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Reliable solutions

September 27, 2018

Domestic Business Structure Reforms

Major restructuring of development and production bases to strengthen global competitiveness

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Hitachi Construction Machinery Co., Ltd.

Domestic Business Structure Reforms

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Social challenges

Declining birthrate and aging of the population

Lack of workforce, lack of skilled workforce

Deceleration of growth

From expansion of the production volume to improvement of productivity

Sustainable growth

Climate change: emission regulations, CO2 reduction

The rapid progress of digitalization

IoT+Big Data

All things are connected by data

Fusion of real and cyber worlds

A new paradigm for automatization and labor saving

Rise of venture companies

Collapse of entry barriers and competition rules

【Products】→【Products】+【Services】

Creating value for customer using ICT /IoT is the most important issue

1-2 Positioning of mid-term management plan and business structure reforms

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Six key themes in the CONNECT TOGETHER 2019 mid-term management plan

1. Transform our business structure into high profitable with entire value chain enhancement
2. Make No.1 presence of hydraulic excavators stronger and expand market share of wheel loaders and mining dump trucks.
3. Expand used machine and rental business
4. Strengthen R&D capabilities with ICT/IoT and develop solution business
5. Promote fixed cost optimization and cost reduction by structural reform
6. Promote ESG management

: Themes related to plant restructuring

Development structure: Organized by product

⇒ Organized by class (mining/construction/compact)

Production structure: Centralization of seven major bases by function, and strengthening of wheel loader related activities

Establish a system that responds quickly to changes in the market environment and achieves continuous growth, greater profitability, and stability.

Phase.1
Business structure reforms are currently in progress at overseas production bases (China, India, the Netherlands, Canada, and other regions)

Phase.2
Start business structure reforms at domestic development and production bases (complete by FY2022)

[Objectives]

1. Strengthen development capabilities for technology shared between products, such as ICT and EV
2. Establish product development structure organized by customer segment
3. Establish flexible production structure that can adapt to fluctuations in demand
4. Establish workplace environment compatible with work style reforms and the declining labor force

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2-1 Strengthening the wheel loader business

Key events in wheel loader business

1999: Established alliance with TCM in wheel loader business

2005: TCM restructured as subsidiary

2015: KCM restructured as subsidiary

Expanded business by improving products and sales capabilities

2018: Rebranded KCM as HITACHI in North America as part of efforts to expand business

Efforts aimed at achieving further growth of wheel loader business in global market

・Merge KCM into HCM, centralize and strengthen the domestic development structure, and strengthen the production structure

・Apply the ICT/IoT technology currently used in hydraulic excavators, and make thorough use of development structure for solutions

