiveness of hedging

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

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

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

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

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

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

### **Additional Information**

In conjunction with the enforcement of the Defined Benefit Enterprise Pension Plan Law, the Company and a portion of its domestic subsidiaries received approval from the Minister of Health, Labour and Welfare for exemption from payment of future benefits regarding the substituted portion of the employee pension fund.

The Company and the its subsidiaries applied transitional accounting measures outlined in paragraph 47-2 of the “Practical Guidelines of Accounting for Retirement Benefits (Interim Report) (Report of the Accounting Committee of the Japanese Institute of Certified Public Accountants No. 13),” and recognized an extinguishment of retirement benefit obligations and pension assets with regards to such substituted portion as of the date of approval.

Consequently, the Company and these subsidiaries recorded ¥949 million of extraordinary income as an impact on income for the interim period under review. Moreover, as of the end of the current interim period, the total projected reimbursement value (minimal actuarial liability) is ¥23,562 million.

### **Accompanying Notes**

(Notes to Interim Consolidated Balance Sheets)  
(Millions of yen)

|  | (Current interim period) | (Previous interim period) | (Previous fiscal year) |
|--|--------------------------|---------------------------|------------------------|
| 1. Notes discounted and endorsed                             |                          |                           |                        |
| Notes receivable discounted                                  | 58                       | 27                        | 9                      |
| Notes accountable endorsed                                   | 62                       | 172                       | 55                     |
| 2. Secutarization  |                          |                           |                        |
| Notes and accounts receivable                                | 38,687                   | 46,365                    | 46,181                 |
| 3. Accumulated depreciation on property, plant and equipment | 124,203                  | 119,257                   | 121,329                |
| 4. Guarantee obligations                                     |                          |                           |                        |
| Loans guaranteed   | 3,466                    | 3,137                     | 3,867                  |
| Commitments to provide guarantees for loans                  | 638                      | 3,115                     | 3,655                  |
| 5. Assets pledged as collateral                              | 7,349                    | 5,327                     | 6,710                  |
| Secured debt   | 7,358                    | 5,138                     | 7,403                  |

(Notes to Interim Consolidated Statements of Cash Flows)  
(Millions of yen)

|   | (Current interim period) | (Previous interim period) | (Previous fiscal year) |
|---|--------------------------|---------------------------|------------------------|
| Cash and bank deposits  | 50,718                   | 47,649                    | 46,177                 |
| Short-term investments with maturity dates within three months from date of acquisition | 0                        | 1,000                     | 0                      |
| Subtotal  | 50,718                   | 48,649                    | 46,177                 |
| Time deposits with the maturity of more than three months                               | (564)                    | (356)                     | (1,943)                |
| Cash and cash equivalents   | 50,154                   | 48,293                    | 44,234                 |

## 5. Securities

### (1) Other securities with market value

(millions of yen)

| Category        | Current interim term<br>(As of September 30, 2003) |   |                 | Previous interim term<br>(As of September 30, 2002) |   |                 | Previous term<br>(As of March 31, 2003) |   |                 |
|-----------------|--|---|-----------------|---|---|-----------------|---|---|-----------------|
|                 | Market value                                       | Book value per consolidated balance sheet | Unrealized gain | Market value  | Book value per consolidated balance sheet | Unrealized gain | Market value                            | Book value per consolidated balance sheet | Unrealized gain |
| Stocks          | 1,940  | 2,752                                     | 812             | 4,469   | 4,903                                     | 434             | 4,218                                   | 3,751                                     | (467)           |
| Bonds           |  |   |                 |   |   |                 |   |   |                 |
| Corporate bonds | 0  | 0   | 0               | 9   | 10  | 1               | 0                                       | 0   | 0               |
| Total           | 1,940  | 2,752                                     | 812             | 4,478   | 4,913                                     | 435             | 4,218                                   | 3,751                                     | (467)           |

### (2) Main securities not valued at market prices

(millions of yen)

| Category                              | Current interim term<br>(As of September 30, 2003) | Previous interim term<br>(As of September 30, 2002) | Previous term<br>(As of March 31, 2003)   |
|---------------------------------------|--|---|---|
|                                       | Book value per consolidated balance sheet          | Book value per consolidated balance sheet           | Book value per consolidated balance sheet |
| Other securities                      |  |   |   |
| Unlisted stocks other than OTC stocks | 2,040  | 2,011   | 2,026                                     |
| Unlisted foreign bonds                | 1,000  | 1,500   | 1,000                                     |
| Total                                 | 3,040  | 3,511   | 3,026                                     |

