HITACHI

Reliable solutions

Corporate Vision

Public Relations Strategy Office
Hitachi Construction Machinery Co., Ltd.

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Corporate Vision

Contents

1. Management Plan
2. Regional Trend & Business Strategy
3. Operating Results & Forecast
4. Company Outline and Topics

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2020VISION

“Close and reliable partner" anywhere on the earth with the best solutions through Kenkijin Spirit

Mid-term Management Plan

“CONNECT TOGETHER 2019”

【FY2017-FY2019】

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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

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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

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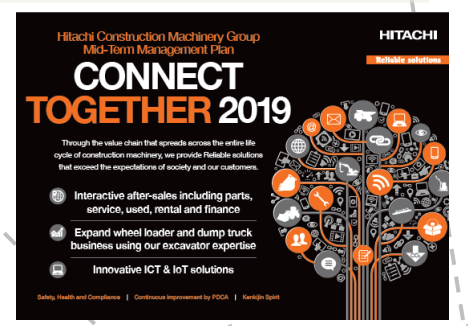
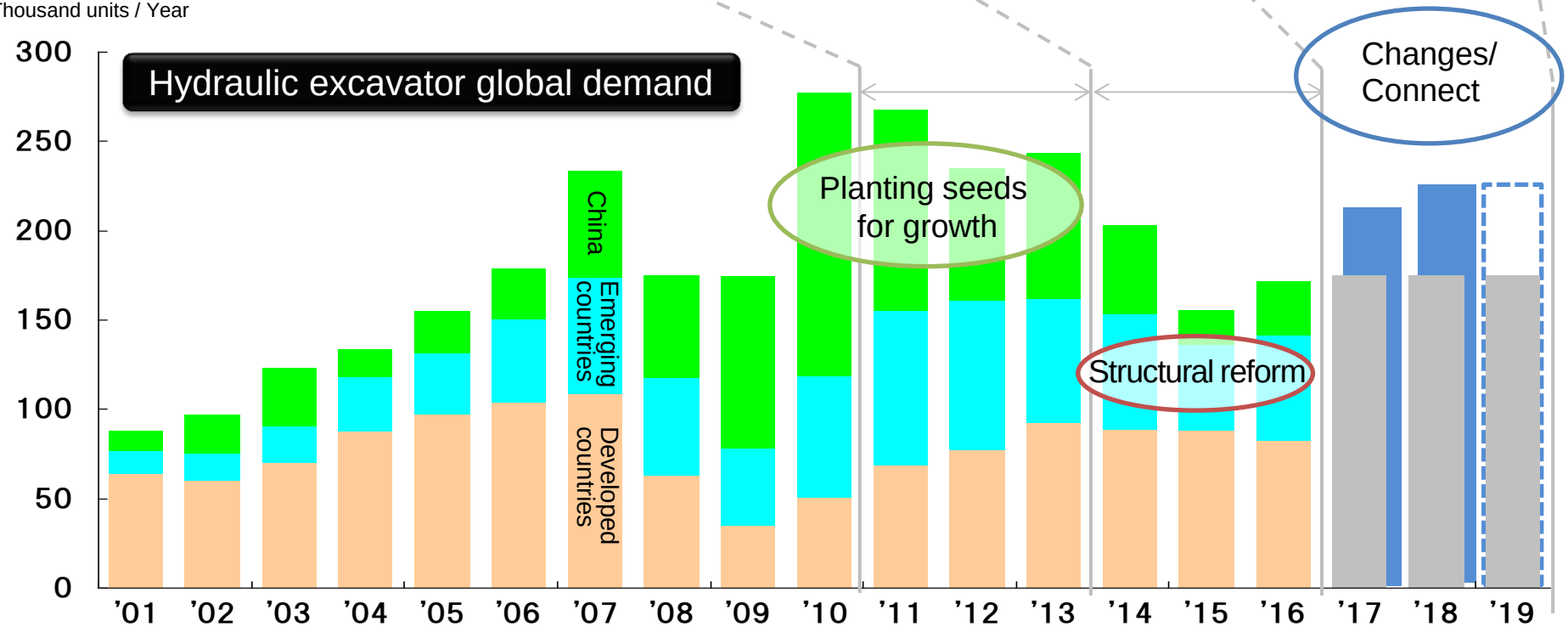
Go Together 2013 → GROW TOGETHER 2016 → CONNECT TOGETHER 2019



