

Hitachi Construction Machinery

Financial Results for the

Third Quarter Ended December 31, 2004

Consolidated Financial Results for The Third Quarter Ended December 31, 2004

January 28, 2005

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

1. Note to consolidated financial statements for the nine months ended December 31, 2004

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, 2004 : None

Change in scope of consolidation and equity method:

Newly consolidated: 1 company Removed from consolidation: None

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

2. Consolidated results for the third quarter ended December 2004 (April 1 to December 31, 2004)

(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, 2004	320,973	12.3	31,127	54.9	25,998	63.9	13,692	59.7
December 31, 2003	285,900	23.7	20,091	111.2	15,863	239.6	8,573	853.6
March 31, 2004	402,195	-	32,858	-	26,002	-	12,490	-

	Net income per share	Diluted net income per share
	Yen	Yen
December 31, 2004	72.49	72.35
December 31, 2003	50.25	48.76
March 31, 2004	72.62	70.92

Notes:

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

December 2004: 188,893,561 December 2003: 170,611,802 March 2004: 171,595,677

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, 2004	451,911	128,526	28.4	659.52
December 31, 2003	409,875	87,484	21.3	500.26
March 31, 2004	407,049	91,132	22.4	520.93

Note:

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

December 2004: 194,878,585 December 2003: 174,876,863 March 2004: 174,888,581

(3) Consolidated cash flows

(Rounded off to the nearest million)

	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, 2004	(10,299)	(10,300)	20,093	41,033
December 31, 2003	11,289	(8,194)	(798)	46,306
March 31, 2004	8,021	(8,830)	(1,672)	41,131

3. Projected consolidated results for the fiscal year ending March 31, 2005

(Rounded off to the nearest million)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
March 2005	425,000	32,500	17,000

Supplementary information 1) Projected net income per share for the fiscal year: ¥87.26

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 of 2004 (December 31, 2004)

In Japan, despite continued lackluster public investment, net sales rose by 5% amid recovery in demand in a construction machinery industry characterized by continued stock adjustments for hydraulic excavators, rising private capital investment and strong housing investment.

Overseas, in China, demand has continued to wane since April 2004 owing to such macro-level government policies as money-tightening measures, producing a 25% drop in sales for this region.

In contrast, sales in Europe, Africa and the Middle East jumped 46% as these markets experienced the full effects of unexpectedly strong hydraulic excavator demand and the spin-off of subsidiaries.

The Americas reported a 34% increase in sales on the back of continuing growth fueled by increased housing starts.

Oceania and Asia, which are experiencing brisk demand, recorded a 12% rise in sales against the backdrop of robust construction and mining markets.

Consequently, consolidated net sales for the third quarter were ¥320,973 million; operating income was ¥31,127 million; ordinary income was ¥25,998 million and net income was ¥13,692 million. These results placed the Company in a solid position for meeting its fiscal year targets.

Overseas sales

(Rounded off to the nearest million)

	Third Quarter ended Dec. 31, 2004 (A)	Third Quarter ended Dec. 31, 2003 (B)	Change	
			Amount change (A)-(B)	% change
The Americas	53,743	39,975	13,768	34.4
Europe, Africa and the Middle East	68,391	46,894	21,497	45.8
Oceania and Asia	54,179	48,272	5,907	12.2
China	34,148	45,528	(11,380)	(25.0)
Sub-Total	210,461	180,669	29,792	16.5
Japan	110,512	105,231	5,281	5.0
Total	320,973	285,900	35,073	12.3

Note:

Until the previous third quarter ended December 31, 2003, sales regions were determined based on the locations of contract customers. Since the fourth quarter ended March 31, 2004, sales regions are now determined based on the final destination of the product. For the sake of comparison, net sales by region for the previous third quarter, ended December 31, 2003, are displayed using this new standard.

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

Consolidated Balance Sheets

(Rounded off to the nearest million)