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

### (1) Currencies

(millions of yen)

| Category                                    | Type                            | Current interim term<br>(As of September 30, 2003) |                          |                 |                    | Previous interim term<br>(As of September 30, 2002) |                          |                 |                    | Previous term<br>(As of March 31, 2003) |                          |                 |                    |
|---|---------------------------------|--|--------------------------|-----------------|--------------------|---|--------------------------|-----------------|--------------------|---|--------------------------|-----------------|--------------------|
|   |                                 | Contractual or<br>other amount                     |                          | Market<br>value | Unrealized<br>gain | Contractual or<br>other amount                      |                          | Market<br>value | Unrealized<br>gain | Contractual or<br>other amount          |                          | Market<br>value | Unrealized<br>gain |
|   |                                 |  | Due<br>after<br>one year |                 |                    |   | Due<br>after<br>one year |                 |                    |   | Due<br>after<br>one year |                 |                    |
| Transactions other than market transactions | Forward exchange contracts      |  |                          |                 |                    |   |                          |                 |                    |   |                          |                 |                    |
|   | Selling in                      |  |                          |                 |                    |   |                          |                 |                    |   |                          |                 |                    |
|   | US dollar                       | 30,166   | 0                        | 28,887          | 1,229              | 12,666  | 0                        | 12,706          | (40)               | 18,140                                  | 0                        | 18,329          | (189)              |
|   | Euro                            | 75   | 0                        | 0               | 0                  | 5,822   | 0                        | 6,040           | (218)              | 11,738                                  | 0                        | 12,293          | (555)              |
|   | British pound                   | 0  | 0                        | 0               | 0                  | 0   | 0                        | 0               | 0                  | 0                                       | 0                        | 0               | 0                  |
|   | Buying in                       |  |                          |                 |                    |   |                          |                 |                    |   |                          |                 |                    |
|   | Japanese yen                    | 7,653  | 0                        | 7,670           | 7                  | 0   | 0                        | 0               | 0                  | 4,747                                   | 0                        | 4,894           | 147                |
|   | US dollar                       | 1,293  | 0                        | 1,239           | (54)               | 190   | 0                        | 189             | (1)                | 1,111                                   | 0                        | 1,159           | 48                 |
|   | Euro                            | 156  | 0                        | 155             | (1)                | 4   | 0                        | 4               | 0                  | 156                                     | 0                        | 159             | 3                  |
|   | Australian dollar               | 38   | 0                        | 38              | 0                  | 35  | 0                        | 35              | 0                  | 33                                      | 0                        | 33              | 0                  |
|   | Currency option trade           |  |                          |                 |                    |   |                          |                 |                    |   |                          |                 |                    |
|   | Buying in                       |  |                          |                 |                    |   |                          |                 |                    |   |                          |                 |                    |
|   | Japanese yen<br>(Optional fee)  | 845<br>(-)   | 0<br>(-)                 | (79)            | (79)               | 0<br>(-)  | 0<br>(-)                 | 0<br>(-)        | 0<br>(-)           | 0<br>(-)                                | 0<br>(-)                 | 0<br>(-)        | 0<br>(-)           |
|   | US dollar<br>(Optional fee)     | 412<br>(-)   | 0<br>(-)                 | (10)            | (10)               | 1,143<br>(-)  | 0<br>(-)                 | (14)            | (14)               | 389<br>(-)                              | 0<br>(-)                 | (11)            | (11)               |
|   | Euro<br>(Optional fee)          | 0<br>(-)   | 0<br>(-)                 | 0               | 0                  | 40<br>(-)   | 0<br>(-)                 | 0               | 0                  | 0<br>(-)                                | 0<br>(-)                 | 0               | 0                  |
|   | British pound<br>(Optional fee) | 0<br>(-)   | 0<br>(-)                 | 0               | 0                  | 276<br>(-)  | 0<br>(-)                 | 0               | 0                  | 0<br>(-)                                | 0<br>(-)                 | 0               | 0                  |
| Total                                       | -                               | -  | -                        | 1,092           | -                  | -   | -                        | (273)           | -                  | -                                       | -                        | (557)           |                    |

Note 1: The exchange rates at the end of the term are the futures rates.

2: The above table excludes the derivative transactions subjected to hedge accounting.

