

# **Hitachi Construction Machinery**

**Financial Results for the**

**Third Quarter Ended December 31, 2005**

# Consolidated Financial Results for The Third Quarter Ended December 31, 2005

January 30, 2006

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 nine months ended December 31, 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: 9 companies Removed from the equity method: 1 company

## 2. Consolidated results for the third quarter ended December 31, 2005 (April 1 to December 31, 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	%
December 31, 2005	437,964	36.4	40,409	29.8	32,083	23.4	17,734	29.5
December 31, 2004	320,973	12.3	31,127	54.9	25,998	63.9	13,692	59.7
March 31, 2005	448,043	-	40,120	-	33,609	-	17,325	-

	Net income per share	Net income per share (Diluted)
	Yen	Yen
December 31, 2005	91.04	90.79
December 31, 2004	72.49	72.35
March 31, 2005	91.05	90.88

Notes:

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

December 2005: 194,787,792 December 2004: 188,893,561 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 third 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
December 31, 2005	557,255	149,805	26.9	769.55
December 31, 2004	451,911	128,526	28.4	659.52
March 31, 2005	463,812	131,318	28.3	673.81

Note:

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

December 2005: 194,666,128 December 2004: 194,878,585 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
December 31, 2005	32,366	(13,888)	(17,583)	56,534
December 31, 2004	(10,299)	(10,300)	20,093	41,033
March 31, 2005	7,899	(17,133)	17,594	49,534

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

### 3. 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
March 2006	580,000	42,000	22,500

Supplementary information 1) Projected net income per share for the fiscal year: ¥115.58

2) There have been no revisions to the above projections.

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

### 4. Overview of the Third Quarter Ended December 31, 2005

In Japan, despite a fierce operating environment, demand for hydraulic excavators rose on the back of continued stock adjustments and disaster recovery projects. Combined with the consolidation of TCM Corporation from the second quarter, net sales rose 34.9% to ¥149,087 million.

In the Americas, net sales rose 49.8% to ¥80,502 million as a result of brisk demand for construction machinery that was driven by brisk housing investment, highway repairs and infrastructure restoration projects.

In Europe, Africa and the Middle East, Europe recorded increased sales following expansion of independent sales networks, Africa displayed growth in demand for mining machinery amid bustling resource mining, the Middle East witnessed an increase in infrastructure development and plant construction supported by recycled oil money, and demand rose in Russia amid resource and infrastructure development. Consequently, net sales increased 41.7% to ¥96,931 million.

In Oceania and Asia, demand for hydraulic excavators in the region as a whole was brisk, with continued robust performance for mining machinery particularly in Australia and Indonesia, resulting in a 37.9% rise in net sales to ¥74,722 million.

In China, while demand for hydraulic excavators declined 54% between January and April 2005, compared to the same term last year, from the effects of such macro-economic policies as money-tightening measures of the Chinese government, a rebound occurred in May to produce 60% growth in demand between May and December 2005, compared to the same term last year. Demand continued to rise for mini-excavators in such urban areas as Shanghai, as well as for small 7- and 12-ton-class hydraulic excavators. Net sales edged up 7.5% to ¥36,722 million.

In aggregate, results were roughly on par with fiscal year projections, as consolidated net sales were ¥437,964 million, operating income was ¥40,409 million, ordinary income was ¥32,083 million and net income was ¥17,734 million.

#### Consolidated sales by region

(Millions of yen)

	Third Quarter ended December 31, 2005 (A)	Third Quarter ended December 31, 2004 (B)	Change	
			Amount change (A)-(B)	% change
The Americas	80,502	53,743	26,759	49.8
Europe, Africa and the Middle East	96,931	68,391	28,540	41.7
Oceania and Asia	74,722	54,179	20,543	37.9
China	36,722	34,148	2,574	7.5
Sub-total	288,877	210,461	78,416	37.3
Japan	149,087	110,512	38,575	34.9
Total	437,964	320,973	116,991	36.4

# Consolidated Balance Sheets

(Rounded off to the nearest million)