	As of December 31, 2004, (A)	Year-end As of March 31, 2004, (B)	(A)-(B)	As of December 31, 2003		As of December 31, 2004, (A)	Year-end As of March 31, 2004, (B)	(A)-(B)	As of December 31, 2003
ASSETS					LIABILITIES				
Current assets					Current liabilities				
1. Cash and bank deposits	41,589	36,848	4,741	47,316	1. Notes and accounts payable	90,787	87,457	3,330	86,806
2. Notes and accounts receivables	130,896	129,337	1,559	122,419	2. Short-term debt	73,099	53,207	19,892	47,325
3. Inventories	115,461	86,089	29,372	88,736	3. Current portion of bonds	10,600	10,600	0	10,600
4. Others	24,822	27,659	(2,837)	21,387	4. Others	43,754	46,710	(2,956)	44,815
5. Less: Allowance for doubtful accounts	(11,433)	(14,758)	3,325	(14,054)	Total current liabilities	218,240	197,974	20,266	189,546
Total current assets	301,335	265,175	36,160	265,804	Long-term liabilities				
Fixed assets					1. Bonds	24,500	34,800	(10,300)	35,100
(1) Property, plant and equipment					2. Long-term debt	46,914	53,545	(6,631)	60,124
1. Property held for lease	21,193	20,999	194	22,374	3. Retirement and severance benefits	6,977	8,991	(2,014)	12,600
2. Buildings and structures	26,506	25,363	1,143	26,142	4. Others	17,680	12,893	4,787	16,684
3. Machinery and equipment	16,825	14,098	2,727	13,538	Total long-term liabilities	96,071	110,229	(14,158)	124,508
4. Land	30,325	29,610	715	31,852	Total liabilities	314,311	308,203	6,108	314,054
5. Others	5,764	5,795	(31)	5,659	MINORITY INTERESTS				
Net property, plant and equipment	100,613	95,865	4,748	99,565	Minority interests	9,074	7,714	1,360	8,337
(2) Intangible assets	3,464	2,890	574	2,910	SHAREHOLDERS' EQUITY				
(3) Investments and other assets					Common stock	42,578	29,779	12,799	29,772
1. Investments in securities	23,682	23,521	161	23,070	Capital surplus	42,086	29,306	12,780	29,300
2. Others	23,800	20,312	3,488	19,343	Retained earnings	45,347	34,296	11,051	30,379
3. Less: Allowance for doubtful accounts	(983)	(714)	(269)	(817)	Net unrealized gain on securities held	1,477	1,468	9	918
Total investments and other assets	46,499	43,119	3,380	41,596	Foreign currency translation adjustments	(1,812)	(2,948)	1,136	(2,144)
Total fixed assets	150,576	141,874	8,702	144,071	Treasury stock	(1,150)	(769)	(381)	(741)
Total assets	451,911	407,049	44,862	409,875	Total shareholders' equity	128,526	91,132	37,394	87,484
					Total liabilities, minority interests and shareholders' equity	451,911	407,049	44,862	409,875

Consolidated Statements of Income

(Rounded off to the nearest million)

	〔 Third Quarter ended December 31, 2004(A) 〕	〔 Third Quarter ended December 31, 2003(B) 〕	(A)/(B)×100(%)	〔 Year ended March 31, 2004 〕
			%	
Net sales	320,973	285,900	112	402,195
Cost of sales	225,338	207,767	108	287,360
Gross profit before (realized) unrealized profit on installment sales	95,635	78,133	122	114,835
(Realized) unrealized profit on installment sales	(831)	(652)	127	(870)
Gross profit	96,466	78,785	122	115,705
Selling, general and administrative expenses	65,339	58,694	111	82,847
Operating income	31,127	20,091	155	32,858
Non-operating income				
1. Interest income	634	480	132	703
2. Interest income from installment sales	352	421	84	558
3. Dividends income	69	59	117	108
4. Reversal of reserve for bad debt	276	0	-	0
5. Others	1,231	1,879	66	2,391
Total non-operating income	2,562	2,839	90	3,760
Non-operating expenses				
1. Interest expenses	2,683	2,512	107	3,519
2. Loss on disposal of inventories	559	104	538	733
3. Effect of exchange rate changes	52	1,272	4	1,806
4. New stock issuing expenses	765	0	-	0
5. Equity in losses of affiliated companies	617	604	102	686
6. Others	3,015	2,575	117	3,872
Total non-operating expenses	7,691	7,067	109	10,616
Ordinary income	25,998	15,863	164	26,002
Extraordinary income				
1. Gain on sale of property, plant and equipment	1,425	829	172	829
2. Gain on the transfer to Japanese Government of the substitutional portion of employee pension fund liabilities	0	949	-	949
Total extraordinary income	1,425	1,778	80	1,778
Extraordinary losses				
1. Amortization of transition difference	423	765	55	919
2. Loss on revision of retirement benefit system	1,542	0	-	0
3. Loss on revaluation of investments in securities	0	0	-	265
4. Restructuring costs	767	1,152	67	2,732
5. Loss on sale of property, plant and equipment	0	46	-	217
6. Impairment losses for long-lived assets	0	0	-	2,436
Total extraordinary losses	2,732	1,963	139	6,569
Income before income taxes and minority interests	24,691	15,678	157	21,211
Provision for income tax	9,766	5,341	183	6,367
Minority interests	1,233	1,764	70	2,354
Net income	13,692	8,573	160	12,490