Thousand units / Year



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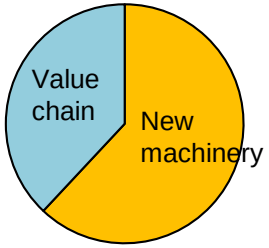
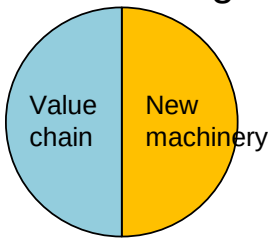
Deepening Value Chain

Value chain business ratio

FY2016 actual



FY2019 target



Products

Other product group

- ✓ Backhoe loader
- ✓ Bulldozer
- ✓ Skid-steer loader
- ✓ Crawler crane

Main products

Marketing
R&D
Production
Procurement
Logistics

New machinery
Service
Parts
Used machinery
Rental
Parts remanufacturing
Finance

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

Value chain

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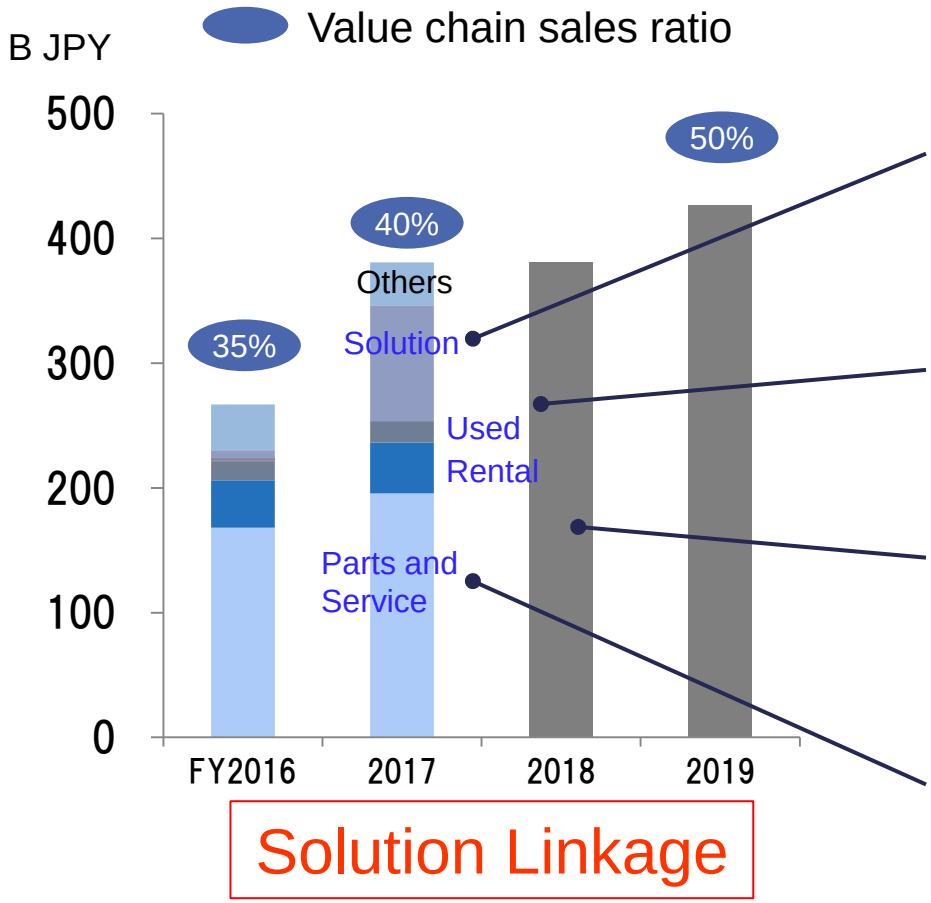
Deepening Value Chain –Progress and Forecast-

