

# **Hitachi Construction Machinery**

**Financial Results for the  
First Quarter Ended June 30, 2005**

# Consolidated Financial Results for The First Quarter Ended June 30, 2005

July 27, 2005

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

## 1. Note to consolidated financial statements for the three months ended June 30, 2005

Adoption of simplified accounting methods :

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

Accounting policy changes from the year ended March 31, 2005: None

Change in scope of consolidation and equity method:

Newly consolidated: 26 companies Removed from consolidation: None

Newly subjected to the equity method: 8 companies Removed from the equity method: 1 company

## 2. Consolidated results for the first quarter ended June 30, 2005 (April 1 to June 30, 2005)

### (1) Consolidated results

(Rounded off to the nearest million)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2005	123,362	10.8	11,504	36.5	8,976	33.0	2,944	(18.2)
June 30, 2004	111,309	18.8	8,428	37.7	6,751	60.9	3,597	237.4
March 31, 2005	448,043	-	40,120	-	33,609	-	17,325	-

	Net income per share	Diluted net income per share
	Yen	Yen
June 30, 2005	15.11	15.05
June 30, 2004	20.00	19.95
March 31, 2005	91.05	90.88

Notes:

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

June 2005: 194,901,946 June 2004: 179,886,820 March 2005: 190,278,052

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

### (2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2005	509,383	132,683	26.0	680.74
June 30, 2004	431,076	118,148	27.4	606.24
March 31, 2005	463,812	131,318	28.3	673.81

Note:

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

June 2005: 194,909,787 June 2004: 194,885,045 March 2005: 194,887,811

### (3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash used in investing activities	Net cash provided by (used in) financial activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2005	184	(1,434)	(8,351)	45,277
June 30, 2004	(16,840)	(2,746)	31,681	52,894
March 31, 2005	7,899	(17,133)	17,594	49,534

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

### 3. Overview of the First Quarter Ended June 30, 2005

Despite a harsh operating environment in Japan, consolidated net sales in Japan were ¥32.6 billion as a result of inventory adjustments and increased demand for hydraulic excavators for use in post-disaster repairs.

In the Americas, brisk housing investment and highway repair and other construction kept demand strong for construction machinery to produce net sales of ¥27,403 million. In Europe, Africa and the Middle East, net sales were ¥28,925 million on the back of demand exceeding forecasts and activities undertaken to broaden independent sales networks. In Oceania and Asia, brisk demand for mining and construction machinery resulted in net sales of ¥22,661 million. In China, demand for hydraulic excavators bottomed out at the beginning of last autumn. Outside the high-demand area of eastern China, demand is strong for construction machinery for use in such public works as infrastructure development. However, demand for hydraulic excavators decreased 55% between January and March owing to waning investment-oriented construction in eastern China, to produce net sales of ¥11,773 million.

Consequently, consolidated net sales for the first quarter increased 11% to ¥123,362 million; operating income jumped 36% to ¥11,504 million; ordinary income increased 33% to ¥8,976 million; and net income declined 18% to ¥2,944 million owing to tax effect accounting.

As of the first quarter, TCM Corporation has been changed from an equity-method affiliate to a consolidated subsidiary and is included in the scope of consolidation in the same manner as TCM's consolidated subsidiaries and equity-method affiliates. TCM's inclusion raised total assets by ¥57.6 billion. Additionally, earnings of TCM Corporation continue to be recorded on the consolidated income statement as equity in earnings (losses) of affiliates.