(2) Interest rates

| Category                                    | Type                               | Current interim term<br>(As of September 30, 2002) |                    |              |                 | Previous interim term<br>(As of September 30, 2001) |                    |              |                 | Previous term<br>(As of March 31, 2002) |                    |              |                 |
|---|------------------------------------|--|--------------------|--------------|-----------------|---|--------------------|--------------|-----------------|---|--------------------|--------------|-----------------|
|   |                                    | Contractual or other amount                        |                    | Market value | Unrealized gain | Contractual or other amount                         |                    | Market value | Unrealized gain | Contractual or other amount             |                    | Market value | Unrealized gain |
|   |                                    |  | Due after one year |              |                 |   | Due after one year |              |                 |   | Due after one year |              |                 |
| Transactions other than market transactions | Interest swaps                     |  |                    |              |                 |   |                    |              |                 |   |                    |              |                 |
|   | Payment fixed, receipts fluctuated | 5,300  | 5,300              | (11)         | (11)            | 2,000   | 2,000              | (41)         | (41)            | 5,300                                   | 5,300              | (87)         | (87)            |
|   | Total                              | 5,300  | 5,300              | (11)         | (11)            | 2,000   | 2,000              | (41)         | (41)            | 5,300                                   | 5,300              | (87)         | (87)            |

Note 1: The market prices are based on prices presented by financial establishments with which the HCM has interest swaps.

2: The above table excludes the derivative transactions subjected to hedge accounting.



## 7. Segment Information

### (1) Segment information by business category

During the preceding fiscal year (from April 1, 2002 through March 31, 2003), the preceding interim period (from April 1, 2002 through September 30, 2002) and the current interim period (from April 1, 2003 through September 30, 2003). The construction machinery business including manufacturing, sales and rental exceeds 90% of the total business of the Company in respect of sales, operating income and asset size. The segment information by business category is therefore omitted in this report.

### (2) Segment information by area

(Millions of yen)

|             | Current interim period<br>(From April 1, 2003<br>to September 30, 2003) |                     |          | Previous interim period<br>(From April 1, 2002<br>to September 30, 2002) |                     |          | Previous fiscal year<br>(From April 1, 2002<br>to March 31, 2003) |                     |          |
|-------------|---|---------------------|----------|--|---------------------|----------|---|---------------------|----------|
|             | Sales   | Operating<br>income | Assets   | Sales  | Operating<br>income | Assets   | Sales   | Operating<br>income | Assets   |
| Japan       | 151,738   | 6,598               | 333,005  | 113,545  | (32)                | 296,711  | 263,404   | 9,779               | 326,113  |
| Asia        | 37,798  | 5,964               | 54,810   | 31,063   | 5,489               | 50,743   | 57,128  | 8,854               | 50,050   |
| Europe      | 31,835  | 1,854               | 58,757   | 9,845  | (164)               | 21,623   | 22,576  | (1,305)             | 33,716   |
| Others      | 20,198  | 1,014               | 24,712   | 22,834   | 796                 | 32,252   | 47,547  | (497)               | 33,372   |
| Subtotal    | 241,569   | 15,430              | 471,284  | 177,287  | 6,089               | 401,329  | 390,655   | 16,831              | 443,251  |
| Elimination | (46,790)  | (2,990)             | (77,282) | (23,124)   | 463                 | (47,083) | (62,159)  | (432)               | (69,496) |
| Total       | 194,779   | 12,440              | 394,002  | 154,163  | 6,552               | 354,246  | 328,496   | 16,399              | 373,755  |

Notes:

1. Segment net sales figures include intersegment transactions.
2. The countries included in each segment are as follows:
  - (1) Asia: China, Indonesia, Singapore and Thailand
  - (2) Europe: Holland and France
  - (3) Other: New Zealand, Australia, South Africa, the United States and Canada
3. Given the increasing importance of Europe as a business segment, it has been listed as an individual segment as of the interim period under review. Consequently, the figures for the previous interim period and the previous fiscal year are displayed retroactively.