- 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



Bradken・H-E Parts
- Expansion of Chile facility/Entering Southern Africa
- Development of next-gen GET (mining consumables)

- Global expansion of certified used equipment business

- Acceleration of rental business expansion in Europe and Australia
- Rental business in Americas under consideration

- Development and global expansion of ConSite OIL
- Expansion of the mining remanufacturing parts business

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【Wheel Loaders】
Sales expansion in North America and improvement of profitability ⑨

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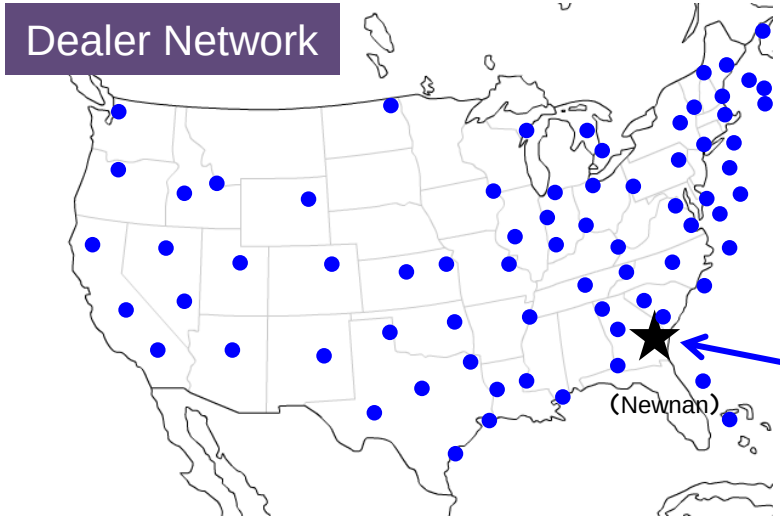
- Sales promotion in North America for Brand switch to Hitachi
- Integration of sales and production base in North America

Brand switch / Utilization of dealer network



Base Integration

Integration and expansion plan in FY2018

Purpose

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

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One Hitachi

Construction

i-Construction
Big data (construction management)

ConSite

ConSite OIL
The world first service

Global e-Service

Lots of machines and customer data utilized by LUMADA (FY2018~)