#### Consolidated sales by region

(Millions of yen)

	First Quarter ended June 30, 2005 (A)	First Quarter ended June 30, 2004 (B)	Change	
			Amount change (A)-(B)	% change
The Americas	27,403	22,613	4,790	21.2
Europe, Africa and the Middle East	28,925	19,917	9,008	45.2
Oceania and Asia	22,661	16,673	5,988	35.9
China	11,773	20,357	(8,584)	(42.2)
Sub-total	90,762	79,560	11,202	14.1
Japan	32,600	31,749	851	2.7
Total	123,362	111,309	12,053	10.8

4. Projected consolidated results for the fiscal year ending March 31, 2006

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
September 2005 (Interim)	252,000	16,300	7,200
March 2006	530,000	36,300	18,700

Supplementary information: Projected net income per share for the fiscal year: ¥95.95

There have been no revisions to the above projections as announced on April 27, 2005.

Note: The above projections are based on information available as of the time of this announcement, and fully reflect the impact of TCM Corporation's conversion to a wholly owned subsidiary. Actual results may differ due to various factors.

Demand is expected to be brisk in Japan, the Americas, Europe, Africa and the Middle East, as well as Oceania and Asia, and fuel sales growth in mining products. Infrastructure development is projected to remain strong in areas outside eastern China and indications of a partial rebound in demand in eastern China can already be seen. Accordingly, demand in China is forecast to rise 30% between April and December. For the current fiscal year, a favorable performance is forecast for net sales, ordinary income and net income.

# Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2005 (A)	Year-end As of March 31, 2005 (B)	(A)-(B)	As of June 30, 2004		As of June 30, 2005, (A)	Year-end As of March 31, 2005, (B)	(A)-(B)	As of June 30, 2004
<b>ASSETS</b>					<b>LIABILITIES</b>				
Current assets					Current liabilities				
1. Cash and bank deposits	45,326	32,522	12,804	43,791	1. Notes and accounts payable	105,539	90,692	14,847	81,108
2. Notes and accounts receivable	136,850	130,520	6,330	138,462	2. Short-term loan	67,914	57,989	9,925	66,942
3. Inventories	135,209	114,545	20,664	93,827	3. Current portion of bonds	12,615	10,615	2,000	10,600
4. Others	31,718	44,497	(12,779)	29,435	4. Others	54,904	55,859	(955)	41,058
5. Less: Allowance for doubtful accounts	(10,311)	(10,291)	(20)	(14,809)	Total current liabilities	240,972	215,155	25,817	199,708
Total current assets	338,792	311,793	26,999	290,706	Long-term liabilities				
Fixed assets					1. Bond	26,320	24,320	2,000	34,800
(1) Property, plant and equipment					2. Long-term loan	62,234	61,862	372	49,084
1. Property held for lease	22,616	20,060	2,556	18,763	3. Retirement and severance benefits	12,652	7,181	5,471	9,124
2. Buildings and structures	32,377	27,840	4,537	25,560	4. Others	15,592	14,751	841	12,218
3. Machinery and equipment	19,266	17,202	2,064	14,820	Total long-term liabilities	116,798	108,114	8,684	105,226
4. Land	44,909	32,858	12,051	29,019	Total liabilities	357,770	323,269	34,501	304,934
5. Others	7,426	5,614	1,812	6,152	MINORITY INTERESTS				
Net property, plant and equipment	126,594	103,574	23,020	94,314	Minority interests	18,930	9,225	9,705	7,994
(2) Intangible assets									
1. Consolidated adjustment account	419	652	(233)	175	SHAREHOLDERS' EQUITY				
2. Others	4,296	2,732	1,564	2,655	Common stock	42,585	42,583	2	42,520
Total intangible assets	4,715	3,384	1,331	2,830	Capital surplus	42,102	42,092	10	42,027
(3) Investments and other assets					Retained earnings	50,679	49,929	750	36,614
1. Investments in securities	19,664	27,403	(7,739)	23,272	Net unrealized gain on securities held	1,529	1,703	(174)	1,408
2. Others	20,852	18,624	2,228	20,663	Foreign currency translation adjustments	(3,055)	(3,828)	773	(3,639)
3. Less: Allowance for doubtful accounts	(1,234)	(966)	(268)	(709)	Treasury stock	(1,157)	(1,161)	4	(782)
Total investments and other assets	39,282	45,061	(5,779)	43,226	Total shareholders' equity	132,683	131,318	1,365	118,148
Total fixed assets	170,591	152,019	18,572	140,370	Total liabilities, minority interests and shareholders' equity	509,383	463,812	45,571	431,076
Total assets	509,383	463,812	45,571	431,076					