### (3) Overseas sales

(Millions of yen)

|                                       | Current interim period<br>(From April 1, 2003<br>to September 30, 2003) |  | Previous interim period<br>(From April 1, 2002<br>to September 30, 2002) |  | Previous fiscal year<br>(From April 1, 2002<br>to March 31, 2003) |  |
|---------------------------------------|---|--|--|--|---|--|
|                                       | Sales   | Percentage of<br>sales in<br>consolidated<br>sales | Sales  | Percentage of<br>sales in<br>consolidated<br>sales | Sales   | Percentage of<br>sales in<br>consolidated<br>sales |
| North America                         | 25,449  | 13.1%  | 18,913   | 12.3%  | 45,980  | 14.0%  |
| Europe,<br>Africa &<br>Middle<br>East | 30,615  | 15.7%  | 18,241   | 11.8%  | 37,724  | 11.5%  |
| Australia<br>& Asia                   | 30,501  | 15.7   | 28,026   | 18.2   | 57,254  | 17.4   |
| China                                 | 34,483  | 17.7   | 23,088   | 15.0   | 43,736  | 13.3   |
| Total<br>Overseas<br>sales            | 121,048   | 62.2   | 88,268   | 57.3   | 184,694   | 56.2   |
| Consoli-d<br>ated sales               | 194,779   | 100.0  | 154,163  | 100.0  | 328,496   | 100.0  |

Notes:

1. Due to a change in composition of overseas net sales, especially given the increased contribution of China and Europe, the segment categories were revised from the interim period under review to correspond with the existing management structure of the Group. Consequently, the figures for the previous interim period and the previous fiscal year are displayed retroactively.
2. Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.

**Interim Financial Statement (Non-consolidated) for Fiscal Year Ending March 2004** October 28, 2003

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

Stock exchange: Tokyo, Osaka

Code number: 6305

URL <http://www.hitachi-kenki.co.jp>

Location of head office: Tokyo

Representative: Shungo Dazai, President and Chief Executive Officer

Date of convening of the Board of Directors for financial settlement: October 28, 2003

Date of payment of interim dividend: December 5, 2003

One share unit is 1,000 shares

1. Non-consolidated results for the half-year ended September 2003 (April 1 to September 30, 2003)

(1) Non-consolidated results

(Rounded down to the nearest million)

|                             | Net sales       |       | Operating income |       | Ordinary income |       |
|-----------------------------|-----------------|-------|------------------|-------|-----------------|-------|
|                             | Millions of yen | %     | Millions of yen  | %     | Millions of yen | %     |
| September 2003<br>(interim) | 118,189         | 27.2  | 8,333            | 133.7 | 6,827           | 138.0 |
| September 2002<br>(interim) | 92,906          | -11.4 | 3,565            | 441.7 | 2,868           | -     |
| March 2003                  | 202,174         | 1.6   | 12,826           | 756.5 | 13,103          | -     |

(Rounded down to the nearest million, except net income per share)

|                             | Net income      |       | Net income per share |
|-----------------------------|-----------------|-------|----------------------|
|                             | Millions of yen | %     | Yen                  |
| September 2003<br>(interim) | 1,523           | -39.8 | 9.2                  |
| September 2002<br>(interim) | 2,528           | -     | 17.59                |
| March 2003                  | 3,544           | -     | 23.71                |

Notes:

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

September 2003 (interim): 168,809,230 September 2002 (interim): 143,723,335 March 2003: 145,282,840

2) Changes in the method of accounting: None

3) Percentages indicated for sales, operating income and net income are increases/(decreases) compared to the interim period of the preceding fiscal year.

(2) Dividends

|                             | Interim dividend per share | Annual dividend per share |
|-----------------------------|----------------------------|---------------------------|
| September 2003<br>(interim) | Yen 4.00                   | Yen                       |
| September 2002<br>(interim) | 3.00                       |                           |
| March 2003                  |                            | 7.00                      |

Note: Composition of interim dividend of September 2003:

Commemorative dividend: ¥ -

Special dividend: ¥ -

(3) Financial position

(Rounded down to the nearest million, except equity ratio and shareholders' equity per share)

|                             | Total assets    | Shareholders' equity | Equity ratio | Shareholders' equity per share |
|-----------------------------|-----------------|----------------------|--------------|--------------------------------|
|                             | Millions of yen | Millions of yen      | %            | Yen                            |
| September 2003<br>(interim) | 265,657         | 95,916               | 36.1         | 548.78                         |
| September 2002<br>(interim) | 242,795         | 79,670               | 32.8         | 554.37                         |
| March 2003                  | 259,845         | 88,485               | 34.1         | 549.10                         |

Notes:

1) Number of outstanding shares at the end of the term

September 2003 (interim): 174,781,397 September 2002 (interim): 143,713,352 March 2003: 160,963,004

2) Treasury shares at the end of term:

September 2003 (interim): 637,641      September 2002 (interim): 35,165      March 2003: 102,716

