# Hitachi Construction Machinery

## Financial Results for the

## six months ended September 30, 2004

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

**Interim Financial Statement (Consolidated) for Fiscal Year Ending March 2005** October 27, 2004

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 27, 2004
Parent company: Hitachi, Ltd. (code number: 6501)
Ratio of HCM shares held by the parent company: 51.2%
U.S. Accounting Standards are not applied.

1. Consolidated results for the half-year ended September 2004 (April 1 to September 30, 2004)

(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 2004 (interim) | 214,242 | 10.0 | 19,826 | 59.4 | 16,277 | 67.0 |
| September 2003 (interim) | 194,779 | 26.3 | 12,440 | 89.9 | 9,746 | 224.8 |
| March 2004 | 402,195 | 22.4 | 32,858 | 100.4 | 26,002 | 163.2 |

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

| | Net income | | Net income per share | Net income per share after adjusting for latent shares |
|---|---|---|---|---|
| | Millions of yen | % | Yen | Yen |
| September 2004 (interim) | 7,581 | 55.6 | 40.68 | 40.60 |
| September 2003 (interim) | 4,872 | 165.1 | 28.86 | 27.61 |
| March 2004 | 12,490 | 221.7 | 72.62 | 70.92 |

Notes:
1) Equity-method investment profit (loss)
September 2004 (interim): (¥308 million) September 2003 (interim): (¥477 million) March 2004: (¥686 million)
2) Average number of shares during the term (consolidated)
September 2004 (interim): 186,334,407 September 2003 (interim): 168,809,230 March 2004: 171,595,677
3) Changes in the method of accounting: None
4) Percentages indicated for net sales, operating income, ordinary 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 per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| September 2004 (interim) | 434,183 | 122,828 | 28.3 | 630.47 |
| September 2003 (interim) | 394,002 | 85,826 | 21.8 | 491.05 |
| March 2004 | 407,049 | 91,132 | 22.4 | 520.93 |

Note:
Number of outstanding shares at the end of the term (consolidated):
September 2004 (interim): 194,820,083 September 2003 (interim): 174,781,397 March 2004: 174,888,581

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

(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 term |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| September 2004 (interim) | (6,815) | (3,759) | 18,081 | 48,874 |
| September 2003 (interim) | 8,061 | (4,172) | 1,858 | 50,154 |
| March 2004 | 8,021 | (8,830) | (1,672) | 41,131 |

(4) Scope of consolidation and application of equity method
Number of consolidated subsidiaries: 48
Number of unconsolidated subsidiaries subject to the equity method: None
Number of affiliates subjected 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: None
Newly excluded from the equity method: None

2. 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: Projected net income per share for the fiscal year: ¥87.26

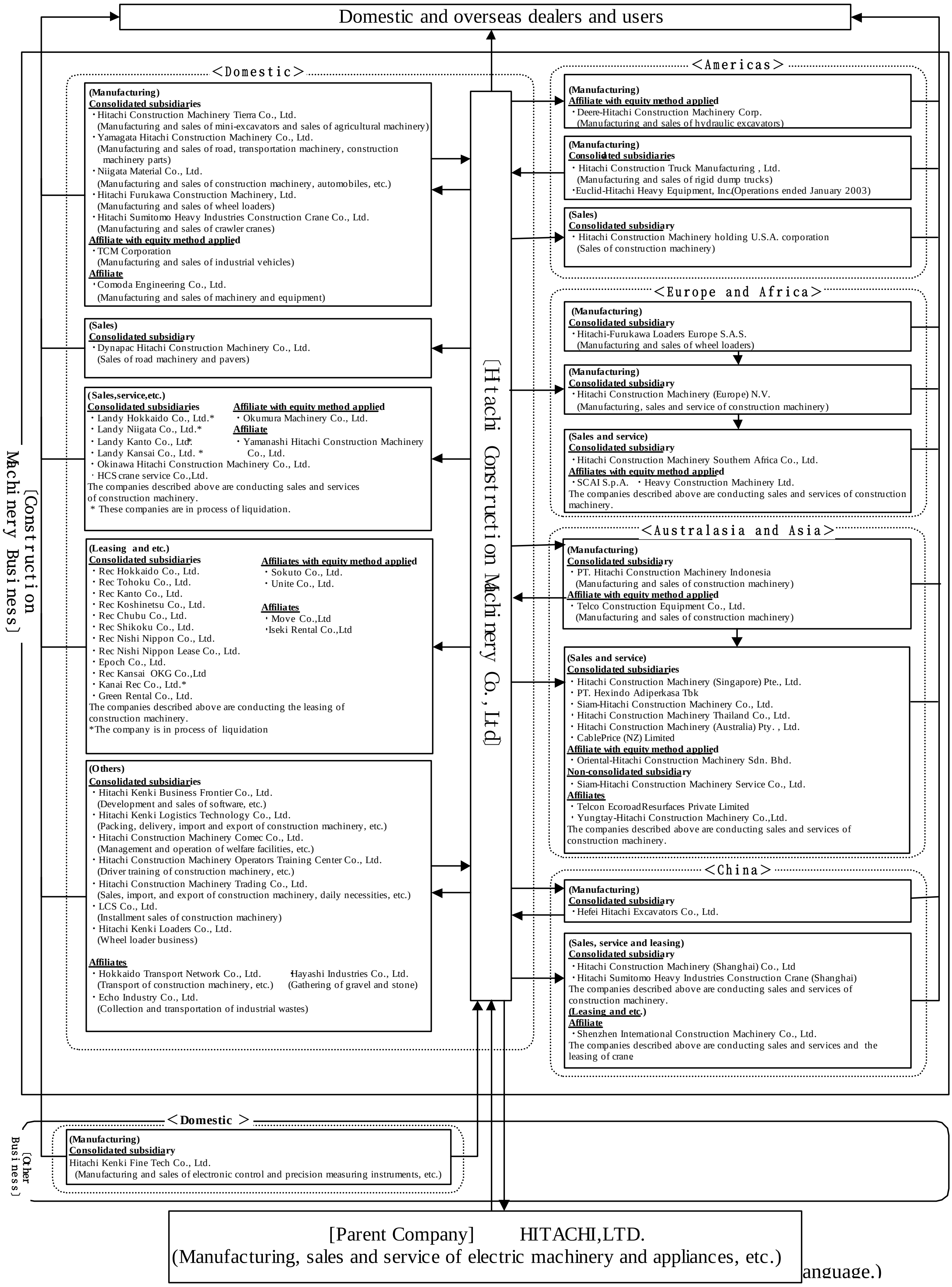
Note: The above projections are based on information available as of the time of this announcement. Actual results may differ due to various factors.