	As of December 31, 2005 (A)	Year-end As of March 31, 2005 (B)	(A)-(B)	As of December 31, 2004		As of December 31, 2005 (A)	Year-end As of March 31, 2005 (B)	(A)-(B)	As of December 31, 2004
<b>ASSETS</b>					<b>LIABILITIES</b>				
Current assets					Current liabilities				
1. Cash and bank deposits	56,521	32,522	23,999	41,589	1. Notes and accounts payable	127,731	90,692	37,039	90,787
2. Notes and accounts receivable	146,057	130,520	15,537	130,896	2. Short-term loan	78,655	57,989	20,666	73,099
3. Inventories	146,085	114,545	31,540	115,461	3. Current portion of bonds	600	10,615	(10,015)	10,600
4. Others	37,361	44,497	(7,136)	24,822	4. Others	65,878	55,859	10,019	43,754
5. Less: Allowance for doubtful accounts	(10,586)	(10,291)	(295)	(11,433)	<b>Total current liabilities</b>	<b>272,864</b>	<b>215,155</b>	<b>57,709</b>	<b>218,240</b>
<b>Total current assets</b>	<b>375,438</b>	<b>311,793</b>	<b>63,645</b>	<b>301,335</b>	Long-term liabilities				
Fixed assets					1. Bond	25,900	24,320	1,580	24,500
(1) Property, plant and equipment					2. Long-term loan	60,567	61,862	(1,295)	46,914
1. Property held for lease	25,956	20,060	5,896	21,193	3. Retirement and severance benefits	12,787	7,181	5,606	6,977
2. Buildings and structures	32,792	27,840	4,952	26,506	4. Others	12,384	14,751	(2,367)	17,680
3. Machinery and equipment	21,320	17,202	4,118	16,825	<b>Total long-term liabilities</b>	<b>111,638</b>	<b>108,114</b>	<b>3,524</b>	<b>96,071</b>
4. Land	44,318	32,858	11,460	30,325	<b>Total liabilities</b>	<b>384,502</b>	<b>323,269</b>	<b>61,233</b>	<b>314,311</b>
5. Others	7,344	5,614	1,730	5,764	MINORITY INTERESTS				
Net property, plant and equipment	131,730	103,574	28,156	100,613	Minority interests	22,948	9,225	13,723	9,074
(2) Intangible assets	5,212	3,384	1,828	3,464	SHAREHOLDERS' EQUITY				
(3) Investments and other assets					Common stock	42,623	42,583	40	42,578
1. Investments in securities	27,830	27,403	427	23,682	Capital surplus	42,130	42,092	38	42,086
2. Others	18,249	18,624	(375)	23,800	Retained earnings	63,910	49,929	13,981	45,347
3. Less: Allowance for doubtful accounts	(1,204)	(966)	(238)	(983)	Net unrealized gain on securities held	2,499	1,703	796	1,477
Total investments and other assets	44,875	45,061	(186)	46,499	Foreign currency translation adjustments	573	(3,828)	4,401	(1,812)
Total fixed assets	181,817	152,019	29,798	150,576	Treasury stock	(1,930)	(1,161)	(769)	(1,150)
					<b>Total shareholders' equity</b>	<b>149,805</b>	<b>131,318</b>	<b>18,487</b>	<b>128,526</b>
<b>Total assets</b>	<b>557,255</b>	<b>463,812</b>	<b>93,443</b>	<b>451,911</b>	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>557,255</b>	<b>463,812</b>	<b>93,443</b>	<b>451,911</b>

**Consolidated Statements of Income**

(Rounded off to the nearest million)

	Third Quarter ended December 31, 2005 (A)	Third Quarter ended December 31, 2004 (B)	(A)/(B)×100(%)	Year ended March 31, 2005
			%	
Net sales	437,964	320,973	136	448,043
Cost of sales	315,021	225,338	140	316,918
Gross profit before (realized) unrealized profit on installment sales	122,943	95,635	129	131,125
(Realized) unrealized profit on installment sales	579	(831)	-	(1,050)
Gross profit	122,364	96,466	127	132,175
Selling, general and administrative expenses	81,955	65,339	125	92,055
Operating income	40,409	31,127	130	40,120
Non-operating income				
1. Interest income	703	634	111	942
2. Interest income from installment sales	536	352	152	566
3. Dividends income	91	69	132	187
4. Proceeds from reversal of allowance for doubtful accounts	0	276	-	0
5. Others	1,623	1,231	132	1,965
Total non-operating income	2,953	2,562	115	3,660
Non-operating expenses				
1. Interest expenses	2,616	2,683	98	3,666
2. Loss on disposal of inventories	869	559	155	544
3. Exchange loss	4,275	52	-	0
4. New stock issuing expenses	0	765	-	765
5. Equity in losses of affiliated companies	117	617	19	855
6. Others	3,402	3,015	113	4,341
Total non-operating expenses	11,279	7,691	147	10,171
Ordinary income	32,083	25,998	123	33,609
Extraordinary income				
1. Gain on sales of property, plant and equipment	0	1,425	-	1,425
2. Proceeds from elimination of health insurance program	2,266	0	-	0
Total extraordinary income	2,266	1,425	159	1,425
Extraordinary losses				
1. Amortization of transition difference	0	423	-	542
2. Loss on revision of retirement benefit system	0	1,542	-	1,542
3. Restructuring costs	1,110	767	145	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	1,110	2,732	41	3,172
Income before income taxes and minority interests	33,239	24,691	135	31,862
Income taxes	12,608	9,766	129	12,906
Minority interests	2,897	1,233	235	1,631
Net income	17,734	13,692	130	17,325

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

## Consolidated Statements of Retained Earnings

(Rounded off to the nearest million)

