

Business Results for the FY2018 ended March 31, 2019 Regional Market Environments and Projections



April 24, 2019

Masafumi Senzaki

Executive Officer President, Marketing Div.

🌀 **Hitachi Construction Machinery Co., Ltd.**

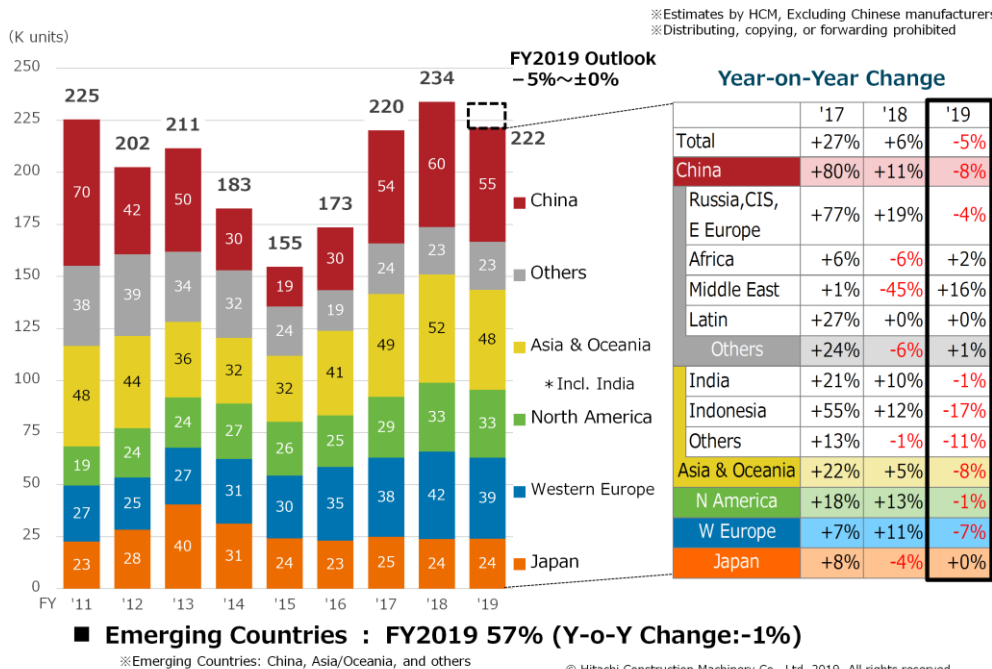
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Global Demand Trend for Hydraulic Excavators

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- Our fiscal 2018 global forecast for hydraulic excavator demand was 234,000 units, which was a 14,000 unit increase from the previous year. Breaking it down by region, from the top, we expected

- 60,000 units in China, an 11% increase;
- 52,000 units in Asia-Pacific, a 5% increase;
- 33,000 units in North America, a 13% increase;
- 42,000 units in Western Europe, an 11% increase;
- 24,000 units in Japan, a 4% decrease due to last year's emission regulation; and
- 6% decrease in other regions, with demand in the Middle East and Africa bottoming out.

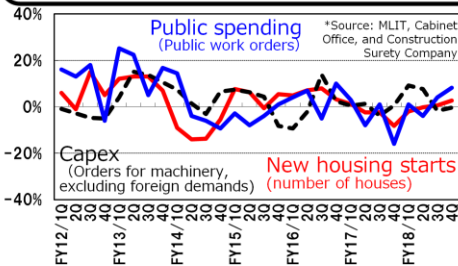
- As our basic outlook for fiscal 2019 demand, reflecting the uncertain future conditions, we expect 222,000 units, a 5% decrease year-on-year. Breaking it down by region, we expect

- 55,000 units in China, an 8% decrease;
- 48,000 units in Asia-Pacific, an 8% decrease;
- 33,000 units in North America, about the same as fiscal 2018;
- 39,000 units in Western Europe, a 7% decrease; and
- 24,000 units in Japan, which is unchanged from fiscal 2018.