LUMADA

Mining

Wenco

No 1 Asset Management Solution

Rigid dump truck AHS solution

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

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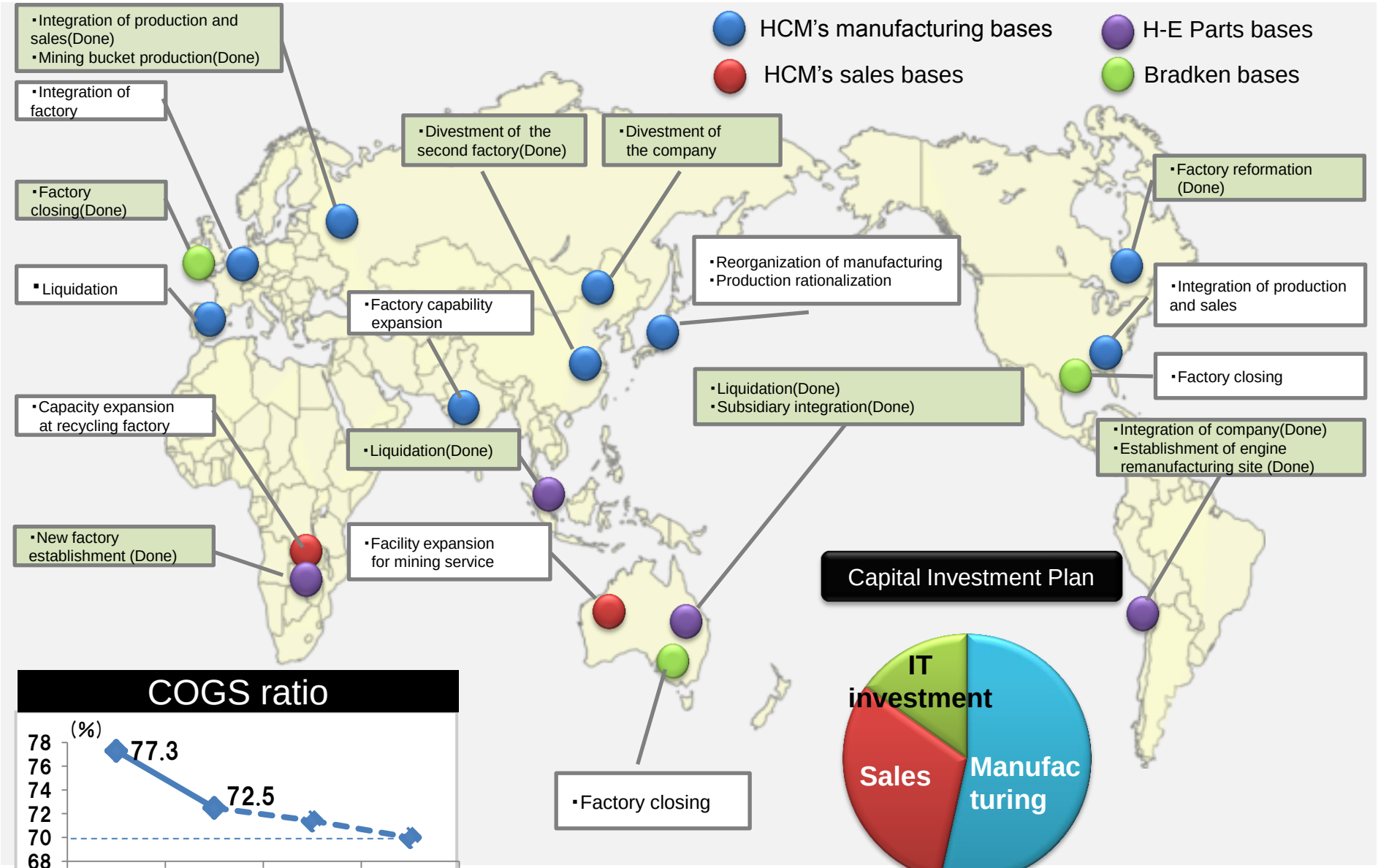
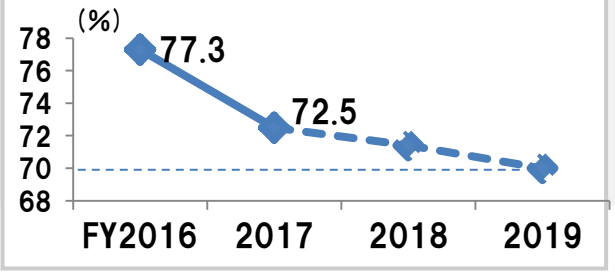
Global Restructuring



COGS ratio



Capital Investment Plan

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ESG Management / Work-Style Reform

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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

Hybrid machinery

3 CSV*2 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

ICT machinery

SDGs*3

*2 CSV:Creating Shared Value
*3 Sustainable Development Goals

Work-Style Reform

☐ Introduction of Tele-Work etc.