(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, 2004 〕	〔 Year ended March 31, 2004 〕	〔 Third Quarter ended December 31, 2003 〕
ADDITIONAL PAID-IN CAPITAL			
Beginning balance	29,306	25,848	25,848
Increase in additional paid-in capital			
1. Exercise of stock purchase warrant	60	3,458	3,452
2. Proceeds from capital increase by issuance of new shares	12,720	0	0
3. Gain on sales of treasury stock	0	-	-
Total increase in additional paid-in capital	12,780	3,458	3,452
Decrease in additional paid-in capital	0	0	0
Ending balance	42,086	29,306	29,300
RETAINED EARNINGS			
Beginning balance	34,296	23,239	23,239
Increase in retained earnings			
1. Effect of merger of affiliated company	0	44	44
2. Net income	13,692	12,490	8,573
Total increase in retained earnings	13,692	12,534	8,617
Decrease in retained earnings			
1. Effect of newly affiliated company	0	9	9
2. Cash dividends	2,588	1,342	1,342
3. Directors' bonuses	53	126	126
Total decrease in retained earnings	2,641	1,477	1,477
Ending balance	45,347	34,296	30,379

(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, 2004]	[Third Quarter ended December 31, 2003]	[Year ended March 31, 2004]
Cash flows from operating activities			
1. Income before income taxes and minority interests	24,691	15,678	21,211
2. Depreciation and amortization	10,751	9,827	12,672
3. Impairment losses for long-life assets	0	0	2,436
4. (Decrease) Increase in allowance for doubtful accounts	(3,109)	2,228	2,943
5. Interest and dividends income	(703)	(539)	(811)
6. Interest expenses	2,683	2,512	3,519
7. Equity in losses of affiliate companies	624	576	662
8. (Increase) decrease in notes and accounts receivable	1,953	(12,507)	(21,432)
9. Increase in inventories	(26,693)	(11,516)	(9,685)
10. Purchase of property held for lease	(8,034)	(7,509)	(10,859)
11. Sales of property held for lease	2,950	1,822	3,872
12. Increase in notes and accounts payable	641	12,394	14,238
13. Gain on sales of property, plant and equipment	(1,733)	(1,198)	(1,132)
14. Loss on revaluation of investment in securities	14	3	265
15. Gain (loss) on sales of investment in securities	17	(3)	12
16. Others	395	2,985	(4,746)
Sub total	4,447	14,753	13,165
17. Income taxes paid	(14,746)	(3,464)	(5,144)
Net cash provided by (used in) operating activities	(10,299)	11,289	8,021
Cash flows from investing activities			
1. Investments in time deposits	(938)	(3,344)	(1,691)
2. Proceeds from time deposits	957	4,102	1,695
3. Acquisitions of property, plant and equipment	(10,002)	(4,035)	(6,447)
4. Proceeds from sale of property, plant and equipment	2,701	1,129	1,447
5. Purchases of investment in securities	(3,626)	(5,440)	(5,747)
6. Difference between the cash balance of newly consolidated companies and investment	0	(89)	(89)
7. Proceeds from sale of investments in securities	192	61	47
8. Interest and dividends received	741	539	771
9. Interest and dividends received from affiliated companies	156	8	2,412
10. Other, net	(481)	(1,125)	(1,228)
Net cash used in investing activities	(10,300)	(8,194)	(8,830)
Cash flows from financing activities			
1. Net increase in short-term debt	15,045	4,175	7,546
2. Proceeds from long-term debt	11,369	22,380	24,531
3. Repayments of long-term debt	(15,735)	(6,808)	(11,662)
4. Proceeds from issuance of bonds	0	9,998	9,973
5. Repayments of redemption of debenture	(10,300)	(25,300)	(25,600)
6. Interest paid	(2,586)	(2,568)	(3,771)
7. Dividends paid to shareholders	(2,588)	(1,342)	(1,342)
8. Dividends paid to minority shareholders of subsidiaries	(1,046)	(785)	(785)
9. Proceeds from issuance of stock	24,815	146	160
10. Issuance of common stock to minority shareholders by subsidiaries	1,500	0	0
11. Purchases of treasury stock	2	1	1
12. Proceeds from treasury stock	(383)	(695)	(723)
Net cash provided by (used in) financing activities	20,093	(798)	(1,672)
Effect of exchange rate changes on cash and cash equivalents	408	(225)	(622)
Net increase (decrease) in cash and cash equivalents	(98)	2,072	(3,103)
Cash and cash equivalents at beginning of year	41,131	44,234	44,234
Cash and cash equivalents at the end of period	41,033	46,306	41,131

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

Cash and bank deposits	41,589	47,316	36,848
Deposits for affiliated company	292	159	5,155
Sub total	41,881	47,475	42,003
Time deposits with the maturity longer than three month	(848)	(1,169)	(872)
Cash and cash equivalents at the end of period	41,033	46,306	41,131

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