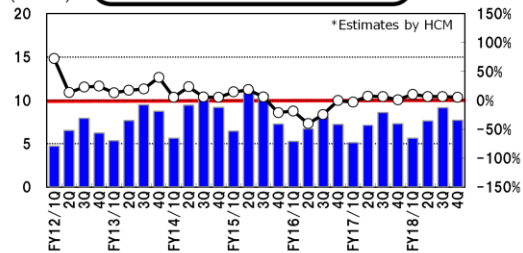
While we are forecasting such demand unit figures, we will implement measures considering the possibility of a rise similar to what we saw in fiscal 2018.

- While housing investment and public investment increased, capital investment remained flat y-o-y.
- Demand for hydraulic/mini excavators and wheel loaders increased (38%, 5%, and 13% y-o-y, respectively.)

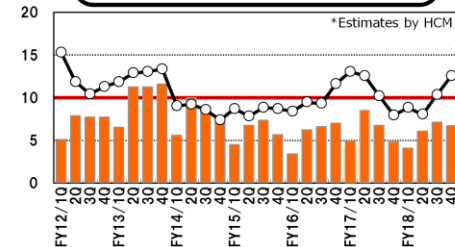
Market Environment: Housing/Public Spending and Capex (y-o-y)



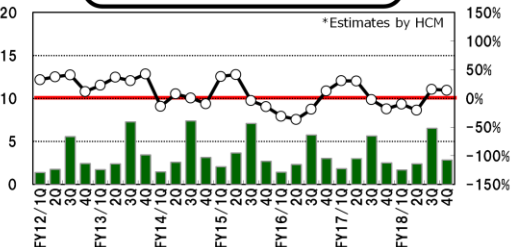
Demand Trend for Mini Excavators



Demand Trend for Hydraulic Excavators

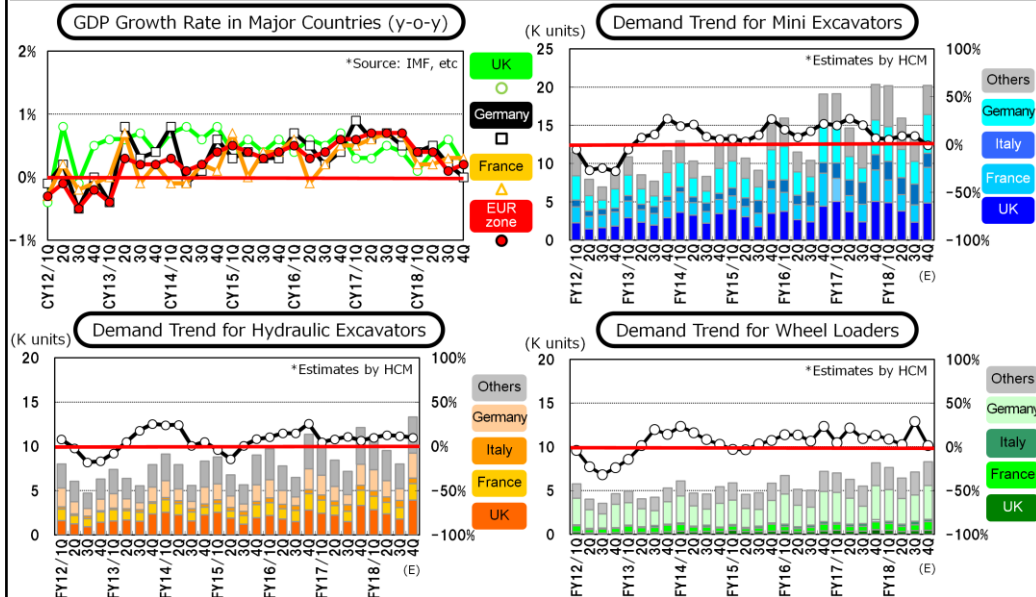


Demand Trend for Wheel Loaders



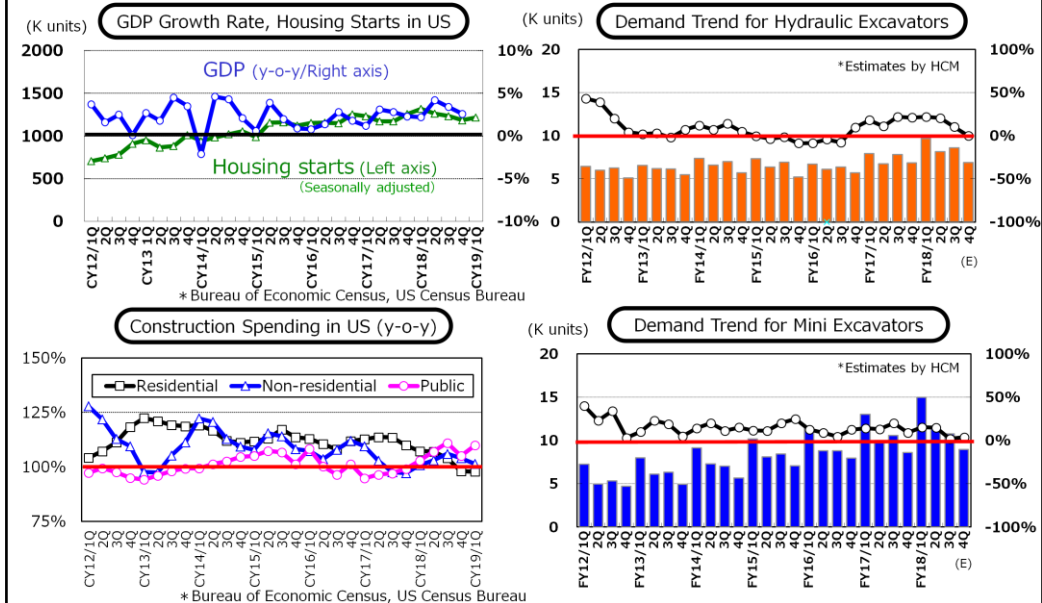
- Housing investment and public works during the 4th quarter increased year-on-year, but capital investment stayed at the same level.
- Recovery was observed in demand that decreased due to the emissions regulation. The demand for hydraulic excavators increased by 38% compared to the same quarter last year and by 13% for wheel loaders.
- The mini excavators, which did not undergo a surge in demand before the emissions regulation, increased by 5% year-on-year.

- Throughout the Eurozone, GDP growth rate slightly increased.
- Hydraulic excavators and wheel loaders showed continued growth, while demand for mini excavators slightly declined.



- The growth of the GDPs of the entire Euro zone and major countries stagnated, and only a slight increase was observed during the 4th quarter of fiscal 2018.
- Hydraulic excavators continued to see increased demand, a 10% increase year-on-year in Europe as a whole, bolstered by public works associated with infrastructure investment. In particular 21%, 20%, and 10% increases were observed in Germany, UK, and France, respectively.
- Mini excavators decreased by 1% and wheel loaders increased by 2%.