(Rounded off to the nearest million)

## Consolidated Statements of Income

(Millions of yen)

	〔 A quarter ended June 30, 2005 (A) 〕	〔 A quarter ended June 30, 2004 (B) 〕	(A)/(B)×100(%)	〔 Year ended March 31, 2005 〕
			%	
Net sales	123,362	111,309	111	448,043
Cost of sales	87,771	81,671	107	316,918
Gross profit before (realized) unrealized profit on installment sales	35,591	29,638	120	131,125
(Realized) unrealized profit on installment sales	289	(239)	-	(1,050)
Gross profit	35,302	29,877	118	132,175
Selling, general and administrative expenses	23,798	21,449	111	92,055
Operating income	11,504	8,428	136	40,120
Non-operating income				
1. Interest income	131	235	56	942
2. Interest income from installment sales	200	150	133	566
3. Dividends income	55	50	110	187
4. Exchange gain	0	129	-	312
5. Others	678	462	147	1,653
Total non-operating income	1,064	1,026	104	3,660
Non-operating expenses				
1. Interest expenses	868	974	89	3,666
2. Loss on disposal of inventories	137	220	62	544
3. Exchange loss	982	0	-	0
4. Stock issuing expenses	0	758	-	765
5. Equity in losses of affiliated companies	285	196	145	855
6. Others	1,320	555	238	4,341
Total non-operating expenses	3,592	2,703	133	10,171
Ordinary income	8,976	6,751	133	33,609
Extraordinary income				
1. Gain on sales of property, plant and equipment	0	0	-	1,425
Total extraordinary income	0	0	-	1,425
Extraordinary losses				
1. Amortization of transition difference	0	153	-	542
2. Loss on revision of retirement benefit system	0	0	-	1,542
3. Restructuring costs	0	0	-	800
4. Loss on disposal of inventories	0	0	-	147
5. Loss on sales of property, plant and equipment	0	0	-	141
Total extraordinary losses	0	153	-	3,172
Income before income taxes and minority interests	8,976	6,598	136	31,862
Income taxes	5,300	2,511	211	12,906
Minority interests	732	490	149	1,631
Net income	2,944	3,597	82	17,325

(Rounded off to the nearest million)

## Consolidated Statements of Retained Earnings

(Millions of yen)

	〔 A quarter ended June 30, 2005 〕	〔 Year ended March 31, 2005 〕	〔 A quarter ended June 30, 2004 〕
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning balance	42,092	29,306	29,306
Increase in additional paid-in capital			
1. Exercise of stock purchase warrant	2	65	1
2. Proceeds from capital increase by issuance of new shares	0	12,720	12,720
3. Gain on sale of treasury stock	8	1	0
Total increase in additional paid-in capital	10	12,786	12,721
Decrease in additional paid-in capital	0	0	0
Ending balance	42,102	42,092	42,027
<b>RETAINED EARNINGS</b>			
Beginning balance	49,929	34,296	34,296
Increase in retained earnings			
1. Effect of liquidation of consolidated subsidiaries	0	778	0
2. Effect of exclusion of affiliated companies	0	171	0
3. Net income	2,944	17,325	3,597
Total increase in retained earnings	2,944	18,274	3,597
Decrease in retained earnings			
1. Decrease in retained earnings from newly consolidated subsidiaries	716	0	0
2. Effect of newly affiliated company	114	0	0
3. Cash dividend	1,364	2,588	1,224
4. Directors' bonuses	0	53	55
Total decrease in retained earnings	2,194	2,641	1,279
Ending balance	50,679	49,929	36,614

