April 27, 2016
Corporate Strategy Meeting

“GROW TOGETHER 2016”
Mid-Term Management Plan FY2014-2016

Hitachi Construction Machinery Co., Ltd.

Yuichi Tsujimoto
President, Chief Executive Officer and Director
1. Business Environment & Our Challenges
2. Policies for Enhancement
3. Closing Remarks
HCM accelerates following policies to fill a big gap between GT2016 plan and actual situation, without expecting demand recovery.

- Revenue securement & Cost reduction
  - Increase in Market Share
  - Parts & Service expansion
  - Cost reduction

- Fixed cost reduction
  - Overhead cost reduction
  - Increase of personnel efficiency

- Increase in Business Efficiency
  - Restructuring of group companies

- SCM Reform & MONOZUKURI
1. Business Environment & Our Challenges
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<Policy> Sectors to Enhance for growth

- Enhancement of Wheel Loaders’ Business
  ⇒ Business Synergy between WL and Excavator. (customers, dealers, technology)

- Enhancement of Mining Business
  Increase in market share of Dump Trucks
  (pursuing the productivity and efficiency after sales service as important key)
  ⇒ Increasing position by introducing Smart Dump Truck

- Value Chain Structure on the axis of Parts & Service
  ⇒ Driving business practically using the cumulated working machines and data

- Upgrade the productivity and safety, reaction to the requirement of life cycle cost reduction
  ⇒ Upgrade of Reliability and durability and development of solution business

- Improvement of the Operational Efficiency
  ⇒ SCM reform (reduction of lead time), production rationalization
Further amalgamation in technologies of HCM & KCM, Increasing of manufacturing efficiency

Market scale and distribution ratio by all global construction products (FY2014)

Source: Off-Highway Research

Wheel Loaders

New KCM Business Enhancement

ZW-5B series(co-development)
Wheel Loaders

Market Exploitation by Large WL & KCM Sales Network

① R & D
- First mid-sized hybrid WL in Japan

② Performance
- High Fuel Efficiency
  Active Engine Control System

Global & Various application

- Snow Removal (Japan)
- Palm Oil Factory (Indonesia)
- Quarry (Europe)
- Stockbreeding (Japan)
- Coal Mine (South Africa)
- Timber Handling (New Zealand)
- Industrial & Waste Handling (Australia)
Thorough Differentiation & Trial

Open-Pit Machinery Market 2014

Dump Trucks Share (payload 150t over)

- Dump Trucks
- Bulldozers
- Wheel Loaders
- Excavators
- Others

Source: The Freedonia Group, Inc.

AC-3 series introduced on Dec 2014


AHS truck R&D plan

- Development of technology
- Implementation program
- User test

EH4000AC-3 Trolley spec

- Trolley spec (South Africa)
- High Altitude / High Power spec (South America)
Enhancement of support capability & Expand parts’ revenue

New Service development by utilizing data
- Offering the automatically issued report to the machinery users (accumulation of customers’ proof)
  example: - monitoring of the machine status
  - monitoring of the job site condition

Expansion of Parts Business
- Analysis of maintenance data for the main components
- Proper targeting
- Parts stock control considering replacement schedule

Global e-Service
3G Unit equipped
full working data

To customers: offering “high availability” & “low life cycle cost”
To dealers/HCM: expansion of parts service business

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**Practical Usage of ConSite**

**Contracts Increase & Value Creation**

- **ConSite contract units (global)**

  - Achieved
  - Target FY15

**Frequent/Deep Communication creates Value**

- **Sales promotion of undercarriage parts**
  - Automated notice for Inspection & repair undercarriage
  - Automated suggestion of proper schedule for the inspection & maintenance

- **Proposal for increase the working efficiency**
  - Proposal to increase the working & fuel efficiency based on regular report
  - Effective for new machine Inquiry

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Expansion of line-up

Minign GET enhancement

- Ground Engagement Tool

Expansion of select parts & business opportunity

- Offering select parts to the price oriented customers
- Global supply of local parts & strategic pricing for bestselling parts

Speedy Evolvement

Customers

Dealers

Regional H/Q

Sharing the know-how provided by direct sales and service

HCM H/Q Promoters by region

Qualitative and Quantitative Approach
Customer Solution Business

R&D (ICT)

Basic performance

- Reliability
- Low Fuel Consumption
- Durability

- Offering the solution for customers’ task
- Expansion of Solution Offering to various customers utilizing the business solution at mining
- One Hitachi & Open Innovation

Increase of Safety

Upgrade of Productivity

Reduction of life cycle cost

Visualization of the Information around machinery

- Optimization of operation process
- Introducing ICT at job site along customers’ task

Automated visualization of machinery condition

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April 1st, 2016

Establishment of Client Solutions Business Development Div.

One Hitachi & Open Innovation

Increase of safety  Upgrade of productivity  Reduction of life cycle cost

Mining Business

Visualization of the Information around machinery

Autonomous Haulage System

Mining Fleet Management System

Construction Business

Application for i-Construction

Survey

Design & Construction Plan

Construction

Verification

3D Survey

3D data

ICT machinery

3D data as-built management

Challenge with Reliable Solutions

R&D (ICT)

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SCM Reform & Manufacturing Enhancement

✓ Detailed inventory control & provision of dead stock
✓ Further reduction of lead time (order receipt – procurement – manufacturing)

**Inventory (Billion Yen)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Days on hand</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>146</td>
<td>321</td>
</tr>
<tr>
<td>2014</td>
<td>140</td>
<td>314</td>
</tr>
<tr>
<td>2015 Plan</td>
<td>135</td>
<td>300</td>
</tr>
<tr>
<td>2015 Actual</td>
<td>120</td>
<td>290</td>
</tr>
</tbody>
</table>

**Factory in Japan**

<table>
<thead>
<tr>
<th>Product</th>
<th>Lead Time (FY2015 vs FY2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid Excavators</td>
<td>1/3 reduced</td>
</tr>
<tr>
<td>Mini Wheel Loaders</td>
<td>1/2 reduced</td>
</tr>
</tbody>
</table>

**Manufacturing Enhancement**

- Comparison of actual machines made in Japan, China, India & Indonesia
- Internal skill certification & Int’l skill contest
- Optimization of production capacity and human resource
- Restructuring of production
- Promotion of local production

**Evaluation of global manufacturing (Made by Hitachi)**

Made by Hitachi Quality

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Value Chain Enhancement

Parts & Service
- Recycling of Parts
- Sales of Used Machines
- Repeat Resale / Scrap of machinery

One Hitachi Open Innovation

Dump trucks
- Sales of New Machinery
- Demand forecasting/Segment analysis

Wheel Loaders
- Rental
- Finance
- Repeat Resale / Scrap of machinery

Sales of Used Machines
- Customer’s needs & Information gathering and analysis
- Research
- Development
- Operational Reform
- R & D (ICT)
- Production and procurement

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Closing remarks

Go Together 2013 ► GROW TOGETHER2016 ► 3rd step

Encourage Growth and Seeds for the next

Seeds for Growth

Innovative change for the continuous profitable constitution

Growth (strategic enhancement)
- Wheel Loaders
- Dump trucks
- Parts & Service
- R & D

- Business Structural Reform
- Cost Structural Reform
- Restructuring of Production
- SCM Reform

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2020 VISION “Close and Reliable Partner” anywhere on the earth with best solutions through Kenkijin Spirit

[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.

END

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