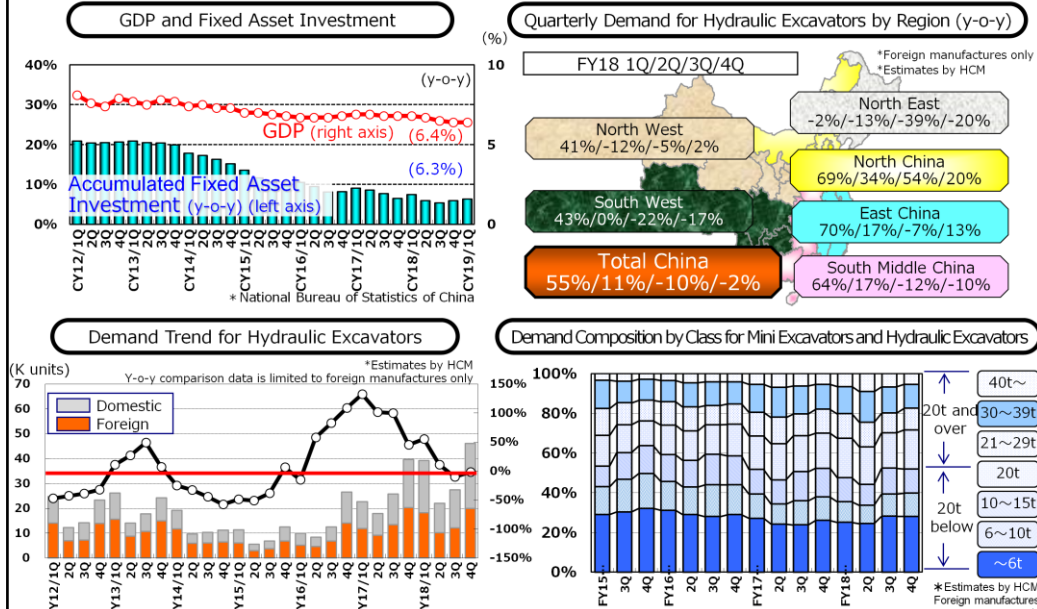
- Housing starts decreased y-o-y & growth rate for private construction spending slowed y-o-y.
- Demand for hydraulic excavators remained almost flat, while demand growth rate for mini excavators increased slightly. ($\pm 0\%$ and $+4\%$ y-o-y, respectively).



- GDP of the U.S. increased by 2.6 points during the 4th quarter of 2018. The number of housing construction projects is on a decreasing trend compared to the same quarter of last year.
- While construction investments are increasing with public works, the growth in the private sector, including general homes and commercial facilities, is stagnating.
- Indicators of slowing growth in current construction demand are also observed. The hydraulic excavator demand stayed at the same level as the same quarter last year, and mini excavator demand increased by 4%.

■ The GDP growth rate was 6.4%.

■ Demand for hydraulic excavators slightly declined (fell 2% y-o-y). ※Foreign Manufactures only