2-2 Current status of business structure reforms

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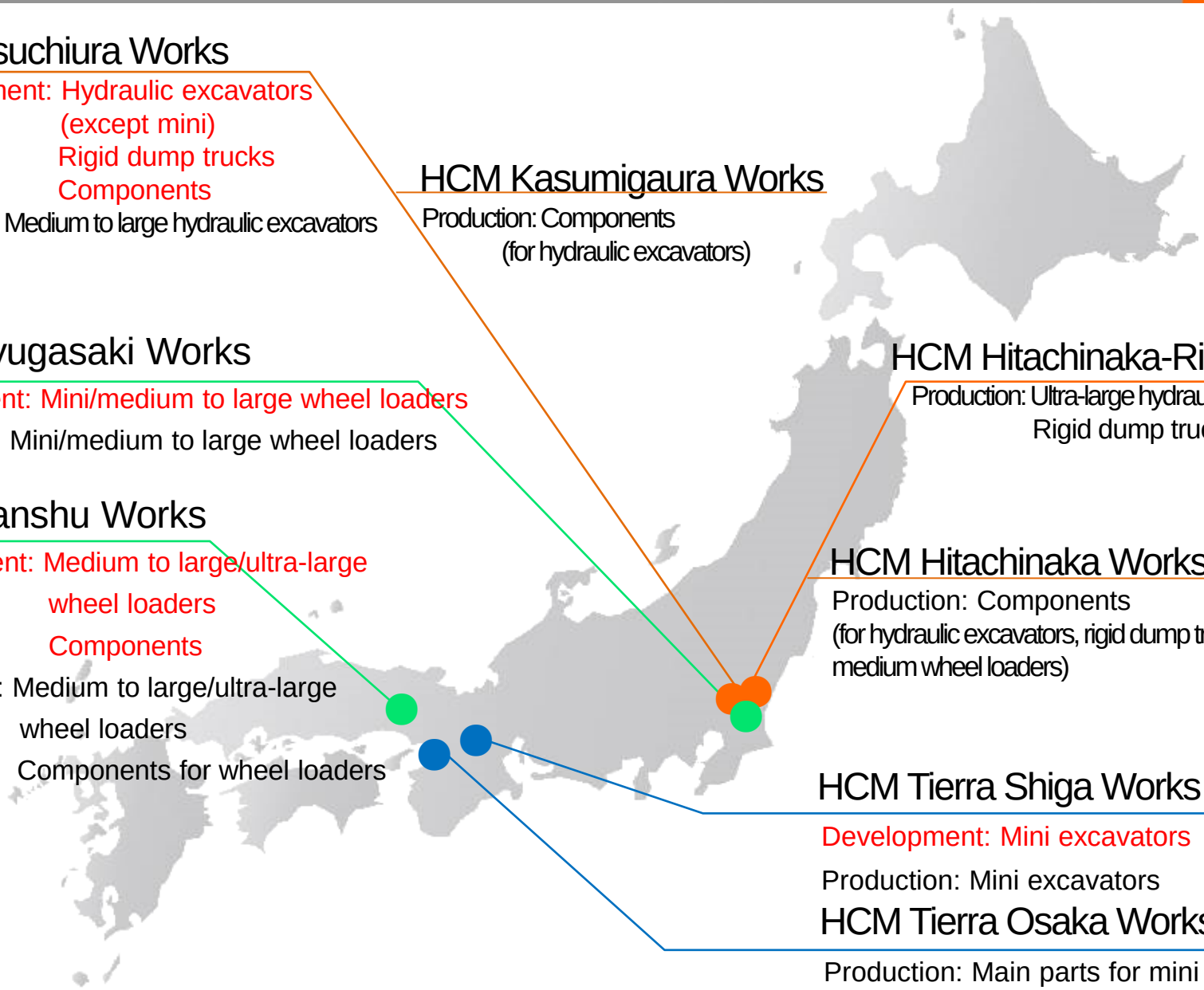

HCM Tsuchiura Works

Development: Hydraulic excavators (except mini)
Rigid dump trucks
Components

Production: Medium to large hydraulic excavators

HCM Kasumigaura Works

Production: Components (for hydraulic excavators)

KCM Ryugasaki Works

Development: Mini/medium to large wheel loaders

Production: Mini/medium to large wheel loaders

HCM Hitachinaka-Rinko Works

Production: Ultra-large hydraulic excavators
Rigid dump trucks

KCM Banshu Works

Development: Medium to large/ultra-large wheel loaders
Components

Production: Medium to large/ultra-large wheel loaders
Components for wheel loaders

HCM Hitachinaka Works

Production: Components (for hydraulic excavators, rigid dump trucks, and medium wheel loaders)

HCM Tierra Shiga Works

Development: Mini excavators

Production: Mini excavators

HCM Tierra Osaka Works

Production: Main parts for mini excavators

2-3 Approach to business structure reforms

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1. Globally optimized supply system through restructuring of component production

Centralize the production capacity for finished products.

Perform optimal allocation of component production to bases in Japan and overseas, according to market conditions.

2. Company integration in line with reforms

Merge KCM into HCM to strengthen the wheel loader business for the global market. (Planned for April 2019)

3. Restructuring period

FY2018 to FY2022

2-4 Overview of business structure reforms

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1. Centralization of development structure

Centralize development resources related to "construction" and "mining" at Tsuchiura Works, and those related to "compact" at Shiga Works

2. Medium hydraulic excavators and medium to large wheel loaders

Position Tsuchiura Works and Ryugasaki Works as "construction" plants, and shift the production of finished products to Tsuchiura Works, and the production of main parts to Ryugasaki Works

3. Hydraulic excavators and rigid dump trucks for mining

Position Hitachinaka-Rinko Works as a "mining" plant, and centralize the production of finished products there