(Rounded off to the nearest million)

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

## Consolidated Statements of Cash Flows

(Millions of yen)

	[ A quarter ended June 30, 2005 ]	[ A quarter ended June 30, 2004 ]	[ Year ended March 31, 2005 ]
Cash flows from operating activities			
1. Income before income taxes and minority interests	8,976	6,598	31,862
2. Depreciation and amortization	4,007	3,110	14,381
3. Increase (Decrease) in allowance for doubtful accounts	(76)	71	(4,238)
4. Interest and dividends income	(186)	(285)	(1,129)
5. Interest expenses	868	974	3,666
6. Equity in losses of affiliated companies	285	196	855
7. (Increase) decrease in notes and accounts receivable	11,877	(10,109)	(57)
8. Increase in inventories	(8,917)	(8,459)	(25,265)
9. Purchase of property held for lease	(1,769)	(1,660)	(9,794)
10. Sale of property held for lease	948	1,903	3,835
11. Increase (decrease) in notes and accounts payable	(1,368)	(5,784)	1,322
12. Gain on sales of property, plant and equipment	(528)	(87)	(2,031)
13. Loss on revaluation of investments in securities	0	0	14
14. (Gain) loss on sales of investments in securities	(388)	22	(197)
15. Others	(9,106)	4,505	11,402
Sub-total	4,623	(9,005)	24,626
16. Income taxes paid	(4,439)	(7,835)	(16,727)
Net cash provided by (used in) operating activities	184	(16,840)	7,899
Cash flows from investing activities			
1. Investments in time deposits	(41)	(460)	(754)
2. Proceeds from time deposits	29	260	1,540
3. Acquisitions of property, plant and equipment	(2,151)	(3,696)	(14,783)
4. Proceeds from sales of property, plant and equipment	154	697	2,913
5. Purchases of investments in securities	0	0	(7,553)
6. Difference between the cash balance of newly consolidated companies and investment	0	0	(1,422)
7. Proceeds from sales of investments in securities	550	181	615
8. Interest and dividends received	198	324	1,146
9. Interest and dividends received from affiliated companies	185	128	288
10. Other, net	(358)	(180)	877
Net cash used in investing activities	(1,434)	(2,746)	(17,133)
Cash flows from financing activities			
1. Net increase (decrease) in short-term loan	(4,994)	10,976	(1,462)
2. Proceeds from long-term loan	1,259	690	31,897
3. Repayments of long-term loan	(2,389)	(2,111)	(20,933)
4. Repayments of bond	0	0	(10,600)
5. Interest paid	(641)	(757)	(3,613)
6. Dividends paid to shareholders	(1,364)	(1,224)	(2,588)
7. Dividends paid to minority shareholders by subsidiaries	(238)	(585)	(1,046)
8. Proceeds from issuance of common stock	4	24,705	24,825
9. Proceeds from issuance of common stock to minority shareholders by subsidiaries	0	0	1,500
10. Proceeds from sale of treasury stock	13	0	3
11. Purchase of treasury stock	(1)	(13)	(389)
Net cash provided by (used in) financing activities	(8,351)	31,681	17,594
Effect of exchange rate changes on cash and cash equivalents	119	(332)	43
Net increase (decrease) in cash and cash equivalents	(9,482)	11,763	8,403
Cash and cash equivalents at beginning of year	49,534	41,131	41,131
Increase in cash and cash equivalents from newly consolidated subsidiaries	5,225	0	0
Cash and cash equivalents at end of year	45,277	52,894	49,534

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

Cash and bank deposits	45,326	43,791	32,522
Deposits for affiliated company	160	10,156	17,158
Sub-total	45,486	53,947	49,680
Time deposits with the maturity longer than three months	(209)	(1,053)	(146)
Cash and cash equivalents at end of year	45,277	52,894	49,534

(Rounded off to the nearest million)

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