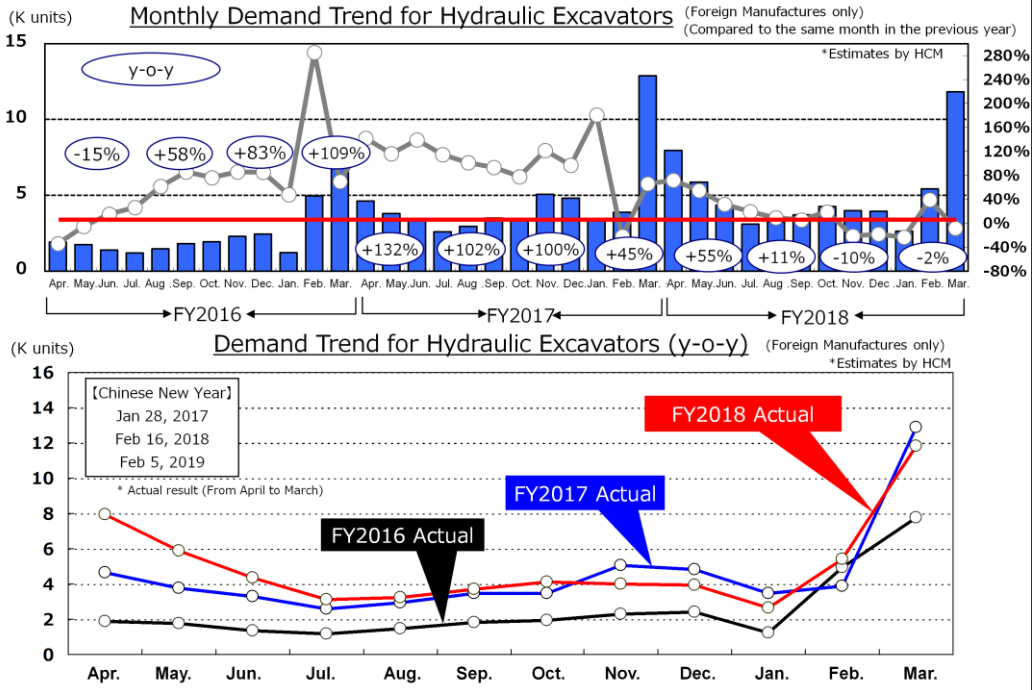


- The GDP growth rate was 6.4% during the 1st quarter of fiscal CY2019. Growth of fixed asset investment stayed the same.
- The construction volume has not decreased, and the current operating rate is on the increase. The hydraulic excavator demand on the whole increased from the previous year, among which foreign capital manufacturers' demand decreased by 2% year-on-year.
- Looking at the hydraulic excavator demand by region, a 13% increase was observed in East China, where the demand composition ratio is the highest. On the other hand, Central South Middle China and South West China, which have the next highest demand composition ratios, saw a greater than 10% drop in demand.