# Attachment

## 1. Status of the Corporate Group

This consolidated Group consists of Hitachi Construction Machinery, its parent company, its49 subsidiaries and its 19 affiliates. Its business mainly involves the manufacture, sale, service and leasing of construction machinery. It also manufactures and sells electronics controllers.

Below is an organizational chart of business conducted by this consolidated Group.




anguage.)

Note ⟶ Flow of products, parts and services

## 2. Management Policy

### (1) Basic Management Policy

1) To improve the enterprise value and shareholder 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 to increase corporate value based on the cost of capital that was formulated by Hitachi and is used by all members of the Hitachi Group.

2) To establish a firm position in global construction machinery markets by strengthening alliances both in Japan and overseas, in order to provide a more comprehensive lineup of products as part of the ongoing development of global operations in the five regions comprising: Japan; the Americas; Europe, Africa and the Middle East; Oceania and Asia; and China.

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

To ensure the ability to achieve these objectives group-wide, there is a strong emphasis on developing global personnel and building a global IT strategy to implement "total management," " accelerated decision-making of management" and "information management."

### (2) Basic Principle Regarding Appropriation of Earnings

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 reinforce the Group's financial structure, while concurrently, efforts are undertaken in developing technologies, rationalizing production equipment and growing Group companies in Japan and overseas in order to remain competitive.

### (3) Concepts and Principles Regarding Reduction of Investment Units

To increase the number of its shareholders and make its stock more fluid, HCM resolved to change its trading unit from 1,000 shares to 100 shares, and enforced this resolution on October 1, 2004.

### (4) Mid-to-Long-term Management Strategies and Issues to be Addressed

#### 1) Achieving the "SOH 21-Creative Value UP" Medium-term Management Plan

To win out in the increasingly intense arena of global competition, in April 2003 HCM launched "SOH 21-Creative Value UP," a medium-term management plan with the achievement of objectives targeted for the fiscal year ending March 31, 2007.

The aim of the plan is to establish the industry's number-one profit structure, embark on further globalization and regain an "A" rating on HCM's long-term bonds. Specifically, there will be an emphasis on expanding the role of international business, restructuring domestic business operations, promoting global product strategies and becoming the global leader in terms of cost-competitiveness, and finally, strengthening the Company's financial structure. In this regard, HCM intends to predominate in the construction machinery industry in terms of technological capabilities and product strength, cost-competitiveness, service and sales capabilities, and brand strength.

#### 2) Consolidated Numerical Targets (For period ending March 2007)

Numerical targets for the fiscal year ending March 31, 2007 are outlined below. Given that the Group witnessed record high performance in the fiscal year ended March 31, 2004 and with the exclusion of the debt/equity (D/E) ratio, achieved all initial targets of the medium-term management plan earlier than anticipated, higher targets have been established.

| | Target |
|---|---|
| Ratio of operating income to net sales | 10% (¥46.0 billion) |
| Ratio of ordinary income to net sales | Over 8% (Over ¥38.0 billion) |
| ROE | Over 10% |
| D/E Ratio | Not to exceed 1.0 time |

**3) Issues to be Tackled**

Although there were some destabilizing factors such as a rapid decline in demand for construction machinery in China and a steep jump in materials costs associated with rising steel and oil prices, demand grew faster than anticipated in the Americas, Europe, Oceania and Asia, contributing to brisk performance on a worldwide scale. In order to achieve a resilient operational structure that can secure profits in any operating environment, the HCM Group believes that its most important issues will be improvement in product label price, which includes the price charged by dealers domestically and abroad, reduction of production costs in the service and manufacturing divisions and maintenance and improvement of the break-even point in every division through reduction of fixed costs.

**4) International Business**

In the Americas, the HCM Group continues to raise market share for its hydraulic excavators and mini-excavators using the effects of the single-management, two-brand system between Deere & Company and the Group. Efforts will also be made to expand sales of ultra-large hydraulic excavators and large dump trucks in the South American region, where demand is expected to rise on the back of natural resource development.

In Europe, the Group is steadily expanding market share after finally gaining permission to sell its 13-ton-class, and 25- to 45-ton-class hydraulic excavators, which were late in hitting the market on account of restrictions owing to a cancellation of joint venture agreements with Fiat S.p.A. The Group is also ramping up marketing to expand sales in Germany and France, where demand is strong but the Group’s market presence is still minimal. The Group will also work to expand sales on the back of rising demand in the Middle East, where infrastructure development will proceed as petrodollars make a comeback, in Russia, owing to housing construction and ongoing resource development, as well as in South Africa, where precious metalliferous mines are being developed.

In Oceania and Asia, the Group is carving out high share in the mining market through the packaged sale of ultra-large hydraulic excavators and large dump trucks. In the term ahead, HCM intends to refine full maintenance contract services for purchased machinery in order to establish a solid market position in these regions. Capitalizing on the strengths of the Group’s direct marketing and service structure, efforts will be made to continue the sale of new machinery and expand sales for components, used machinery and services.

In China, monthly demand of hydraulic excavators declined further than was projected and fell below the previous term’s levels from the effect of such government-sponsored, macro-level policies as money-tightening measures from April 2004. To compensate, Hefei Hitachi Excavators Co., Ltd. is undertaking dramatic adjustment of its production line. In addition, in order to build a corporate structure that can handle change in demand and achieve the world’s most optimized production and procurement system, the Group is undertaking global production adjustments for such purposes as supply canning to factories outside of China.

Moreover, bolstering the service capabilities of distributors and education for marketing staff will continue to be paramount issues addressed by the Group, and working to preserve account receivables will be its most important challenge.

**5) Domestic Business**

In order to establish an RSS system consisting of three major elements: rental (R), sales (S) and service (S), for continued improvement in customer satisfaction and consolidated management efficiency, the HCM Group revised its branch structure and reorganized them into two divisional organizations on October 1, 2004 to comprise the Eastern Japan Operation Division and Western Japan Operation Division.

In the rental business, the HCM Group has been able to reduce costs and is now on the verge of returning to profitability through efficient use of assets by utilizing the new rental system and systematic employment of Rental-Value Engineering for Customers (R-VEC), together with preservation, recovery and unified management of assets through expansion of regional equipment centers.

With respect to services, in order to provide customers with new value and raise satisfaction, more emphasis is being placed on IT-driven e-business and enhancing such contract services as value packs, which enables reduction of administrative and maintenance expenses and budgeting.

Through the efforts spelled out here, the Group aims to make steady progress toward securing consolidated profits in domestic businesses.