Personal Work-Style reform × Organizational Work-Style reform

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Numerical Management Targets

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)

		CT2019 March,2018 Actual	CT2019 March 2019 Forecast	CT2019 March 2020 Guidance
FX rate	¥/$	110.9	100.0	100.0
	¥/€	130.1	120.0	110.0
	¥/RMB	16.8	15.5	15.0
Revenue		959.2 billions of yen	950.0 billions of yen	Environment of 850.0 billions of yen
Adjusted operating income ratio		9.8%	8.8%	Over 9%
ROE		14.1%	Over 9%	Over 9%
Net D/E ratio		0.33	0.4 or less	0.4 or less
Dividend payout policy		30.1%	Approximately 30% or more	Approximately 30% or more

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Global Demand Trend for Hydraulic Excavators

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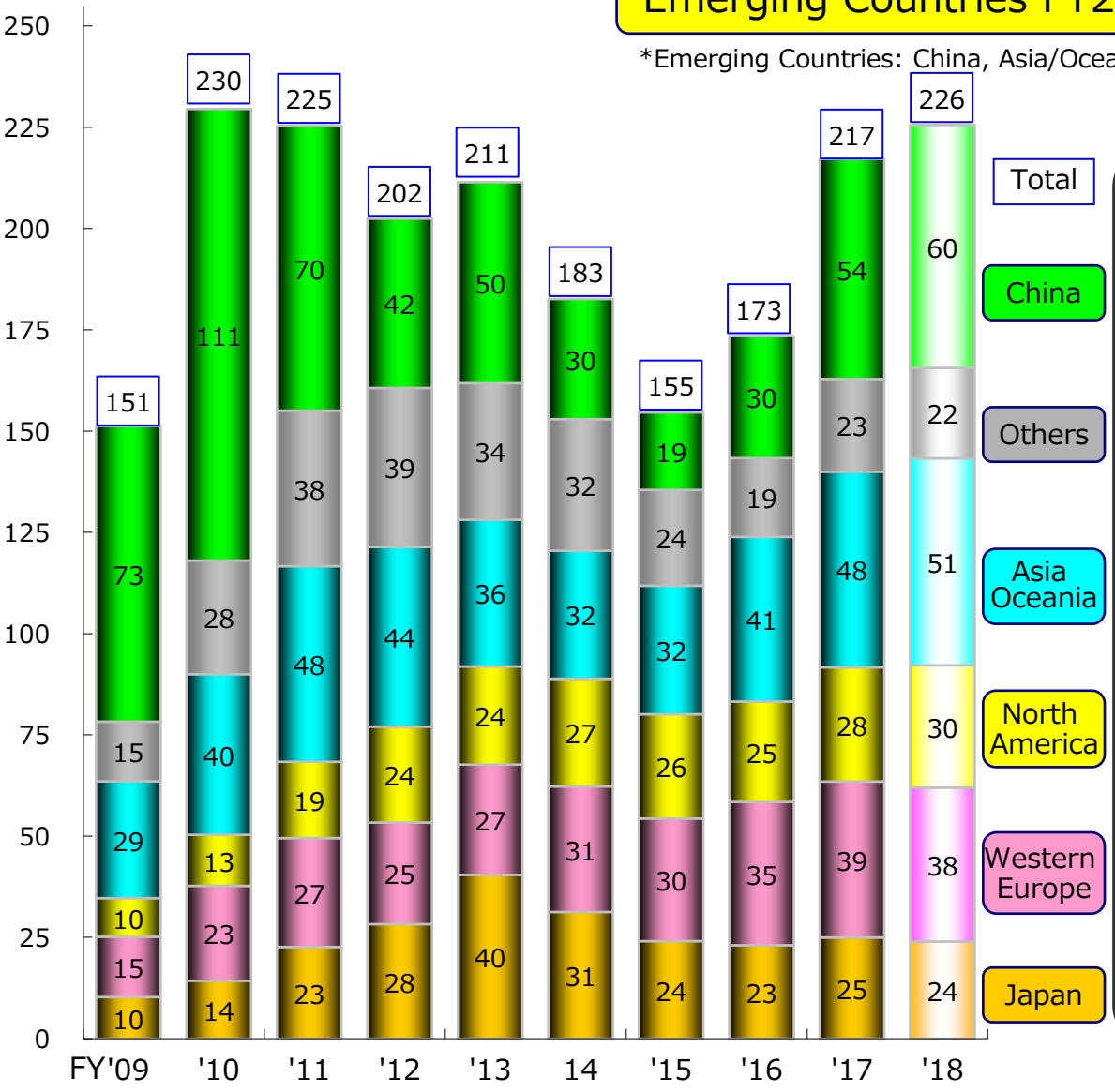
＊Estimates by HCM , Excluding Chinese manufacturer