- The demand composition ratio by class showed no significant change year-on-year.

<(Supplementary Information) Chinese Market> ⑥

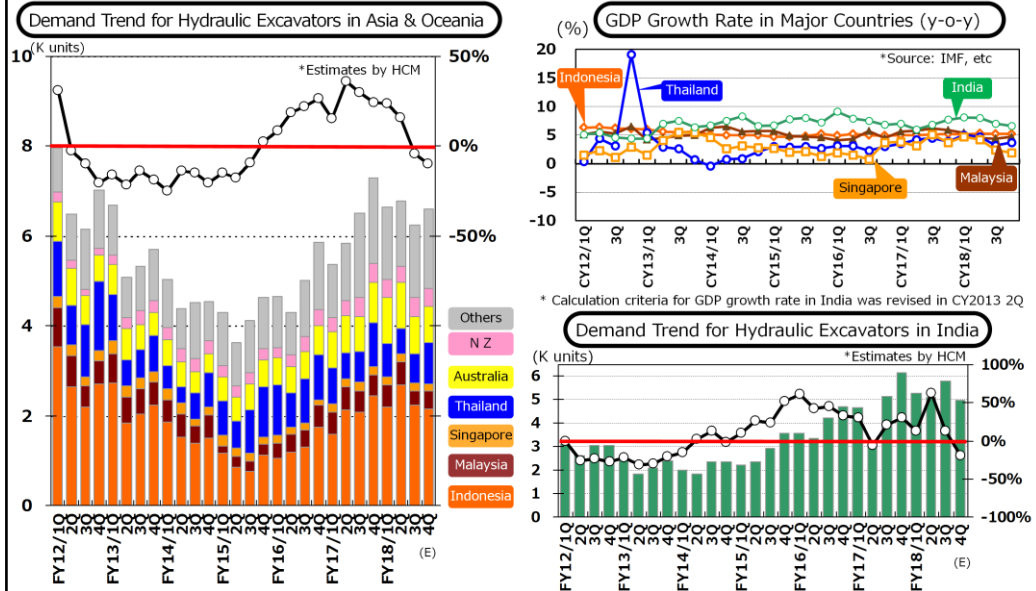
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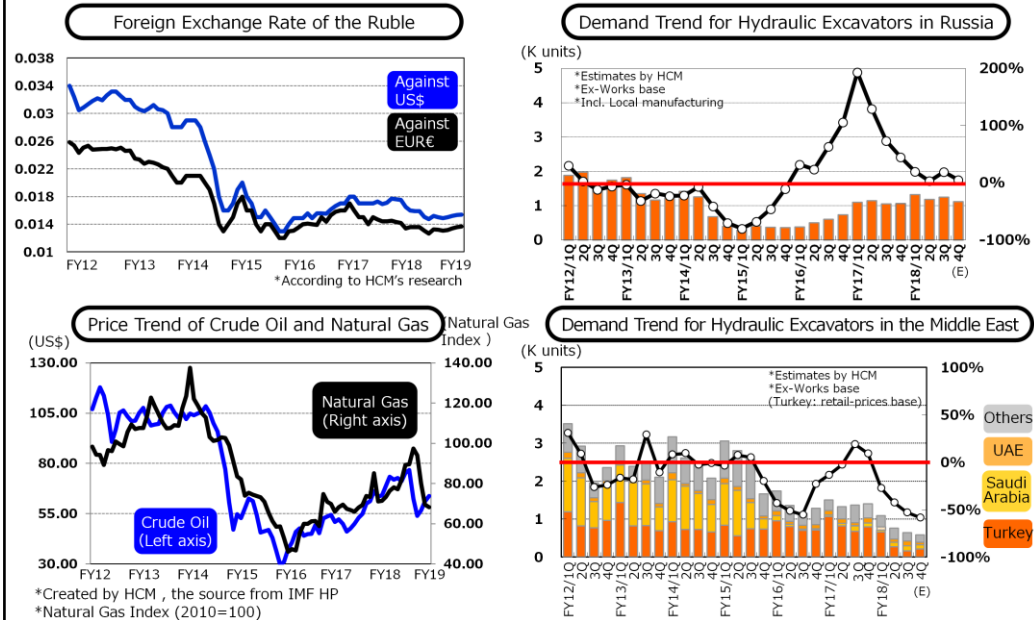
- The hydraulic excavator demand by month for foreign capital showed a continuing downward trend from November 2018 and a 2% decrease in the 4th quarter of fiscal 2018.
- While the demand in the first half of fiscal 2018 exceeded that of the previous year, the demand in the second half showed a year-on-year decrease in November and on except for an increase in demand in February due to the late Chinese New Year.