4. Mini excavator and mini wheel loader products/parts

Position Shiga Works and Banshu Works as "compact" plants, and shift the production of finished products to Shiga Works, and the production of main parts to Banshu Works

5. Centralization of component production structure

Position Kasumigaura Works and Hitachinaka Works as "component" plants, which function as centralized production bases for "construction" and "mining" parts

2-5 Transition of business structure reforms [Development]

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[Now: 4 sites]

Product	Mining hydraulic excavators Rigid dump trucks	Hydraulic excavators	Mini excavators	Wheel loaders	Components (hydraulic equipment)
Base	Tsuchiura		Shiga	Ryugasaki/ Banshu	Tsuchiura/ Banshu

[After structure reforms: 2 sites]

Class	Mining	Construction	Compact	Component
Product	Mining hydraulic excavators Rigid dump trucks Ultra-large wheel loaders	Hydraulic excavators Medium to large wheel loaders	Mini excavators Mini wheel loaders	Components (hydraulic equipment)
Base	**Tsuchiura**		**Shiga**	**Tsuchiura**

2-6 Transition of business structure reforms [Production]

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[Now: 5 production sites for finished products]

Product	Mining hydraulic excavators Rigid dump trucks	Hydraulic excavators	Mini excavators	Wheel loaders	Components (hydraulic equipment)
Base	Rinko	Tsuchiura	Shiga	Ryugasaki/Banshu	Kasumigaura/ Hitachinaka/ Banshu

[After structure reforms: 3 production sites for finished products]

Class	Mining	Construction	Compact	Component
Product	Mining hydraulic excavators Rigid dump trucks Ultra-large wheel loaders	Hydraulic excavators Medium to large wheel loaders	Mini excavators Mini wheel loaders	Hydraulic equipment
Base	**Rinko**	**Tsuchiura**	**Shiga**	**Kasumigaura/ Hitachinaka**

* Banshu, Ryugasaki, and Osaka are production sites for main parts

2-7 Status of business structure reforms in 2022

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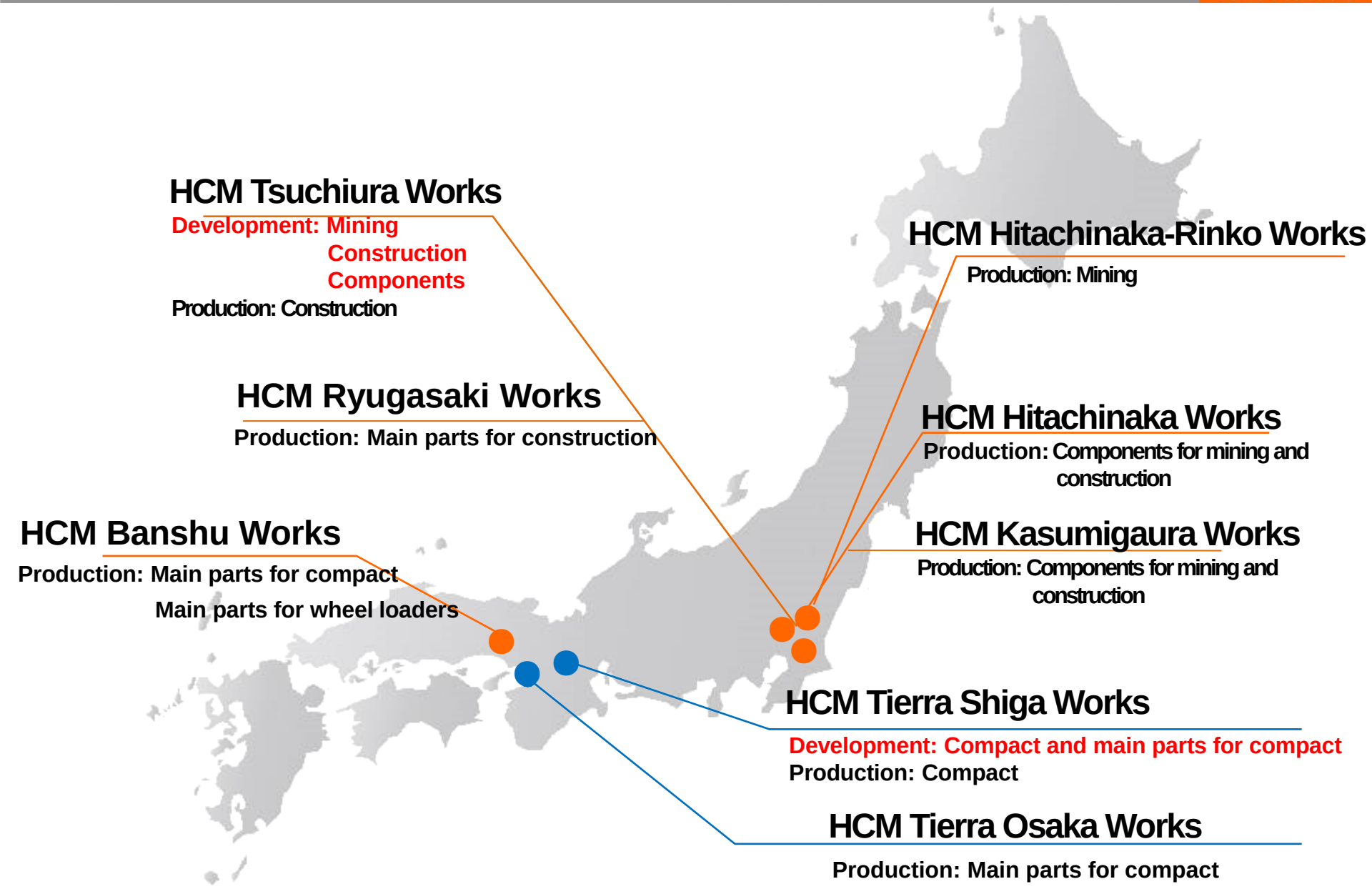

