Mid-term Management Plan

“CONNECT TOGETHER 2019”
【FY2017-FY2019】

Hitachi Construction Machinery Co., Ltd.

Representative Executive Officer, President and Executive Officer

Kotaro Hirano
## Main Points of “CONNECT TOGETHER 2019”

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
Changes of Macro Environment

Mega Trend

- [Social]
  - Aging, labor shortage (especially skilled labor)
  - SDGs
  - Further urbanization

- [Technology]
  - IoT/Digital revolution
  - Electrification/Automation

- [Economy]
  - Growth at next emerging countries (Africa, Central Asia)
  - Rise of Venture companies

Customer Needs Change

- Optimization of assets efficiency
- Operation support / Automation
- Safety (surrounding recognition, Avoidance control)
- Eco-friendly

- From “Product” to “Product and Service”
- Operation management - from machine to entire construction site
- “Ownership to “Sharing / Rental”
- Direct deal with OEM
- Enhancement of Africa and Central Asia

Core competence of OEM

Technology

- Engine / EV
- Internal manufacturing of major component

Basis

- Digital Technology
- Big Data
- Customer-centric policy

Solution

- Information - oriented construction
- Autonomous operation
- One Stop service
Hydraulic excavator global demand

Changes/Connect

Structural reform

Planting seeds for growth

Developed countries
Emerging countries

Thousands units / Year

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Deepening Value Chain

Other product group
- Backhoe loader
- Bulldozer
- Skid-steer loader
- 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
- Value chain
- New machinery

FY2019 target
- Value chain
- New machinery

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

Marketing
R&D
Production
Procurement
Logistics
- Sales of value chain steadily increased by several measures including utilization of ConSite and acquisition of Bradken and H-E Parts.
- We focus on further expansion of value chain with a view to entering to rental business and so on in major developed countries.

Initiatives to grow value chain sales

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bradken•H-E Parts</td>
<td>2019</td>
</tr>
<tr>
<td>- Expansion of Chile facility/Entering Southern Africa</td>
<td></td>
</tr>
<tr>
<td>- Development of next-gen GET (mining consumables)</td>
<td></td>
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<tr>
<td>Global expansion of certified used equipment business</td>
<td></td>
</tr>
<tr>
<td>Acceleration of rental business expansion in Europe and Australia</td>
<td></td>
</tr>
<tr>
<td>Rental business in Americas under consideration</td>
<td></td>
</tr>
<tr>
<td>Development and global expansion of ConSite OIL</td>
<td></td>
</tr>
<tr>
<td>Expansion of the mining remanufacturing parts business</td>
<td></td>
</tr>
</tbody>
</table>

Solution Linkage
Sales promotion in North America for Brand switch to Hitachi
Integration of sales and production base in North America

Purpose
- Improved response capabilities to customers and dealers
- Production capability enhancement
- Higher operation efficiency

Brand switch / Utilization of dealer network

Base Integration

Integration and expansion plan in FY2018

Dealer Network

(Newnan Works and head office)
One Hitachi

Growth Strategy:
- Value chain enhancement
- Regional Strategy + M&A

One Hitachi
- Utilization of HCM data among Hitachi group
- Provision of Hitachi group’s additional value to HCM customers

Construction
- i-Construction
- Big data (construction management)
- ConSite OIL
- The world first service
- Global Service
-Lots of machines and customer data utilized by LUMADA (FY2018~)

Mining
- No 1 Asset Management Solution
- Rigid dump truck
- AHS solution
- Wenco

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Global Restructuring

- Integration of production and sales (Done)
- Mining bucket production (Done)
- Integration of factory
- Factory closing (Done)
- Liquidation
- Capacity expansion at recycling factory
- New factory establishment (Done)
- Divestment of the second factory (Done)
- Divestment of the company
- Factory capability expansion
- Liquidation (Done)
- Facility expansion for mining service
- Liquidation (Done)
- Subsidiary integration (Done)
- Facility expansion for recycling factory
- Reorganization of manufacturing
- Production rationalization
- Liquidation (Done)
- Subsidiary integration (Done)
- Factory closing
- Integration of company (Done)
- Establishment of engine remanufacturing site (Done)

COGS ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>COGS Ratio (%)</th>
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</thead>
<tbody>
<tr>
<td>FY2016</td>
<td>77.3</td>
</tr>
<tr>
<td>2017</td>
<td>72.5</td>
</tr>
<tr>
<td>2018</td>
<td>72</td>
</tr>
<tr>
<td>2019</td>
<td>74</td>
</tr>
</tbody>
</table>

Capital Investment Plan

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ESG Management / Work-Style Reform

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*2 Themes**

- Solutions to global environmental issues
- Contribution to community development
- Enhanced initiatives to increase social infrastructure workforce

**3 CSV**: Creating Shared Value

**SDGs*3**

13 Air pollution
9 Sustainable industry development

**Work-Style Reform**

- Introduction of Tele-Work etc.
- Personal Work-Style reform
- Organizational Work-Style reform

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To be a company with higher tolerance against changes in business environment, we improve profitability and efficiency through enhancement of value chain and business structure reform.

(The company aims to achieve each target under the business environment and FX rate mentioned in the Mid-term Management Plan announced in March 2017)

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<thead>
<tr>
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<tbody>
<tr>
<td>FX rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>¥/$</td>
<td>110.9</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>¥/€</td>
<td>130.1</td>
<td>120.0</td>
<td>110.0</td>
</tr>
<tr>
<td>¥/RMB</td>
<td>16.8</td>
<td>15.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Revenue</td>
<td>959.2 billions of yen</td>
<td>950.0 billions of yen</td>
<td>Environment of 850.0 billions of yen</td>
</tr>
<tr>
<td>Adjusted operating income ratio</td>
<td>9.8%</td>
<td>8.8%</td>
<td>Over 9%</td>
</tr>
<tr>
<td>ROE</td>
<td>14.1%</td>
<td>Over 9%</td>
<td>Over 9%</td>
</tr>
<tr>
<td>Net D/E ratio</td>
<td>0.33</td>
<td>0.4 or less</td>
<td>0.4 or less</td>
</tr>
<tr>
<td>Dividend payout policy</td>
<td>30.1%</td>
<td>Approximately 30% or more</td>
<td>Approximately 30% or more</td>
</tr>
</tbody>
</table>
[Cautionary Statement]
This material contains forward-looking statements that reflect management’s views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results, and business strategies. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured. 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.