- Demand for hydraulic excavators decreased in countries such as Indonesia and Australia, and decreased overall in the Asia Pacific region (fell 9% y-o-y).
- Demand for hydraulic excavators decreased in India (y-o-y), however the demand level is still high.



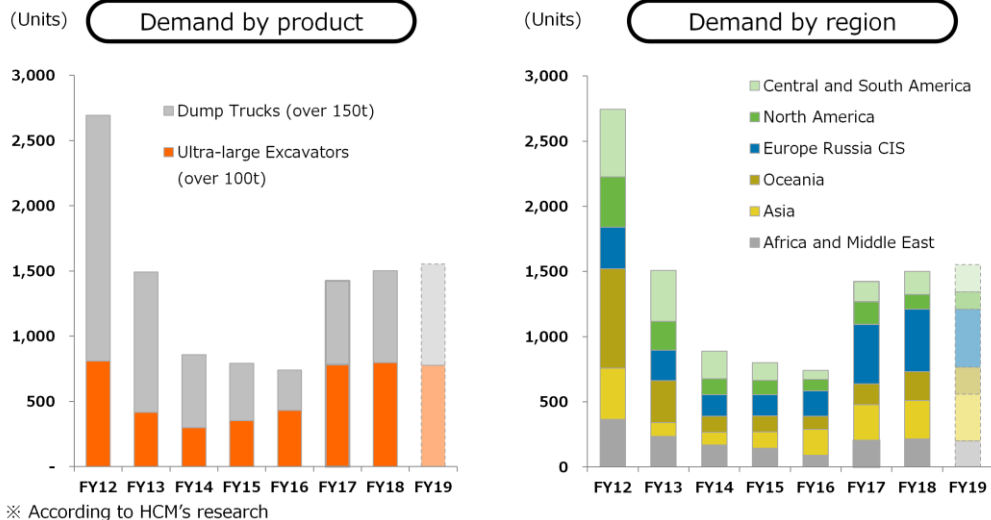
- The hydraulic excavator demand in the Asia-Pacific region showed a 9% year-on-year decrease as a whole, with the bulk of the decrease centering on Indonesia and Australia.
- The hydraulic excavator demand in India decreased year-on-year due to the temporary effect of the election, but still maintained a high level.