**6) Promoting Global Product Strategies and Becoming the Global Leader in Cost-competitiveness**

The HCM Group promotes its region-specific marketing, reinforces it proprietary development structure and maximizes the effects of alliances in order to develop world-class products in a manner that matches the needs of customers throughout the world. In addition, it advances the system of production and procurement in the best locations worldwide while working to reduce costs, shorten lead times and improve cash flows by optimizing fixed expenses on a consolidated basis and increasing the efficiency of the supply chain.

**7) Strengthening of the Financial Structure**

Reducing the interest-bearing debt is an important challenge for HCM, which aims to regain an “A” rating on its long-term bonds. To that end, it strived to strengthen the financial structure and reinforced its balance sheets through a capital increase with issuance of new shares at market price on June 5, 2004. The HCM Group is also working to shorten the number of retention days of sales credits and inventories on a consolidated basis by implementing the C Project II (Cash Flow Project II). Further, on August 21, 2004, HCM established the Business Process Innovation Division, and is bolstering supply chain innovation within both the Company and the Group as a whole. HCM will continue to curb fixed assets through integration of bases. In addition, consolidated cash flows are being improved using the cash management system (CMS) introduced last year and centralization of Group funds.

**8) Efforts in Environmental Preservation**

The HCM Group is concentrating on business activities as outlined in its Environmental Conservation Action Guidelines, which were established based on an awareness that all of mankind has a stake in protecting the environment. Chiefly, the HCM Group is continuing to promote eco management, eco products (creation of environmentally friendly products) and eco factories that aim for zero emissions. In combination, the Group strives to contribute to society by aggressively pursuing the creation of such product systems as soil purification operations and recycling systems that aid in the formation of a recyclable society through.

**(5) Basic Philosophy on and Status of Measures for Corporate Governance**

**1) Basic Philosophy on Corporate Governance**

The HCM Group is working to augment corporate governance with the goals of raising corporate value and further improving shareholder value, accelerating execution of management strategies, achieving more reliable, transparent and global management, and adapting to the new Hitachi Group management style.

**2) Status of Measures for Corporate Governance**

**A. Content of Corporate Bodies**

In June 2003, HCM shifted to a Committee System of corporate management, in which the duties of governance and administration are separated for the purpose of accelerating management decision-making and improving the effectiveness of operational oversight. The roles of the committees are as follows:

**a) Board of Directors**

The Board of Directors is responsible for deciding core management policies and overseeing the activities of the executive officers, with the powers for operational decision-making largely transferred to the executive officers. Of the eight members of the Board of Directors, four also act as executive officers, while three members have been recruited from outside the Group.

The Board of Directors is comprised of three legal bodies of the nominating committee, auditing committee and compensation committee, with half of the members for the committees composed of outside directors.

**b) Various Committees**

The nominating committee is responsible for drafting proposals for appointing candidates and terminating independent auditors for director positions at the General Shareholders Meeting.

The auditing committee is responsible for monitoring the activities of the Board of Directors and executive officers and drafting proposals for appointing candidates and terminating independent auditors at the General Shareholders Meeting. The Auditing Committee Office was established specifically to aid the work of the Board of Directors and the committees, and is staffed by one employee who is not subject to the authority of executive officers.

The compensation committee is responsible for drafting proposals for determining the compensation for individual members of the Board and executive officers.

**c) Executive Officers**

The executive officers are responsible for decision-making and execution of day-to-day operations in line with the division of duties as specified by the Board of Directors. For key issues that affect the Group as a whole, decisions are deferred to an executive committee composed of leading executive officers. Moreover, each executive officer’s decisions are reported to the Board of Directors.

**3) Status of Internal Control System**

To ensure operational efficiency and compliance, HCM is conducting internal surveys to study progress in operational management and work toward its improvement. Additionally, HCM has established various committees to conduct compliance activities and a Companywide compliance report system.

Regarding assurance of reliability in financial reporting, in order for the Auditing Committee to monitor the corporate auditors and preserve the autonomy of the corporate auditors from the executive officers, the Auditing Committee receives advance notice of audit plans of the corporate auditors, while actions pertaining to auditor compensation and non-auditing operations require the approval of the Auditing Committee.

**4) Status of Risk Management Structure**

HCM is undertaking such measures as the establishment of rules and guidelines within each division to handle various risks entailed in operations.

**(6) Basic Policies Extending to 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 the parent company 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 and also improving shareholder value.

In addition, the HCM Group also borrows and deposits short-term funds using the Hitachi Group Fund pooling system, which is centralized at Hitachi, Ltd.

## 3. Management Results and Financial Position

### (1) Overview of the Interim Period

During the first half of the fiscal year, while public works investment continued to wane domestically, progress in stock adjustments for hydraulic excavators, increased private capital investment and brisk housing starts translated into a recovery in demand for construction machinery in Japan. Overseas, demand fell from April in China owing to such macro-level government policies as money tightening measures. However, overall demand overseas was brisk in Europe, where the Group boasts remarkable share growth, and in the Americas, Oceania and Asia, where the Group is experiencing vigorous growth. The HCM Group expanded export sales and sales at overseas subsidiaries by expanding business into such new markets as Russia, India and the Middle East, while also expanding sales in the mining business in Europe.

As a result of the above trends, overseas net sales rose 3 percentage points to 65%.

In the first half of the fiscal year under review, consolidated and non-consolidated performance within the Group was as follows:

(100 million yen; %)

| | Consolidated (Change) | Non-consolidated (Change) |
|---|---|---|
| Net sales | 2,142 (+10%) | 1,374 (+16%) |
| Ordinary income | 162 (+67%) | 79 (+17%) |
| Net income | 75 (+56%) | 26 (+73%) |

Note: Figures under ¥100 million are rounded down.

On October 1, 2004 the HCM Group restructured its Japanese operations and shifted its original branch structure to a division structure, in which operations are divided between an Eastern Japan Operation Division and Western Japan Operation Division. With this structure in place, the Group aims to make thorough use of its “RSS system,” which encompasses rental, sales and service operations, and establish a corporate structure that ensures stable profits.

## (2) Overview by Regional Segment

The consolidated sales of the HCM Group are classified by five market regions; an overview of sales by region is shown below.

### 1) Japan

Demand for new hydraulic excavators exceeded the previous term again owing to increased export of used machines and replacement with newer machines. Net sales were roughly on par with the previous term at ¥74,592 million.