2. Projected non-consolidated results for the fiscal year ending March 31, 2004

(Rounded down to the nearest million, except per share amounts)

|            | Net sales       | Ordinary income | Net income      | Annual dividend per share |       |
|------------|-----------------|-----------------|-----------------|---------------------------|-------|
|            |                 |                 |                 | End of term               |       |
|            | Millions of yen | Millions of yen | Millions of yen | Yen                       | Yen   |
| March 2004 | 242,000         | 16,000          | 6,000           | 6.00                      | 10.00 |

Supplementary information: Projected net income per share for the fiscal year: ¥34.33

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

## 8. Non-consolidated Financial Statements

### (1) Balance Sheets

(Millions of yen)

|  | Interim<br>As of<br>Sept. 30,<br>2003 (A) | Interim<br>As of<br>Sept. 30,<br>2002 (B) | Year-end<br>As of<br>Mar. 31,<br>2003 | (A)-(B) |  | Interim<br>As of<br>Sept. 30,<br>2003 (A) | Interim<br>As of<br>Sept. 30,<br>2002 (B) | Year-end<br>As of<br>Mar. 31,<br>2003 | (A)-(B) |
|--|---|---|---------------------------------------|---------|--|---|---|---------------------------------------|---------|
| <b>ASSETS</b>                            |   |   |                                       |         | <b>LIABILITIES</b>                             |   |   |                                       |         |
| Current assets                           |   |   |                                       |         | Current liabilities                            |   |   |                                       |         |
| 1. Cash and bank deposit                 | 31,807                                    | 23,299                                    | 25,771                                | 8,507   | 1. Notes and Accounts payable                  | 2,720                                     | 3,033                                     | 2,997                                 | (312)   |
| 2. Notes and Accounts receivable         | 8,348                                     | 11,477                                    | 10,570                                | (3,128) | 2. Trade payable                               | 42,859                                    | 34,767                                    | 39,166                                | 8,091   |
| 3. Trade receivable                      | 56,957                                    | 42,769                                    | 52,632                                | 14,187  | 3. Short-term debt                             | 3,801                                     | 4,923                                     | 568                                   | (1,122) |
| 4. Inventories                           | 24,478                                    | 25,485                                    | 25,449                                | (1,006) | 4. Short-term debt from parent company         | 4,839                                     | 13,013                                    | 7,829                                 | (8,173) |
| 5. Short-term loans                      | 18,691                                    | 11,306                                    | 15,798                                | 7,385   | 5. Current portion of bonds                    | 15,600                                    | 22,000                                    | 25,600                                | (6,400) |
| 6. Deferred tax assets                   | 4,850                                     | 4,278                                     | 4,491                                 | 572     | 6. Income taxes payable                        | 2,825                                     | 65  | 130                                   | 2,760   |
| 7. Others                                | 6,445                                     | 2,431                                     | 8,210                                 | 4,013   | 7. Unrealized income on installment            | 386                                       | 453                                       | 406                                   | (67)    |
| 8. Less: Allowance for doubtful accounts | (5,575)                                   | (4,090)                                   | (3,902)                               | (1,485) | 8. Deferred income on installment              | 208                                       | 277                                       | 240                                   | (69)    |
| Total current assets                     | 146,005                                   | 116,958                                   | 139,020                               | 29,046  | 9. Others                                      | 14,166                                    | 13,316                                    | 11,416                                | 849     |
|  |   |   |                                       |         | Total current liabilities                      | 87,406                                    | 91,850                                    | 88,354                                | (4,443) |
|  |   |   |                                       |         | Long-term liabilities                          |   |   |                                       |         |
|  |   |   |                                       |         | 1. Bonds                                       | 35,100                                    | 38,000                                    | 42,157                                | (2,900) |
|  |   |   |                                       |         | 2. Long-term debt                              | 31,327                                    | 22,768                                    | 24,814                                | 8,559   |
|  |   |   |                                       |         | 3. Retirement and severance benefits           | 9,365                                     | 9,296                                     | 9,196                                 | 68      |
|  |   |   |                                       |         | 4. Retirement and benefits for directors       | 735                                       | 698                                       | 746                                   | 36      |