- In Russia, demand for hydraulic excavators increased (5% y-o-y).
- In the Middle East, demand significantly decreased in response to weakening TRY (Turkish lira).

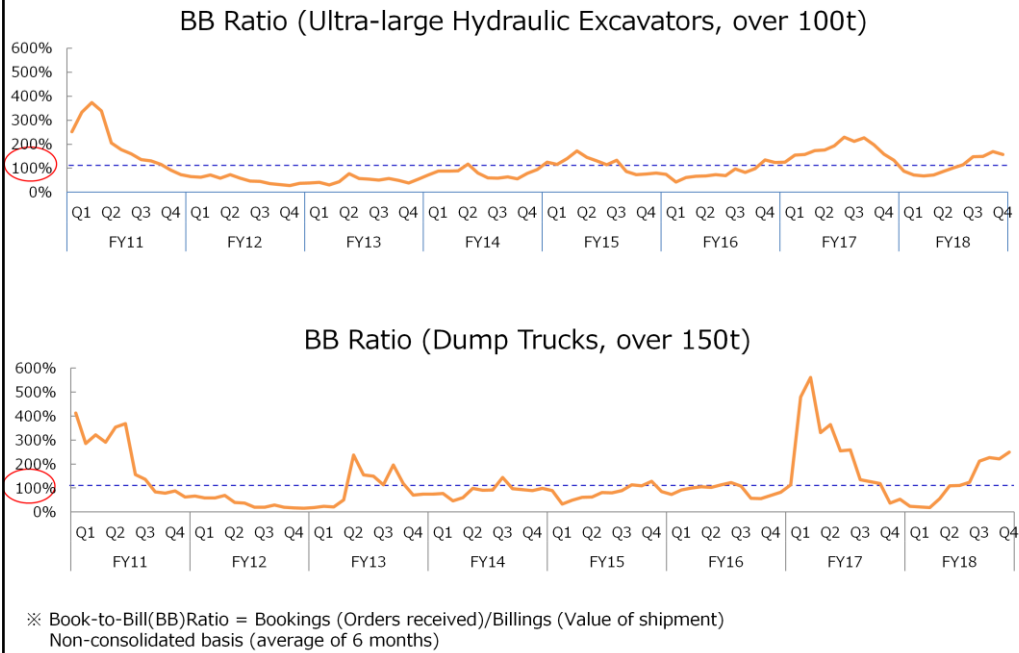


- The hydraulic excavator demand in Russia increased by 5% year-on-year.
- The hydraulic excavator demand in the Middle East fell drastically due to the weakened Turkish lira.

- Demand for mining machinery in FY2018 is expected to increase slightly.
- Demand for ultra-large excavators (over 300t) and dump trucks (over 150t) for major mining companies is increasing. It is expected to continue increasing in FY2019.

Ultra-large Excavators (over 100t), Dump Trucks (over 150t)

- The mining machinery demand in fiscal 2018 was good and in line with the previous year against the backdrop of sound resource prices. A slight increase is expected year-on-year.
- The demand for ultra-large mining excavators and dump trucks for major mines is good and expected to remain stable through fiscal 2019.



- The BB ratio of ultra-large excavators and dump trucks is constantly at 100% or higher thanks to steady orders, particularly of ultra-large models for major mines



An order for 13 ultra-large hydraulic excavators and 17 dump trucks was secured in Mongolia

- 5 units x EX5600 excavators (operating weight 537t) (electric-powered)
- 5 units x EX3600 excavators (operating weight 359t) (electric-powered)
- 3 units x EX2600 excavators (operating weight 254t) (engine-type)
- 17 units x EH4000AC-3 excavators (operating weight 221t)