### 2) The Americas

Sales in the Americas exceeded initial projections due to the effects of a rise in demand for hydraulic excavators and mini-excavators on the back of brisk economic conditions, a high level of new housing starts, as well as expanded market share owing to highly effective marketing activities undertaken through HCM's partnership with Deere & Company. Net sales rose 44% to ¥36,560 million.

### 3) Europe, Africa and the Middle East

In Europe, sales continued to expand resultant of the effects of a strengthened and expanded independent sales network via Hitachi Construction Machinery (Europe) N.V. Sales were also brisk in Russia and the Middle East, where infrastructure development is underway. Net sales jumped 60% to ¥44,177 million.

### 4) Oceania and Asia

Demand for hydraulic excavators rose in these regions as a whole, especially in Southeast Asia, with brisk sales for ultra-large mining equipment particularly in Australia and Indonesia. Consequently, net sales increased 17% to ¥35,813 million.

### 5) China

Such macro-level government policies as money-tightening measures lowered demand to produce a 14% decline in net sales to ¥29,496 million.

The HCM Group is working to maintain a solid foothold in the Chinese market by conducting sales that emphasize reliable debt collection, building a powerful independent sales agency network and augmenting the service structure, while concurrently establishing a business structure that can adapt to any changes in the environment.

## (3) Overview by Industry Segment

### 1) Construction Machinery Business

Consolidated net sales in the construction machinery business rose 10% to ¥213,262 million.

The HCM Group is promoting a full product lineup together with alliances to support businesses that employ a wide range of construction machinery, and is concentrating on a market-specific marketing approach that can meet the needs of a diverse customer base in order to expand global business.

#### A. Construction-related Products Business

Demand for key construction machinery made a brisk recovery in Japan, while overseas, demand in Europe, the United States, Oceania and Asia continued to expand, resulting in overall sales growth in this business.

In new products, the HCM Group released four models of ultra-short swing radius mini-excavators, which provide a comfortable cab and improved maintainability. The HCM Group also released a fully hydraulic crawler crane with 70-ton lift capacity, which is in high demand.

To augment the entire wheel loader business, HCM acquired the shares of Hitachi Furukawa Construction Machinery, Ltd. and Hitachi-Furukawa Loaders Europe S.A.S. from Furukawa Co., Ltd. on October 1, 2004, and changed their names to Hitachi Construction Machinery Alba Co., Ltd. and Hitachi Construction Machinery France S.A.S.

**B. Resource Development-related Products Business**

Highly touted for product quality that can tolerate excessive operating conditions and such serviceability as full maintenance support, the business recorded continued sales growth in Oceania and Southeast Asia from such factors as bulk orders of ultra-large hydraulic excavators and large dump trucks for export to Indonesia. In Spain, the business received bulk orders for ultra-large hydraulic excavators for mining and large dump trucks and others to mark its full-scale entry into the mining machinery market in Europe.

While constructing a new production line for large hydraulic excavators at the Tsuchiura Factory, HCM commissioned a portion of production for ultra-large hydraulic excavators to outside contractors and augmented the production structure to be able to flexibly handle orders for mining machinery, which is expected to expand.

In new products, HCM released an articulate dump truck in Japan that can operate well on uneven and unstable ground given its articulated mid-section.

In addition, HCM began shipments to Canada for the 780-ton EX8000 ultra-large hydraulic excavator, the largest class in the world.

**C. Environment-related Products Business**

Following enactment of the Act for Measures Against Soil Contamination, and in line with trends in the expanding recycling market, HCM expanded its customer base through both product sales as well as by offering customers such proprietary technologies as an oil-reset construction method in which contaminated soil at the site of an abandoned gasoline stand is decontaminated.

In new products, HCM released a towable timber recycler that can efficiently shred timber from tree thinning.

**D. Product Development Business**

Under the motto of “customer satisfaction first,” the Company developed products chiefly applicable for hydraulic excavators, and worked to meet the needs of a diverse range of customers not only in such fields as civil engineering and construction, but in demolition, metal recycling and forestry as well.

**E. Rental Business**

Within the directly-managed rental group REC, HCM worked to reduce costs and raise operational efficiency through centralized management of rental assets using the “R-NET1” IT network in tandem with preservation, recovery and unified management of such assets as portable multipurpose equipment through expansion of regional maintenance centers.

**F. Used Machinery Business**

In the used machinery business, sales have grown briskly as a result of aggressive pursuit of parade and Internet auctions by Hitachi Construction Machinery Trading Co., Ltd. that target overseas customers in such areas as Southeast Asia, where demand for used machinery is high.

**G. Service Business**

In Japan, HCM worked to promote its value-added service packages, which provide maintenance services and preventative measures finely tailored to customer needs, including scheduled maintenance, inspection and theft prevention. Overseas, HCM has been winning confidence from customers and earning a strong reputation through its full maintenance contracts (FMC), which provide support for ultra-large hydraulic excavators that operate long hours in trying conditions. Moreover, component supply further increased on the back of active demand for new machinery.

**H. Other Software Business**

In line with expansion in overseas businesses, Hitachi Kenki Logistics Technology Co., Ltd. ramped up its global shipping operations.

In addition, Hitachi Kenki Business Frontier Co., Ltd. is handling the development, sale and maintenance of computer software, while LCS Co., Ltd. is handling such financing business as installment and other sales.

**2) Other Products Business**

Consolidated net sales jumped 93% to ¥980 million due to expanded sales of Hitachi Kenki Fine Tech Co., Ltd. for ultrasonic inspection equipment and atomic force microscope equipment on the back of strong demand for semi-conductor production equipment.

In new products, Hitachi Kenki Fine Tech released a specialty delamination sensor for multilayer ceramic chip capacitors under the Fine SAT Series of ultrasonic imagery equipment, as well as ultrasonic inspection equipment outfitted with large scanners for use in the production of large crystal televisions.

**(4) Disposition of Profits**

For the fiscal 2003 interim period, HCM paid dividends of ¥4.00 per share. At the board of directors' meeting scheduled for October 27, 2004, management passed a resolution to raise dividends to ¥7.00 per share for the interim period under review.

**(5) Status of Consolidated Cash Flows**

At the end of the interim period, cash and cash equivalents totaled ¥48,874 million, which was a decline of ¥1,280 million from the same time last year. Factors relating to each cash flow were as follows.