HCM Tsuchiura Works

Development: Mining
Construction
Components
Production: Construction

HCM Hitachinaka-Rinko Works

Production: Mining

HCM Ryugasaki Works

Production: Main parts for construction

HCM Hitachinaka Works

Production: Components for mining and construction

HCM Banshu Works

Production: Main parts for compact
Main parts for wheel loaders

HCM Kasumigaura Works

Production: Components for mining and construction

HCM Tierra Shiga Works

Development: Compact and main parts for compact
Production: Compact

HCM Tierra Osaka Works

Production: Main parts for compact

2-8 Optimization of production capacity

	Now	After restructuring
Hydraulic excavator components (*)	42,000	45,000
Wheel loaders	8,000	10,000

(*): Not including mini excavators

Production capacity: Simple capacity of facility that does not involve shifting special personnel

Optimize production capacity for finished products and components.
Increase production capacity with aim to expand wheel loader business.

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Establishment of production structure with strong ability to adapt to changes in the market environment

<Development> Centralize R&D resources and improve development efficiency and processes, to **strengthen product development capabilities**

<Production> Implement **centralization by class and function** at 7 major bases, to establish a structure that responds quickly to changes in market environment

Establish new production lines to **implement automation, reduce workload, and improve energy productivity**

Accelerate IoT to **improve equipment failure prediction and traceability**

Improvement of investment and profit structure

- Make **approx. 42 billion yen** in capital expenditure (including earthquake-resistant construction) from FY2018 to FY2022
- Work toward **strengthening the profit structure to achieve operating income of approx. 6 billion yen annually**, through efforts such as improving efficiency and expanding wheel loader business

[Explanatory note on this document]

This document contains information that corresponds to our company's "statements on the forecast for the future". The future expectations, plans, outlooks, etc. described in this document are those that the company has judged to be rational based on currently available information.
The actual situation may differ greatly from the forecasts, plans and outlooks described in this document due to changes in various factors. Such factors may include changes in economic conditions and demand for products in major markets, fluctuations in exchange rates, changes in domestic and overseas regulations, as well as in standards and practices of accounting.