(K Units)



Emerging Countries FY2018 : 59% (Y-o-Y Change:+1%)

*Emerging Countries: China, Asia/Oceania, and others

Year-on-Year Change

	'16	'17	'18
Total	+12%	+25%	+4%
China	+58%	+80%	+10%
Russia, CIS, E Europe	+23%	+72%	-13%
Africa	+13%	+4%	+2%
Middle East	-45%	-3%	+2%
Latin America	-15%	+11%	+2%
Others	-18%	+18%	-3%
India	+44%	+20%	+11%
Indonesia	+36%	+51%	+6%
Others	+16%	+9%	+1%
Asia & Oceania	+28%	+19%	+6%
N America	-4%	+14%	+7%
W Europe	+17%	+9%	-1%
Japan	-4%	+8%	-4%

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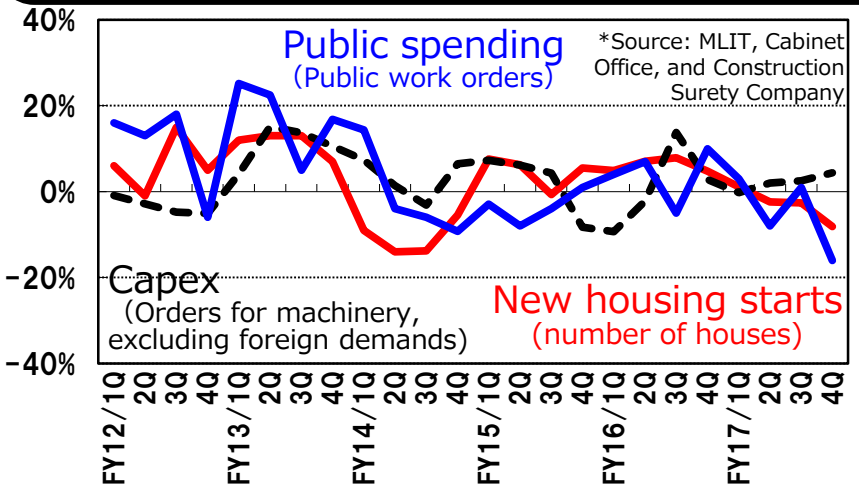
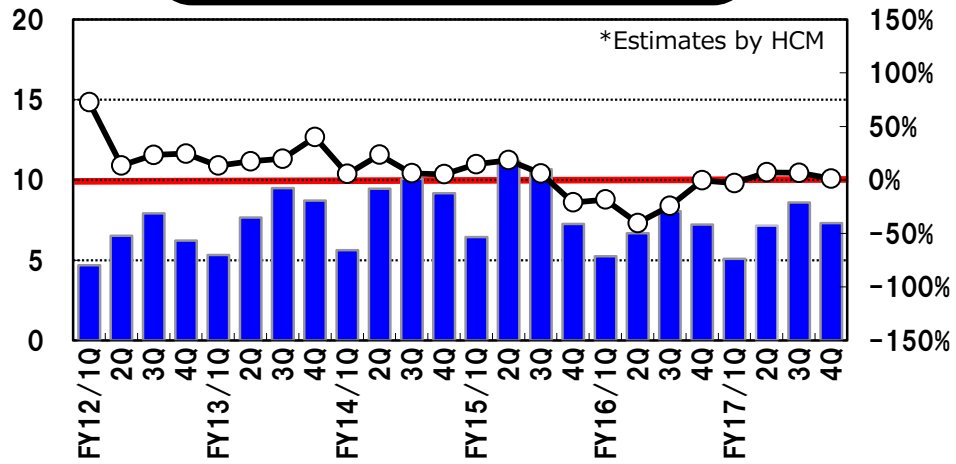
◇While housing investment and public investment decreased, capital investment has recovered.