**Cash flows from operating activities**

Net cash used in operating activities totaled ¥6,815 million, a decrease of ¥14,876 million compared with the previous interim period. Despite a dramatic improvement in income before income taxes and minority interests from ¥9,715 million in the previous interim period to ¥15,094 million in the interim period under review, numerous factors worked to counterbalance this achievement. A decrease in notes and accounts receivable of ¥1,440 million in the previous term rebounded to an increase in notes and accounts receivable of ¥4,668 million following the expansion of sales. Meeting ongoing brisk demand overseas resulted in an increase of ¥11,226 million in inventories, predominately at overseas manufacturing and marketing companies. Moreover, notes and accounts payable came due after expanded production in the previous fiscal year to total ¥5,732 million. Income taxes paid rose from ¥2,215 million in the previous term to ¥9,701 million in the interim period under review.

**Cash flows from investing activities**
Net cash used in investing activities was ¥3,759 million or roughly on par with ¥4,172 million as recorded in the previous interim period. Key factors were acquisitions of property, plant and equipment of ¥5,568 million owing to increased production and streamlining measures, as well as ¥2,647 million in proceeds from sale of property, plant and equipment following the relocation and merging of marketing bases.

As a result, free cash flows declined by ¥10,574 million.

**Cash flows from financing activities**
Net cash provided by financing activities totaled ¥18,081 million. This was chiefly due to proceeds from issuance of stock of ¥24,787 million through a capital increase by issuance of new shares at market price, the purpose of which was to acquire capital to pay for projected expenditures in capital investment as well as to repay bonds redeemable in the fiscal year under review. This was offset by the redemption of debentures totaling ¥10.3 billion.

### (6) Outlook for the Current Term

In Japan, the steady economic recovery is expected to continue unabated, while overseas, except for China, demand is anticipated to be brisk in the Americas, Europe, Africa, the Middle East, Oceania and Asia.

With operations spanning so many regions, the HCM Group must carefully assess and agilely address political stability in governments, China's macro-level government policies, oil prices and changes in exchange rates.

In response to numerous changes in the operating environment, the HCM Group plans to establish the industry's number-one profit structure as a truly global player based on its medium-term management plan "SOH 21-Creative Value UP," and expand its corporate value while continuing to raise shareholder value.

Below are consolidated and non-consolidated projections for fiscal 2005 to date.

(100 million yen; %)

| | Consolidated (Change) | Non-consolidated (Change) |
|---|---|---|
| Net sales | 4,250 (+6%) | 2,934 (+16%) |
| Ordinary income | 325 (+25%) | 206 (+8%) |
| Net income | 170 (+36%) | 116 (+109%) |

Notes:

1) Figures under ¥100 million are rounded down.
2) These projections assume an exchange rate of ¥109 to the U.S. dollar and ¥133 to the Euro.

1) 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 As of Sept. 30, 2004 (A) | Interim As of Sept. 30, 2003 (B) | Year-end As of Mar. 31, 2004 | (A)-(B) |
|---|---|---|---|---|---|
| | ASSETS | | | | |
| Ⅰ | Current assets | | | | |
| 1. | Cash and bank deposits | 40,077 | 50,718 | 36,848 | (10,641) |
| 2. | Notes and accounts receivables | 135,796 | 109,843 | 129,337 | 25,953 |
| 3. | Inventories | 98,662 | 83,928 | 86,089 | 14,734 |
| 4. | Others | 31,871 | 22,795 | 27,659 | 9,076 |
| 5. | Less: Allowance for doubtful accounts | (14,176) | (13,725) | (14,758) | (451) |
| | Total current assets | 292,230 | 253,559 | 265,175 | 38,671 |
| Ⅱ | Fixed assets | | | | |
| (1) | Property, plant and equipment | | | | |
| 1. | Property held for lease | 20,106 | 21,653 | 20,999 | (1,547) |
| 2. | Buildings and structures | 25,883 | 26,383 | 25,363 | (500) |
| 3. | Machinery and equipment | 15,423 | 13,639 | 14,098 | 1,784 |
| 4. | Land | 29,021 | 31,805 | 29,610 | (2,784) |
| 5. | Others | 6,208 | 4,951 | 5,795 | 1,257 |
| | Net property, plant and equipment | 96,641 | 98,431 | 95,865 | (1,790) |
| (2) | Intangible assets | 2,956 | 3,178 | 2,890 | (222) |
| (3) | Investments and other assets | | | | |
| 1. | Investments in securities | 22,360 | 21,679 | 23,521 | 681 |
| 2. | Others | 20,999 | 17,964 | 20,312 | 3,035 |
| 3. | Less: Allowance for doubtful accounts | (1,003) | (809) | (714) | (194) |
| | Total investments and other assets | 42,356 | 38,834 | 43,119 | 3,522 |
| | Total fixed assets | 141,953 | 140,443 | 141,874 | 1,510 |
| | Total assets | 434,183 | 394,002 | 407,049 | 40,181 |

| | | Interim As of Sept. 30, 2004 (A) | Interim As of Sept. 30, 2003 (B) | Year-end As of Mar. 31, 2004 | (A)-(B) |
|---|---|---|---|---|---|
| | LIABILITIES | | | | |
| Ⅰ | Current liabilities | | | | |
| 1. | Notes and accounts payable | 83,174 | 74,752 | 87,457 | 8,422 |
| 2. | Short-term debt | 68,710 | 43,704 | 53,207 | 25,006 |
| 3. | Current portion of bonds | 10,600 | 15,600 | 10,600 | (5,000) |
| 4. | Others | 44,635 | 39,695 | 46,710 | 4,940 |
| | Total current liabilities | 207,119 | 173,751 | 197,974 | 33,368 |
| Ⅱ | Long-term liabilities | | | | |
| 1. | Bonds | 24,500 | 35,100 | 34,800 | (10,600) |
| 2. | Long-term debt | 47,676 | 61,197 | 53,545 | (13,521) |
| 3. | Retirement and severance benefits | 7,236 | 12,476 | 8,991 | (5,240) |
| 4. | Others | 16,961 | 17,537 | 12,893 | (576) |
| | Total long-term liabilities | 96,373 | 126,310 | 110,229 | (29,937) |
| | Total liabilities | 303,492 | 300,061 | 308,203 | 3,431 |
| | MINORITY INTERESTS | | | | |
| | Minority interests | 7,863 | 8,115 | 7,714 | (252) |
| | SHAREHOLDERS' EQUITY | | | | |
| Ⅰ | Common stock | 42,564 | 29,740 | 29,779 | 12,824 |
| Ⅱ | Capital surplus | 42,072 | 29,268 | 29,306 | 12,804 |
| Ⅲ | Retained earnings | 40,600 | 27,333 | 34,296 | 13,267 |
| Ⅳ | Net unrealized gain on securities held | 1,356 | 851 | 1,468 | 505 |
| Ⅴ | Foreign currency translation adjustments | (2,624) | (657) | (2,948) | (1,967) |
| Ⅵ | Treasury stock | (1,140) | (709) | (769) | (431) |
| | Total shareholders' equity | 122,828 | 85,826 | 91,132 | 37,002 |
| | Total liabilities, minority interests and shareholders' equity | 434,183 | 394,002 | 407,049 | 40,181 |