	〔 Third Quarter ended December 31, 2005 〕	〔 Third Quarter ended December 31, 2004 〕	〔 Year ended March 31, 2005 〕
<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	39	60	65
2. Proceeds from capital increase by issuance of new shares	0	12,720	12,720
3. Gain on sale of treasury stock	0	0	1
Total increase in additional paid-in capital	39	12,780	12,786
Decrease in additional paid-in capital			
Reclassification of gains on sale of treasury stock	1	0	0
Total decrease in additional paid-in capital	1	0	0
Ending balance	42,130	42,086	42,092
<b>RETAINED EARNINGS</b>			
Beginning balance	49,929	34,296	34,296
Increase in retained earnings			
1. Effect of liquidation of consolidated subsidiaries	0	0	778
2. Effect of exclusion of affiliated companies	0	0	171
3. Net income	17,734	13,692	17,325
Total increase in retained earnings	17,734	13,692	18,274
Decrease in retained earnings			
1. Decrease in retained earnings from newly consolidated subsidiaries	716	0	0
2. Effect of newly affiliated companies	114	0	0
3. Cash dividend	2,920	2,588	2,588
4. Losses from disposal of treasury stock	3	0	0
5. Directors' bonuses	0	53	53
Total decrease in retained earnings	3,753	2,641	2,641
Ending balance	63,910	45,347	49,929

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

## Consolidated Statements of Cash Flows

(Rounded off to the nearest million)

	Third Quarter ended December 31, 2005	Third Quarter ended December 31, 2004	Year ended March 31, 2005
Cash flows from operating activities			
1. Income before income taxes and minority interests	33,239	24,691	31,862
2. Depreciation and amortization	14,019	10,751	14,381
3. Increase (Decrease) in allowance for doubtful accounts	9	(3,109)	(4,238)
4. Interest and dividends income	(794)	(703)	(1,129)
5. Interest expenses	2,616	2,683	3,666
6. Equity in losses of affiliated companies	118	624	855
7. (Increase) decrease in notes and accounts receivable	5,907	1,953	(57)
8. Increase in inventories	(17,076)	(26,693)	(25,265)
9. Purchase of property held for lease	(9,246)	(8,034)	(9,794)
10. Sale of property held for lease	1,844	2,950	3,835
11. Increase in notes and accounts payable	18,615	641	1,322
12. Gain on sales of property, plant and equipment	(1,115)	(1,733)	(2,031)
13. (Gain) loss on sales of investments in securities	(389)	17	(197)
14. Others	(5,656)	409	11,416
Sub-total	42,091	4,447	24,626
15. Income taxes paid	(9,725)	(14,746)	(16,727)
Net cash provided by (used in) operating activities	32,366	(10,299)	7,899
Cash flows from investing activities			
1. Investments in time deposits	(519)	(938)	(754)
2. Proceeds from time deposits	1,181	957	1,540
3. Acquisitions of property, plant and equipment	(9,482)	(10,002)	(14,783)
4. Proceeds from sales of property, plant and equipment	307	2,701	2,913
5. Purchases of investments in securities	(6,002)	(3,626)	(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	856	192	615
8. Interest and dividends received	821	741	1,146
9. Interest and dividends received from affiliated companies	281	156	288
10. Other, net	(1,331)	(481)	877
Net cash used in investing activities	(13,888)	(10,300)	(17,133)
Cash flows from financing activities			
1. Net increase (decrease) in short-term loan	1,920	15,045	(1,462)
2. Proceeds from long-term loan	10,720	11,369	31,897
3. Repayments of long-term loan	(12,084)	(15,735)	(20,933)
4. Repayments of bond	(12,435)	(10,300)	(10,600)
5. Interest paid	(2,750)	(2,586)	(3,613)
6. Dividends paid to shareholders	(2,920)	(2,588)	(2,588)
7. Dividends paid to minority shareholders by subsidiaries	(590)	(1,046)	(1,046)
8. Proceeds from issuance of common stock	79	24,815	24,825
9. Proceeds from issuance of common stock and undertaking of capital subscription by minority shareholders	1,250	1,500	1,500
10. Proceeds from sale of treasury stock	134	2	3
11. Purchase of treasury stock	(907)	(383)	(389)
Net cash provided by (used in) financing activities	(17,583)	20,093	17,594
Effect of exchange rate changes on cash and cash equivalents	880	408	43
Net increase (decrease) in cash and cash equivalents	1,775	(98)	8,403
Cash and cash equivalents at beginning of year	49,534	41,131	41,131
Cash and cash equivalents from newly consolidated subsidiaries at beginning of year	5,225	0	0
Cash and cash equivalents at end of year	56,534	41,033	49,534

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

Cash and bank deposits	56,521	41,589	32,522
Deposits for affiliated company	560	292	17,158
Sub-total	57,081	41,881	49,680
Time deposits with the maturity longer than three month	(547)	(848)	(146)
Cash and cash equivalents at the end of period	56,534	41,033	49,534

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