Delivery and operation to be started in FY19

An order for 38 dump trucks was secured for 3 projects in Australia

- 8 units x EH4000AC-3 and 6 units x EH5000AC-3 (payload 296t)
Delivery and operation to be started in FY19 (retro type of AHS fitted in the future)
- 16 units x EH5000AC-3
Delivery and operation to be started in FY19 -20
- 8 units x EH5000AC-3
Delivery and operation to be started in FY19

- We received an order of 13 mining excavators and 17 dump trucks in Mongolia, which are to be delivered and start operation during fiscal 2019. Among the 13 excavators ordered, 10 are electric excavators.
- We received orders from three projects in Australia that total to 38 dump trucks, which are to be delivered and start operation soon as they are ready.
- AHS, or autonomous driving, is planned to be included in the first project in the future.

A new regional headquarters in Oceania has been established

New headquarters will supply Oceania collectively and work to optimize efficiency in sales of new and used machinery, as well as in the parts and service business—strengthening and expanding its value chain.



Established: April 5, 2019



Parts center for expansion of parts business in Oceania



- To step up business in Oceania, our priority area, we established a new company to control business in the Oceania region to further expand sales as well as the profit from parts and service business.
- Previously, HCM has been supplying construction machinery, parts, and service through the independent efforts of two companies, HCM Australia, which controls our business in Australia, and CablePrice, which controls our business in New Zealand.
- The establishment of the new company will enable us to conduct more efficient business management through centralized control of operations in the whole Oceania region and accelerate the enhancement and expansion of our value chain business in this promising market with a focus on the parts and service business and solutions.

《Topic》 Development of Zero-Emission Electric Excavator Prototypes

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EAC, a JV company with KTEG in Germany, developed zero-emission electric excavators

Prototypes were exhibited at bauma 2019, an international construction machinery trade fair

Demonstration of zero-emission electric excavators (8t class) and exhibition of zero-emission electric mini excavators (2t class)

* Details for launch are under consideration.



Zero-emission electric excavators (8t class) being demonstrated

- Two concept models developed by EAC, a company established with our European distributor's group company (KTEG), were exhibited at bauma 2019 held the other day in Germany.
- Twenty-thousand visitors came to bauma's Hitachi booth and a total of 6,000 people watched our demonstration of the 8-ton class electric excavators, which was received favorably.
- We will continue to actively develop products suited to customers' needs in Europe, where environmental regulations are tight.

Tata Hitachi Construction Machinery switched to photovoltaic power generation, reducing power consumption by approximately 30%



This initiative is one of our energy conservation efforts, along with visualization of plants power consumption in Japan. 7,000 MWh per year, equivalent to about 30% of the power consumption of Kharagpur Works, will be provided by environmentally-friendly renewable energy (expected CO₂ reduction is 3,500 tons per year).



Solar panels at Tata Hitachi's Kharagpur Works

- Tata Hitachi in India started power generation using solar panels installed on the premises of Kharagpur Factory in West Bengal. The environmentally-friendly renewable energy will support approximately 30% of the annual power consumption, specifically around 7,000 MWh, from fiscal 2019. The CO₂ reduction volume is estimated to be 3,500 tons annually.
- Tata Hitachi has already started solar panel power generation at Dharwad Factory in Karnataka, where 75% of the power consumption is supported by renewable energy, and the new solar panel use is a continuation of this initiative.
- Power demand is increasing year by year in India alongside its economic growth and is estimated to exceed that of EU by 2025, pushing India next to China and the U.S. among power consumption giants. HCM will contribute to the stabilization of power supply and reduction of CO₂ emissions in India through this initiative.

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[Cautionary Statement]

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Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, changes in the economic conditions in the Company's principal markets; changes in demand for the Company's products; changes in exchange rates, and the impact of regulatory changes and accounting principles and practices.

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For further inquiries:

Hitachi Construction Machinery Co., Ltd.

Corporate Brand & Communications Div.

TEL : +81-3-5826-8152

FAX : +81-3-5826-8209



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SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