|  |   |   |                                       |         | 5. Reserve for the guarantee                   | 5,534                                     | 0   | 5,404                                 | 5,534   |
|  |   |   |                                       |         | 6. Deposit received for the guarantee          | -   | 6   | -                                     | (6)     |
|  |   |   |                                       |         | 7. Others                                      | 273                                       | 504                                       | 686                                   | (231)   |
|  |   |   |                                       |         | Total long-term liabilities                    | 82,335                                    | 71,274                                    | 83,005                                | 11,060  |
| Fixed assets                             |   |   |                                       |         | Total liabilities                              | 169,741                                   | 163,124                                   | 171,360                               | 6,616   |
| (1) Property, plant and equipment        |   |   |                                       |         |  |   |   |                                       |         |
| 1. Buildings                             | 10,968                                    | 11,922                                    | 11,464                                | (954)   | <b>SHAREHOLDERS' EQUITY</b>                    |   |   |                                       |         |
| 2. Machinery and equipment               | 7,804                                     | 8,937                                     | 8,112                                 | (1,132) | Common stock                                   | 29,740                                    | 22,199                                    | 26,320                                | 7,540   |
| 3. Land                                  | 28,378                                    | 28,609                                    | 28,502                                | (230)   | Capital surplus                                |   |   |                                       |         |
| 4. Others                                | 5,364                                     | 5,696                                     | 5,324                                 | (331)   | 1. Legal reserve                               | 29,267                                    | 21,726                                    | 25,848                                | 7,541   |
| Net property, plant and equipment        | 52,516                                    | 55,165                                    | 53,403                                | (2,648) | 2. Other legal reserve                         | -   | 0   | 0                                     | -       |
| (2) Intangible assets                    | 2,015                                     | 2,334                                     | 2,390                                 | (318)   | Total capital surplus                          | 29,267                                    | 21,726                                    | 25,848                                | 7,541   |
| (3) Investments and other assets         |   |   |                                       |         | Retained earnings                              |   |   |                                       |         |
| 1. Investments in subsidiaries and       | 38,263                                    | 41,190                                    | 38,542                                | (2,927) | 1. Legal reserve                               | 2,161                                     | 2,161                                     | 2,161                                 | 0       |
| 2. Deferred tax assets                   | 12,342                                    | 12,331                                    | 12,213                                | 11      | 2. Other reserve                               | 31,610                                    | 29,763                                    | 29,763                                | 1,846   |
| 3. Others                                | 14,960                                    | 15,274                                    | 14,777                                | (314)   | 3. Unappropriated retained earnings            | 3,404                                     | 3,886                                     | 4,471                                 | (482)   |
| 4. Less: Allowance for doubtful accounts | (447)                                     | (460)                                     | (504)                                 | 13      | Total retained earnings                        | 37,175                                    | 35,811                                    | 36,396                                | 1,364   |
| Total investments and other assets       | 65,119                                    | 68,336                                    | 65,029                                | (3,216) | Unrealized holding gain and loss on securities | 441                                       | (52)                                      | (32)                                  | 494     |
| Total fixed assets                       | 119,652                                   | 125,836                                   | 120,824                               | (6,184) | Treasury stock                                 | (708)                                     | (13)                                      | (47)                                  | (695)   |
| Total assets                             | 265,657                                   | 242,795                                   | 259,845                               | 22,862  | Total shareholders' equity                     | 95,916                                    | 79,670                                    | 88,485                                | 16,245  |
|  |   |   |                                       |         | Total liabilities and shareholders' equity     | 265,657                                   | 242,795                                   | 259,845                               | 22,862  |