END

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Contact information for inquiries

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Appendixes

HCM

Development

Tsuchiura Works	Hydraulic excavators except Mini excavators, rigid dump trucks and components

Production

Hitachinaka-Rinko Works


Ultra-large hydraulic excavators

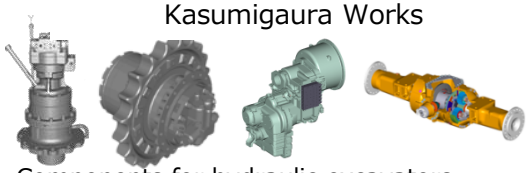

Rigid dump trucks

Tsuchiura Works


Medium hydraulic excavators


Large hydraulic excavators

Hitachinaka Works / Kasumigaura Works


Components for hydraulic excavators, medium wheel loaders and rigid dump trucks

KCM

Development

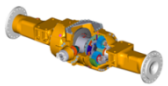
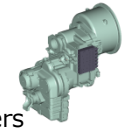
Banshu Works	Ultra-large, large and medium wheel loaders Components for large wheel loaders
Ryugasaki Works	Medium to large and mini wheel loaders

Production

Banshu Works


Ultra-large wheel loaders


Medium to large wheel loaders



Large wheel loaders components

Ryugasaki Works


Mini wheel loaders


Medium to large wheel loaders

HCM Tierra

Development

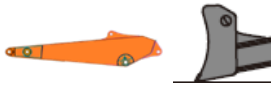
Shiga Works	Mini excavators

Production

Shiga Works


Mini excavators

Osaka Works


Main parts for mini excavators

<Appendixes2> Current Diagram

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HCM

Development

Tsuchiura Works	Hydraulic excavators except Mini excavators, rigid dump trucks and components

Production

Hitachinaka-Rinko Works

Ultra-large hydraulic excavators

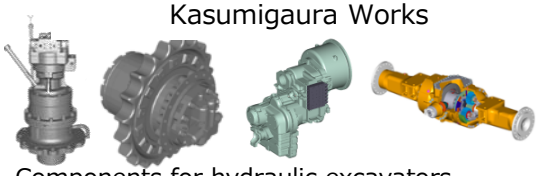
Rigid dump trucks

Tsuchiura Works

Medium hydraulic excavators

Large hydraulic excavators

Hitachinaka Works / Kasumigaura Works



Components for hydraulic excavators, medium wheel loaders and rigid dump trucks

KCM

Development

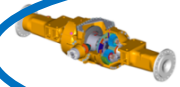
Banshu Works	Ultra-large, large and medium wheel loaders Components for large wheel loaders
Ryugasaki Works	Medium to large and mini wheel loaders

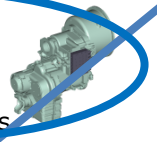
Production

Banshu Works

Ultra-large wheel loaders

Medium to large wheel loaders





Large wheel loaders components

Ryugasaki Works

Mini wheel loaders

Medium to large wheel loaders

HCM Tierra

Development

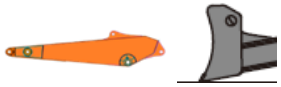
Shiga Works	Mini excavators

Production

Shiga Works

Mini excavators

Osaka Works



Main parts for mini excavators

HCM

Development

Tsuchiura Works

- Ultra-large and medium to large hydraulic excavators
- Ultra-large and medium to large wheel loaders
- Rigid dump trucks
- Components for hydraulic excavators and wheel loaders
- Main parts for hydraulic excavators and wheel loaders

Production

[Mining] Hitachinaka-Rinko Works

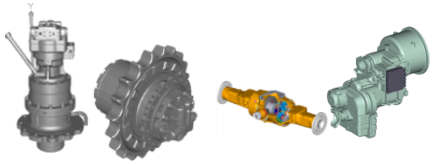
Ultra-large hydraulic excavators

Rigid dump trucks

Ultra-large wheel loaders

Large hydraulic excavators

[Component] Hitachinaka Works / Kasumigaura Works



Components for hydraulic excavators, wheel loaders, and rigid dump trucks

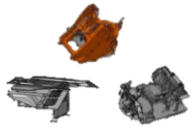
[Construction]

Tsuchiura Works

Medium to large wheel loaders

Medium hydraulic excavators

Ryugasaki Works



Main parts

[Compact] Banshu Works

Main parts for mini excavators and mini to ultra-large wheel loaders

HCM Tierra [Compact]

Development

Shiga Works

- Mini excavators
- Mini wheel loaders
- Main parts

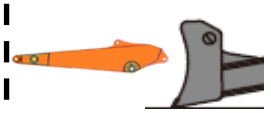
Production

Shiga Works

Mini excavators

Mini wheel loaders

Osaka Works



Main parts for mini excavators