(2) Consolidated Statements of Income

(Millions of yen)

| | | Interim (The half year ended Sept. 30, 2004) | Interim (The half year ended Sept. 30, 2003) | Year-end (Year ended Mar. 31, 2004) | (A)/(B)×100 (%) |
|---|---|---|---|---|---|
| | | | | | % |
| Ⅰ | Net sales | 214,242 | 194,779 | 402,195 | 110 |
| Ⅱ | Cost of sales | 150,801 | 143,546 | 287,360 | 105 |
| | Gross profit before (realized) unrealized profit on installment sales | 63,441 | 51,233 | 114,835 | 124 |
| Ⅲ | (Realized) unrealized profit on installment sales | (844) | (412) | (870) | 205 |
| | Gross profit | 64,285 | 51,645 | 115,705 | 124 |
| Ⅳ | Selling, general and administrative expenses | | | | |
| 1. | Packing and shipping expenses | 6,002 | 4,392 | 9,842 | 137 |
| 2. | Employees' salaries | 13,371 | 12,417 | 25,096 | 108 |
| 3. | R&D expenditure | 4,701 | 3,370 | 6,670 | 139 |
| 4. | Provision of reserve for bad debt | 0 | 1,285 | 4,957 | － |
| 5. | Others | 20,385 | 17,741 | 36,282 | 115 |
| | Total selling, general and administrative expenses | 44,459 | 39,205 | 82,847 | 113 |
| | Operating income | 19,826 | 12,440 | 32,858 | 159 |
| Ⅴ | Non-operating income | | | | |
| 1. | Interest income | 423 | 341 | 703 | 124 |
| 2. | Interest income from installment sales | 292 | 279 | 558 | 105 |
| 3. | Dividends income | 56 | 50 | 108 | 112 |
| 4. | Return on reserve for bad debt | 251 | 0 | 0 | － |
| 5. | Others | 1,020 | 1,475 | 2,391 | 69 |
| | Total non-operating income | 2,042 | 2,145 | 3,760 | 95 |
| Ⅵ | Non-operating expenses | | | | |
| 1. | Interest expenses | 1,741 | 1,675 | 3,519 | 104 |
| 2. | Loss on disposal of inventories | 392 | 91 | 733 | 431 |
| 3. | Effect of exchange rate changes | 216 | 1,043 | 1,806 | 21 |
| 4. | New stock issuing expenses | 765 | 0 | 0 | － |
| 5. | Equity in losses of affiliated companies | 308 | 477 | 686 | 65 |
| 6. | Others | 2,169 | 1,553 | 3,872 | 140 |
| | Total non-operating expenses | 5,591 | 4,839 | 10,616 | 116 |
| | Ordinary income | 16,277 | 9,746 | 26,002 | 167 |
| Ⅶ | Extraordinary income | | | | |
| 1. | Gain on sale of property, plant and equipment | 1,425 | 829 | 829 | 172 |
| 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 | 1,778 | 80 |
| Ⅷ | Extraordinary losses | | | | |
| 1. | Amortization of transition difference | 306 | 611 | 919 | 50 |
| 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 | 760 | 1,152 | 2,732 | 66 |
| 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 | 2,608 | 1,809 | 6,569 | 144 |
| | Income before income taxes and minority interests | 15,094 | 9,715 | 21,211 | 155 |
| | Income taxes | | | | |
| | Current | 5,595 | 5,981 | 12,105 | 94 |
| | Deferred | 833 | (2,335) | (5,738) | － |
| | Minority interests | 1,085 | 1,197 | 2,354 | 91 |
| | Net income | 7,581 | 4,872 | 12,490 | 156 |

## (3) Consolidated Statements of Retained Earnings

(Millions of yen)

| | | Interim (The half year ended Sept. 30, 2004 (A)) | Interim (The half year ended Sept. 30, 2003 (B)) | Year-end (Year ended Mar. 31, 2004) | (A)-(B) |
|---|---|---|---|---|---|
| | ADDITIONAL PAID-IN CAPITAL | | | | |
| Ⅰ | Beginning balance | 29,306 | 25,848 | 25,848 | 3,458 |
| Ⅱ | Increase in additional paid-in capital | | | | |
| 1. | Exercise of stock purchase warrant | 46 | 3,420 | 3,458 | (3,374) |
| 2. | Proceeds from capital increase by issuance of new shares | 12,720 | 0 | 0 | 12,720 |
| 3. | Gain on sales of treasury stock | 0 | — | — | — |
| | Total increase in additional paid-in capital | 12,766 | 3,420 | 3,458 | 9,346 |
| Ⅲ | Decrease in additional paid-in capital | 0 | 0 | 0 | 0 |
| Ⅳ | Ending balance | 42,072 | 29,268 | 29,306 | 12,804 |
| | RETAINED EARNINGS | | | | |
| Ⅰ | Beginning balance | 34,296 | 23,239 | 23,239 | 11,057 |
| Ⅱ | Increase in retained earnings | | | | |
| 1. | Effect of merger of affiliated company | 0 | 0 | 44 | 0 |
| 2. | Net income | 7,581 | 4,872 | 12,490 | 2,709 |
| | Total increase in retained earnings | 7,581 | 4,872 | 12,534 | 2,709 |
| Ⅲ | Decrease in retained earnings | | | | |
| 1. | Effect of newly affiliated company | 0 | 9 | 9 | (9) |
| 2. | Cash dividends | 1,224 | 643 | 1,342 | 581 |
| 3. | Directors' bonuses | 53 | 126 | 126 | (73) |
| | Total decrease in retained earnings | 1,277 | 778 | 1,477 | 499 |
| Ⅳ | Ending balance | 40,600 | 27,333 | 34,296 | 13,267 |