## (2) Statements of Income

(Millions of yen)

|   | Interim<br>〔The half year ended〕<br>Sept. 30, 2003 (A) | Interim<br>〔The half year ended〕<br>Sept. 30, 2002 (B) | Year-end<br>〔Year ended〕<br>Mar. 31, 2003 | (A)/(B)<br>×100(%) |
|---|--|--|---|--------------------|
| Net sales   | 118,189  | 92,906   | 202,174                                   | 127                |
| Cost of sales   | 87,955   | 69,893   | 150,408                                   | 126                |
| Gross profit before (realized) unrealized profit on installment sales   | 30,234   | 23,012   | 51,766                                    | 131                |
| (Realized) unrealized profit on installment sales   | (19)   | (89)   | (137)                                     | 22                 |
| Gross profit  | 30,254   | 23,102   | 51,904                                    | 131                |
| Selling, general and administrative expenses  | 21,920   | 19,537   | 39,077                                    | 112                |
| Operating income  | 8,333  | 3,565  | 12,826                                    | 234                |
| Non-operating income  | 1,089  | 2,141  | 5,320                                     | 51                 |
| Non-operating expenses  | 2,595  | 2,837  | 5,042                                     | 91                 |
| Ordinary income   | 6,827  | 2,868  | 13,103                                    | 238                |
| Extraordinary income  |  |  |   |                    |
| 1. Gain on sale of property, plant and equipment  | 828  | 4,309  | 5,717                                     | 19                 |
| 2. Gain on the transfer to Japanese Government of the substitutional portion of employee pension fund liabilities | 954  | 0  | 0   | -                  |
| 3. Dividend from liquidated related companies   | 0  | 0  | 2,404                                     | -                  |
| Total extraordinary income  | 1,783  | 4,309  | 8,121                                     | 41                 |
| Extraordinary losses  |  |  |   |                    |
| 1. Amortization of transition difference  | 453  | 512  | 1,024                                     | 88                 |
| 2. Loss on evaluation of investment for subsidiaries  | 4,052  | 3,546  | 10,621                                    | 114                |
| 3. Loss on evaluation of investments in securities  | 0  | 0  | 319                                       | -                  |
| 4. Restructuring costs  | 0  | 75   | 75  | -                  |
| 5. Loss on disposal of inventories  | 0  | 1,076  | 1,197                                     | -                  |
| 6. Provision for reserve for guarantee  | 129  | 0  | 5,404                                     | -                  |
| 7. Loss on sale of fixed assets   | 45   | 0  | 0   | -                  |
| Total extraordinary losses  | 4,680  | 5,209  | 18,642                                    | 90                 |
| Income before income taxes and minority interests   | 3,930  | 1,968  | 2,583                                     | 200                |
| Income taxes  |  |  |   |                    |
| current   | 3,218  | 65   | 130                                       | -                  |
| refund  | —  | 94   | 450                                       | -                  |
| deferred  | △811   | △530   | △641                                      | 153                |
| Net income  | 1,523  | 2,528  | 3,544                                     | 60                 |
| Retained earnings brought forward from previous period  | 1,880  | 1,358  | 1,358                                     | 138                |
| Interim dividends   | -  | -  | 431                                       | -                  |
| Unappropriated retained earnings, end of fiscal period  | 3,404  | 3,886  | 4,471                                     | 88                 |

## **Important matters that form the basis for compiling interim financial statements**

### 1. Valuation standards and methods for inventories

#### Products

Manufactured products as a rule are determined by the lower-of-cost-or-market method based on the moving average method.

Second-hand products are based on the lower-of-cost-or-market method based on the individual method.

#### Half-finished products, raw materials, and stored products

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

#### Products in progress

Determined by the lower-of-cost-or-market-valuation accounting method based on the individual method

### 2. Valuation standards and methods for securities

#### Securities of subsidiaries and affiliates

Determined by the cost method based on the moving average method

#### Other securities

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

Those without market value: Determined by the cost method based on the moving average method.

### 3. Derivatives trading

Determined by the market-price valuation method

### 4. Depreciation of major depreciable assets

#### Tangible fixed assets

Determined by the declining balance method. However, all buildings (except for equipment annexed to the buildings) obtained on and after April 1, 1998 apply the straight-line balance method

#### Intangible fixed assets

Determined by the straight-line method; However, software for internal use apply the straight-line method for the period when it is available in the Company (five years)

#### Long-term prepaid expenses

Amortized using the straight-line method

### 5. Accounting for deferred assets

#### (1) Bond issue expenses

Entire amount is expensed as incurred

#### (2) New stock issue expenses

Entire amount is expensed as incurred

## 6. Accounting standards for reserves

### (1) Allowance for doubtful accounts

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

### (2) Reserve for retirement and severance benefits

In preparations for employees' retirement benefits, the Company has posted the amounts which are projected to occur at the end of the interim period under review based on the projected amount of retirement benefit obligations and pension assets at the end of this fiscal year. For the difference (¥5,121 million) when the accounting standards were changed, the five-year prorated amount is recognized as an expense.

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

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

### (3) Directors' retirement benefits

The Company records an allowance for directors' benefits at the end of the period in accordance with internal rules.

### (4) Allowance for loss on guarantee obligations

In providing allowance for loss on guarantee obligations, the Company makes an allowance as necessary after factoring for financial conditions of the guaranteed party to determine likely losses for the period.

## 7. Income on installment sales

The Company has installment sales. Income on long-term installment is recognized as the related installment receivables become due. Accordingly, the unrealized profit on installment sales applicable to the portion to be collected in future periods is reflected in the accompanying consolidated balance sheets as "unrealized income on installment" and "deferred income on installment."

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

## 8. Standards for converting major foreign currency-denominated assets or liabilities

Foreign currency-denominated financial claims and liabilities are converted into yen according to the spot exchange rates of the closing date for interim accounting, and the conversion balance is recognized as a profit or loss.

