April 26, 2017

Mid-term Management Plan

“CONNECT TOGETHER 2019”
【FY2017-FY2019】

Hitachi Construction Machinery Co., Ltd.
Representative Executive Officer, President and Executive Officer
Kotaro Hirano

2020VISION
“Close and reliable partner" anywhere on the earth with the best solutions through Kenkijin Spirit
1. **Positioning of the new Mid-term Management Plan**

2. New Mid-term Management Plan
   "CONNECT TOGETHER 2019"

3. Conclusion
CONNECT TOGETHER 2019

Go Together 2013

GROW TOGETHER 2016

CONNECT TOGETHER 2019

Thousand units / Year

Hydraulic excavator global demand

Planting seeds for growth

Structural reform

Changes/Connect

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1. Positioning of the New Mid-term Management Plan

2. New Mid-term Management Plan
   "CONNECT TOGETHER 2019"

3. Conclusion
## Changes in Business Environment

<table>
<thead>
<tr>
<th>Items</th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Trend</strong></td>
<td>Environmental responsiveness (global warming countermeasure)</td>
<td>Infrastructure development and urbanization in emerging countries</td>
<td>Labor shortages, aging and handing down of technology</td>
</tr>
<tr>
<td><strong>Economic Trend</strong></td>
<td>Increase of crude oil and resource prices</td>
<td>Slumping resource prices</td>
<td></td>
</tr>
<tr>
<td><strong>Construction Industry</strong></td>
<td>Emerging markets (BRICs)</td>
<td>Lehman shock</td>
<td>Rapid expansion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Rapid deceleration</td>
</tr>
<tr>
<td></td>
<td>Basic performance (durability/operability)</td>
<td></td>
<td>Safety, Productivity, Life cycle cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Tightening of exhaust gas regulations</td>
<td>Spread to emerging countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equipped with communication function</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Machinery management</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Remote monitoring</td>
<td>Preventive maintenance</td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Diversification of customer choices</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Lease / Rental / Used etc..)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Business Environment Outlook

**Construction**
- Significant demand recovery is not expected.
- ICT machinery is expected to be widespread in Japan, the United States, Europe, Australia, etc.

**Mining**
- Restricted investment due to resource prices stuck at the mid-level.
- Lengthening of machinery usage period

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**Small and medium-sized hydraulic excavator global demand**

<table>
<thead>
<tr>
<th>Year</th>
<th>09</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>250</td>
<td>220</td>
<td>200</td>
<td>180</td>
<td>160</td>
<td>140</td>
<td>120</td>
<td>100</td>
<td>80</td>
<td>60</td>
<td>40</td>
</tr>
</tbody>
</table>

**Ultra large hydraulic excavator global demand**
(Over 100t)

<table>
<thead>
<tr>
<th>Year</th>
<th>09</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>500</td>
<td>450</td>
<td>400</td>
<td>350</td>
<td>300</td>
<td>250</td>
<td>200</td>
<td>150</td>
<td>100</td>
<td>50</td>
<td>0</td>
</tr>
</tbody>
</table>

**Rigid dump truck global demand**
(Over 150t)

<table>
<thead>
<tr>
<th>Year</th>
<th>09</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>2000</td>
<td>1800</td>
<td>1600</td>
<td>1400</td>
<td>1200</td>
<td>1000</td>
<td>800</td>
<td>600</td>
<td>400</td>
<td>200</td>
<td>0</td>
</tr>
</tbody>
</table>

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Deepening Value Chain

Other product group
- Backhoe loader
- Skid-steer loader
- Bulldozer
- Crawler crane

Main products
- Skid-steer loader
- Crawler crane
- Backhoe loader
- Bulldozer

Customer interests: Safety and productivity improvement, reduction of life cycle cost

Value chain business ratio
- Current
- FY2019 target
- Value chain
- New machinery
- New machinery
- Value chain

Value chain
- New machinery
- Finance
- Rental
- Used machinery
- Service
- Parts
- Parts recycling

Marketing
R&D
Production
Procurement
Logistics
Value Chain Connect (Construction)

Product Development
- Environment Responsiveness
  - Machinery which adopt latest exhaust gas regulation
- Energy saving and efficiency
  - Hybrid machinery
    - Electric machinery
- Automation, Computerization
  - ICT machinery
    - (Application for i-Construction)

Solution
- Remote monitoring
- Big data analysis
- Artificial Intelligence Sensor
- ConSite
- Global e-Service
- Lumada

Value Chain
- Product Development
  - New machinery sales
  - Rental
- i-Construction
- Design and construction plan
- Construction
- Inspection
- Value Chain Connect (Construction)
- Life Cycle
- Used machinery with warranty
- Resale (used machinery)

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Value Chain Connect (Mining)

Product Development
- Durability, Reliability
- Electrification, Energy saving, Safety
- Labor-saving, Automation

Solution
- Remote monitoring
- Maintenance management of main components
- Fleet management
- Big data analysis
- Service (M&A)

Value Chain
- Life Cycle
- New machinery sales
- Fleet management
- Maintenance management of main components
- Remote monitoring

Value Chain Connect (Mining)

- Provision of service solutions
- Development, manufacturing and sales aftermarket parts
- Casting, manufacturing and distribution service of casting products

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Global System Restructuring

- Integration of production and sales
- Mining Alt production
- Integration of factory
- Liquidation
- Reinforce factory capability
- Expand mining service bases
- Divest the second factory
- Divest the company
- Reorganization of manufacturing
- Production rationalization
- Reform of factory
- Integration of production and sales

Capital Investment Plan

IT investment
Sales
Manufacturing

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Global Value Chain

- Provision of service solutions
- Development, manufacturing and sales aftermarket parts

- Casting, manufacturing and distribution service of casting products

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Transform to the corporate structure with high adaptability to changes by improving the profitability and efficiency through value chain enhancement and business structure reform

<table>
<thead>
<tr>
<th>Numerical Management Targets</th>
<th>GT2016 &lt;FY2016&gt;</th>
<th>CT2019 &lt;FY2019&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating income ratio</td>
<td>3.7%</td>
<td>Over 9%</td>
</tr>
<tr>
<td>ROE</td>
<td>2.0%</td>
<td>Over 9%</td>
</tr>
<tr>
<td>Net D/E ratio</td>
<td>0.46</td>
<td>0.4 or less</td>
</tr>
<tr>
<td>Dividend payout policy</td>
<td>31.8%</td>
<td>Approximately 30% or more</td>
</tr>
</tbody>
</table>

< FY2019 preconditions >

| Sales revenue | ¥850 billion | Foreign exchange rate | $1=¥100 / €1=¥110 / RMB1=¥15 |

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ESG Management (Strategic CSR)

Integrate the CSR initiatives with the management strategy, and contribute to the social issues through business.

Create a corporate value from the mid-/long-term perspective, and Promote information disclosure from the ESG perspective.

FY2030 CSV target

Corporate Target
CO2 saving rate by product (comparison with 2010) ▲ 33%

Solution Target
Improvement of productivity and safety, reduction of life cycle cost

3 CSV Themes
Three themes having high social expectations and a high level of correlation with our business operations.

Solutions to global environmental issues

Contribution to community development

Enhanced initiatives to increase social infrastructure workforce

Hybrid machinery

ICT machinery

Basic 5 themes ··· essential contents for realizing the 3 key CSV themes

1. Pursuit of safe, effective and sophisticated products, services and working environments
2. Occupational safety and work-style reform
3. Development of global and local human resources
4. Making better business transactions and value chain enhancement
5. Governance

CSV: Creating Shared Value

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END

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FAX: 03-5826-8209

[Cautionary Statement]
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