## (4) Consolidated Statements of Cash Flows

(Millions of yen)

| | Interim<br>The half year ended Sept. 30, 2004 | Interim<br>The half year ended Sept. 30, 2003 | Year-end<br>Year ended Mar. 31, 2004 |
|---|---|---|---|
| Ⅰ Cash flows from operating activities | | | |
| 1. Income before income taxes and minority interests | 15,094 | 9,715 | 21,211 |
| 2. Depreciation and amortization | 6,805 | 6,441 | 12,672 |
| 3. Impairment losses for long-life assets | 0 | 0 | 2,436 |
| 4. (Decrease) Increase in allowance for doubtful accounts | (323) | 1,832 | 2,943 |
| 5. Interest and dividends income | (479) | (391) | (811) |
| 6. Interest expenses | 1,741 | 1,675 | 3,519 |
| 7. Equity in losses of affiliate companies | 308 | 438 | 662 |
| 8. (Increase) decrease in notes and accounts receivable | (4,668) | 1,440 | (21,432) |
| 9. (Increase) decrease in inventories | (11,226) | (4,933) | (9,685) |
| 10. Purchase of property held for lease | (4,089) | (3,955) | (10,859) |
| 11. Sales of property held for lease | 3,734 | 1,342 | 3,872 |
| 12. Increase (decrease) in notes and accounts payable | (5,732) | (438) | 14,238 |
| 13. Gain on sales of property, plant and equipment | (2,764) | (1,104) | (1,132) |
| 14. Loss on revaluation of investment in securities | 14 | 0 | 265 |
| 15. Gain on sales of investment in securities | 22 | 0 | 12 |
| 16. Others | 4,449 | (1,786) | (4,746) |
| Sub total | 2,886 | 10,276 | 13,165 |
| 17. Income taxes paid | (9,701) | (2,215) | (5,144) |
| Net cash provided by (used in) operating activities | (6,815) | 8,061 | 8,021 |
| Ⅱ Cash flows from investing activities | | | |
| 1. Investments in time deposits | (759) | (7) | (1,691) |
| 2. Proceeds from time deposits | 50 | 1,392 | 1,695 |
| 3. Acquisitions of property, plant and equipment | (5,568) | (2,315) | (6,447) |
| 4. Proceeds from sale of property, plant and equipment | 2,647 | 1,124 | 1,447 |
| 5. Purchases of investment in securities | (724) | (3,869) | (5,747) |
| 6. Difference between the cash balance of newly consolidated companies and investment | 0 | 0 | (89) |
| 7. Proceeds from sale of investments in securities | 181 | 0 | 47 |
| 8. Interest and dividends received | 516 | 390 | 771 |
| 9. Interest and dividends received from affiliated companies | 156 | 8 | 2,412 |
| 10. Other, net | (258) | (895) | (1,228) |
| Net cash used in investing activities | (3,759) | (4,172) | (8,830) |
| Ⅲ Cash flows from financing activities | | | |
| 1. Net increase (decrease) in short-term debt and current portion of long-term debt | 10,154 | 999 | 7,546 |
| 2. Proceeds from long-term debt | 6,948 | 18,605 | 24,531 |
| 3. Repayments of long-term debt | (8,931) | (3,506) | (11,662) |
| 4. Proceeds from issuance of bonds | 0 | 9,998 | 9,973 |
| 5. Repayments of redemption of debenture | (10,300) | (20,300) | (25,600) |
| 6. Interest paid | (1,936) | (1,931) | (3,771) |
| 7. Dividends paid to shareholders | (1,224) | (643) | (1,342) |
| 8. Dividends paid to minority shareholders of subsidiaries | (1,046) | (784) | (785) |
| 9. Proceeds from issuance of stock | 24,787 | 82 | 160 |
| 10. Purchases of treasury stock | 0 | 1 | 1 |
| 11. Proceeds from treasury stock | (371) | (663) | (723) |
| Net cash provided by (used in) financing activities | 18,081 | 1,858 | (1,672) |
| Ⅳ Effect of exchange rate changes on cash and cash equivalents | 236 | 173 | (622) |
| Ⅴ Net increase (decrease) in cash and cash equivalents | 7,743 | 5,920 | (3,103) |
| Ⅵ Cash and cash equivalents at beginning of year | 41,131 | 44,234 | 44,234 |
| Ⅶ Cash and cash equivalents at end of year | 48,874 | 50,154 | 41,131 |

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

### 1. Scope of consolidation

Number of consolidated subsidiaries: 48

(1) Main consolidated subsidiaries

1) Hitachi Construction Machinery Tierra Co., Ltd.
2) Yamagata Hitachi Construction Machinery Co., Ltd.
3) Hitachi Construction Truck Manufacturing 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

Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai)

### 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

### 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) Hitachi Construction Truck Manufacturing 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 Machinery Holdings U.S.A. Corporation
11) Hitachi Construction Machinery Thailand Co., Ltd.
12) Hitachi Sumitomo Heavy Industries Construction Crane (Shanghai)

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 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

Securities held to maturity

Amortized cost 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 is 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 accounts 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 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.

Note: 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, such 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 regarding 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 are highly liquid, readily convertible into cash, and which bear little risk with regard to price fluctuations.

## 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 | 0 | 58 | 0 |
| Notes accountable endorsed | 59 | 62 | 65 |
| 2. Securitization<br>Notes and accounts receivable | 45,478 | 38,687 | 46,750 |
| 3. Accumulated depreciation on property, plant and equipment | 125,609 | 124,203 | 125,024 |
| 4. Guarantee obligations | | | |
| ①Loans guaranteed | 9,019 | 3,466 | 5,411 |
| ②Commitments to provide guarantees for loans | 613 | 638 | 3,267 |
| 5. Assets pledged as collateral | 17,598 | 16,521 | 16,956 |
| Secured debt | 16,081 | 13,846 | 16,370 |

(Notes to Interim Consolidated Statements of Cash Flows)

(Millions of yen)

| | (Current interim period) | (Previous interim period) | (Previous fiscal year) |
|---|---|---|---|
| Cash and bank deposits | 40,077 | 50,718 | 36,848 |
| Deposit paid | 10,288 | 0 | 5,155 |
| Subtotal | 50,365 | 50,718 | 42,003 |
| Time deposits with the maturity of more than three months | (1,491) | (564) | (872) |
| Cash and cash equivalents | 48,874 | 50,154 | 41,131 |

## 5. Securities

### (1) Other securities with market value

(Millions of yen)

| Category | Current interim term (As of September 30, 2004) | | | Previous interim term (As of September 30, 2003) | | | Previous term (As of March 31, 2004) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| ① Stocks | 1,925 | 3,506 | 1,581 | 1,940 | 2,752 | 812 | 1,936 | 3,641 | 1,705 |
| ② Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ③ Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 1,925 | 3,506 | 1,581 | 1,940 | 2,752 | 812 | 1,936 | 3,641 | 1,705 |