## 9. Accounting for leases

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

## 10. Method of major hedge accounting

### 1) Method of hedge accounting

By deferred hedge accounting

### 2) Means and object of hedging

Forward exchange contracts and currency options are conducted to alleviate foreign exchange risks in overseas transactions. Interest-rate swaps are conducted according to



their procurement periods to solidify the fluctuation risks of cash flows by corporate bonds, long-term loans and other instruments.

3) Hedging policy

Derivatives trading in currency-related operations is designed mainly to hedge sales contracts denominated in U.S. dollars, so that it is supposed to be conducted in the range of accounts receivable denominated in foreign currency and amounts of contracts established. As for interest-related derivatives trading, the Company considers its first priority to procure corporate bonds, long-term loans and similar instruments by long-stabilized interest, so that the Company aims to solidify interest rates on levels that match the actual market rates at the time of procurement.

4) Method of evaluating the effectiveness of hedging

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

11. Other important items as the basis for preparing interim consolidated balance sheets

- 1) Consumption taxes and regional consumption taxes are treated outside the financial statements.
- 2) Corporate tax, inhabitant tax, business tax and deferred income tax are calculated on the precondition that the reserve for special depreciation is accumulated and applied for the appropriation of retained earnings scheduled for the current period.

### **Additional Information**

In conjunction with the enforcement of the Defined Benefit Enterprise Pension Plan Law, the Company and approval from the Minister of Health, Labour and Welfare for exemption from payment of future benefits regarding the substituted portion of the employee pension fund.

The Company applied transitional accounting measures outlined in paragraph 47-2 of the “Practical Guidelines of Accounting for Retirement Benefits (Interim Report),” and recognized an extinguishment of retirement benefit obligations and pension assets with regards to such substituted portion as of the date of approval.

Consequently, the Company recorded ¥954 million of extraordinary income as an impact on income for the interim period under review. Moreover, as of the end of the current interim period, the total projected reimbursement value (minimal actuarial liability) is ¥22,232 million.

### **Accompanying Notes**

(Notes to Interim Consolidated Balance Sheets)

(Millions of yen)

|  | (Current interim period) | (Previous interim period) | (Previous fiscal year) |
|--|--------------------------|---------------------------|------------------------|
| 1. Secularization  |                          |                           |                        |
| Notes  | 11,839                   | 12,531                    | 13,477                 |
| Accounts receivable  | 16,175                   | 19,113                    | 16,229                 |
| 2. Accumulated depreciation on property, plant and equipment | 87,709                   | 87,549                    | 88,316                 |
| 3. Guarantee obligations                                     |                          |                           |                        |
| Loans guaranteed   | 18,337                   | 20,425                    | 16,581                 |
| Commitments to provide guarantees for loans                  | 4,866                    | 10,930                    | 10,980                 |
| Comfort letter for sound management                          | 200                      | 4,200                     | 1,100                  |

(Notes to Interim Consolidated Statements of Income)

(Millions of yen)

|                                    | (Current interim period) | (Previous interim period) | (Previous fiscal year) |
|------------------------------------|--------------------------|---------------------------|------------------------|
| Key items in Non-operating income  |                          |                           |                        |
| Interest income                    | 144                      | 174                       | 321                    |
| Dividend income                    | 198                      | 704                       | 3,509                  |
| Key item in Non-operating expenses |                          |                           |                        |
| Interest expenses                  | 276                      | 256                       | 528                    |
| Interest on corporate bonds        | 624                      | 738                       | 1,368                  |

## **9. Marketable Securities**

During the preceding interim period (from April 1, 2002 through September 30, 2002), the preceding fiscal year (from April 1, 2002 through March 31, 2003) and the current interim period (from April 1, 2003 through September 30, 2003), there were no investments in subsidiaries or affiliates with market value.

### **Details of Issued Shares in the Current Interim Period**

#### New Shares

|            |   |                   |
|------------|---|-------------------|
| Addition 1 | 3 <sup>rd</sup> conversion of unsecured convertible bonds allocated for stock options | 14,195,318 shares |
|            | Issue price   | ¥476              |
|            | Capital stock conversion price  | ¥238              |
| Addition 2 | Exercise of stock option rights   | 81,000 shares     |
|            | Issue price   | ¥580              |
|            | Capital stock conversion price  | ¥290              |
| Addition 3 | Exercise of stock option rights   | 77,000 shares     |
|            | Issue price   | ¥454              |
|            | Capital stock conversion price  | ¥227              |