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

(Millions of yen)

| Category | Current interim term (As of September 30, 2004) | Previous interim term (As of September 30, 2003) | Previous term (As of March 31, 2004) |
|---|---|---|---|
| | Book value per consolidated balance sheet | Book value per consolidated balance sheet | Book value per consolidated balance sheet |
| (1) Securities held to maturity<br>Bonds | 10 | 0 | 0 |
| Total | 10 | 0 | 0 |
| (2) Other securities<br>① Unlisted stocks other than OTC stocks | 1,614 | 2,040 | 1,619 |
| ② Unlisted foreign bonds | 1,000 | 1,000 | 1,000 |
| Total | 2,614 | 3,040 | 2,619 |

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

### (1) Currencies

(Millions of yen)

| Category | Type | Current interim term (As of September 30, 2004) | | | | Previous interim term (As of September 30, 2003) | | | | Previous term (As of March 31, 2004) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Contractual or other amount | Due after one year | Market value | Unrealized gain | Contractual or other amount | Due after one year | Market value | Unrealized gain | Contractual or other amount | Due after one year | Market value | Unrealized gain |
| Transactions other than market transactions | Forward exchange contracts | | | | | | | | | | | | |
| | Selling in | | | | | | | | | | | | |
| | US dollar | 29,934 | 0 | 30,443 | (509) | 30,116 | 0 | 28,887 | 1,229 | 24,250 | 0 | 23,852 | 398 |
| | Euro | 19,643 | 0 | 20,512 | (869) | 75 | 0 | 75 | 0 | 19,003 | 0 | 18,791 | 212 |
| | Buying in | | | | | | | | | | | | |
| | Japanese yen | 11,099 | 0 | 11,249 | 150 | 7,653 | 0 | 7,660 | 7 | 6,514 | 0 | 6,582 | 68 |
| | US dollar | 1,977 | 0 | 1,977 | 0 | 1,293 | 0 | 1,239 | (54) | 1,628 | 0 | 1,562 | (66) |
| | Euro | 84 | 0 | 85 | 1 | 156 | 0 | 155 | (1) | 121 | 0 | 116 | (5) |
| | Australian dollar | 32 | 0 | 32 | 0 | 380 | 0 | 380 | 0 | 40 | 0 | 40 | 0 |
| | Currency option trade | | | | | | | | | | | | |
| | Buying in | | | | | | | | | | | | |
| | Japanese yen | 0 | 0 | 0 | 0 | 845 | 0 | (79) | (79) | 0 | 0 | (25) | (25) |
| | (Optional fee) | (—) | (—) | | | (—) | (—) | | | (—) | (—) | | |
| | US dollar | 0 | 0 | 0 | 0 | 412 | 0 | (10) | (10) | 389 | 0 | 0 | 0 |
| | (Optional fee) | (—) | (—) | | | (—) | (—) | | | (—) | (—) | | |
| Total | | — | — | — | (1,227) | — | — | — | 1,092 | — | — | — | 582 |

Notes:

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

(Millions of yen)

| Category | Type | Current interim term (As of September 30, 2004) | | | | Previous interim term (As of September 30, 2003) | | | | Previous term (As of March 31, 2004) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Contractual or other amount | Due after one year | Market value | Unrealized gain | Contractual or other amount | Due after one year | Market value | Unrealized gain | Contractual or other amount | Due after one year | Market value | Unrealized gain |
| Transactions other than market transactions | Interest swaps | | | | | | | | | | | | |
| | Payment fixed, receipts fluctuated | 8,300 | 8,300 | (71) | (71) | 5,300 | 5,300 | (11) | (11) | 5,300 | 5,300 | (87) | (87) |
| Total | | 8,300 | 8,300 | (71) | (71) | 5,300 | 5,300 | (11) | (11) | 5,300 | 5,300 | (87) | (87) |

Notes:

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, 2003 through March 31, 2004), the preceding interim period (from April 1, 2003 through September 30, 2003) and the current interim period (from April 1, 2004 through September 30, 2004), the construction machinery business, including manufacturing, sales and rental, exceeded 90% of the total business of the Company with respect to sales, operating income. The segment information by business category is therefore omitted in this report.

### (2) Segment information by area

(Millions of yen)

| | Current interim period (From April 1, 2004 to September 30, 2004) | | | Previous interim period (From April 1, 2003 to September 30, 2003) | | | Previous fiscal year (From April 1, 2003 to March 31, 2004) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sales | Operating income | Assets | Sales | Operating income | Assets | Sales | Operating income | Assets |
| Japan | 166,856 | 8,722 | 359,308 | 151,738 | 6,598 | 333,005 | 317,398 | 18,887 | 341,817 |
| Asia | 41,077 | 5,027 | 64,168 | 37,798 | 5,964 | 54,810 | 72,332 | 10,552 | 57,979 |
| Europe | 38,468 | 1,533 | 59,787 | 23,820 | 41 | 43,982 | 53,484 | 1,229 | 54,507 |
| Others | 41,372 | 5,286 | 57,648 | 27,962 | 2,779 | 39,160 | 59,281 | 4,965 | 42,285 |
| Subtotal | 287,773 | 20,568 | 540,911 | 241,318 | 15,382 | 470,957 | 502,495 | 35,633 | 496,588 |
| Elimination | (73,531) | (742) | (106,728) | (46,539) | (2,942) | (76,955) | (100,300) | (2,775) | (89,539) |
| Total | 214,242 | 19,826 | 434,183 | 194,779 | 12,440 | 394,002 | 402,195 | 32,858 | 407,049 |

Notes:
1) Segment net sales figures include inter-segment 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) Overseas sales

(Millions of yen)

| | Current interim period (From April 1, 2004 to September 30, 2004) | | Previous interim period (From April 1, 2003 to September 30, 2003) | | Previous fiscal year (From April 1, 2003 to March 31, 2004) | |
|---|---|---|---|---|---|---|
| | Sales | Percentage of sales in consolidated sales | Sales | Percentage of sales in consolidated sales | Sales | Percentage of sales in consolidated sales |
| The Americas | 36,560 | 17.1 % | 25,449 | 13.0 % | 56,870 | 14.1 % |
| Europe, Africa & Middle East | 37,781 | 17.6 | 30,615 | 15.7 | 63,932 | 15.9 |
| Oceania & Asia | 35,813 | 16.7 | 30,501 | 15.7 | 64,634 | 16.1 |
| China | 29,496 | 13.8 | 34,483 | 17.7 | 65,417 | 16.3 |
| Total Overseas sales | 139,650 | 65.2 | 121,048 | 62.1 | 250,853 | 62.4 |
| Consolidated sales | 214,242 | 100.0 | 194,779 | 100.0 | 402,195 | 100.0 |

Notes:
Overseas sales are sales in countries and areas other than Japan of the Company and its consolidated subsidiaries.