◇Regarding demand for construction machinery from January to March 2018, the demand growth of hydraulic excavators and wheel loaders decreased due to the end of last-minute demands in anticipation of the new emissions regulations.

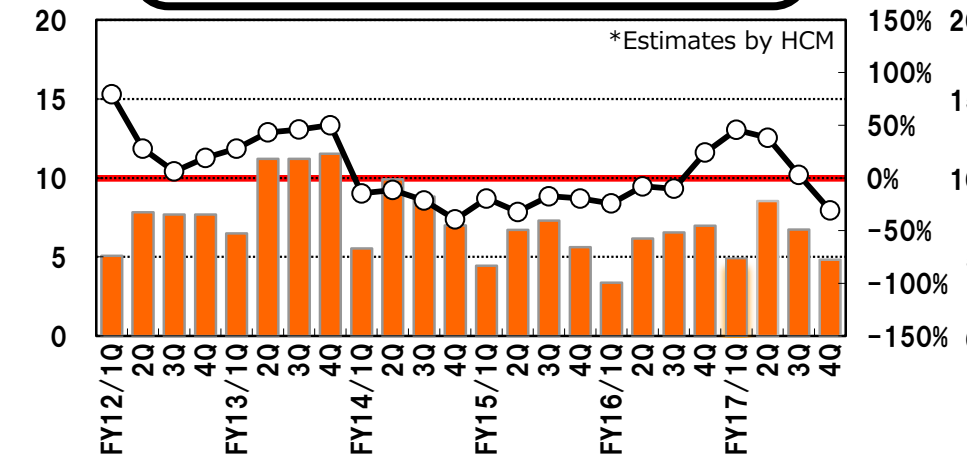
Market Environment: Housing/Public Spending and Capex (y-o-y)



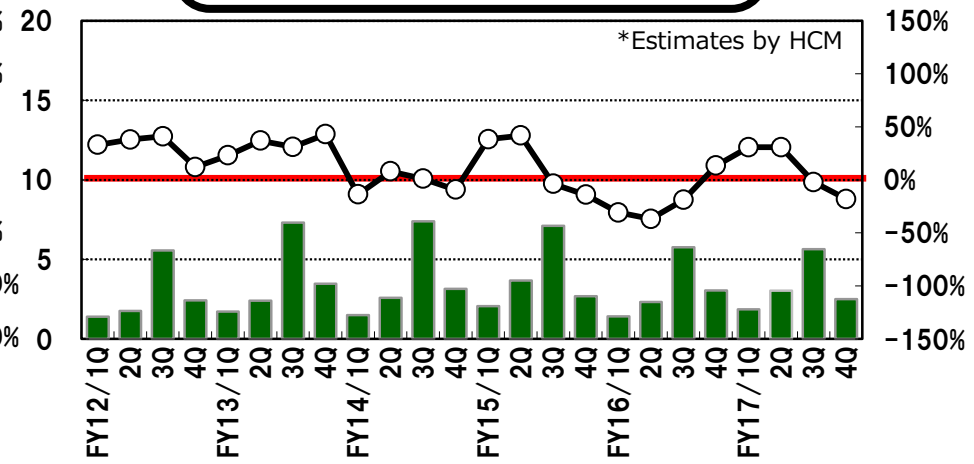
Demand Trend for Mini Excavators



Demand Trend for Hydraulic Excavators



Demand Trend for Wheel Loaders

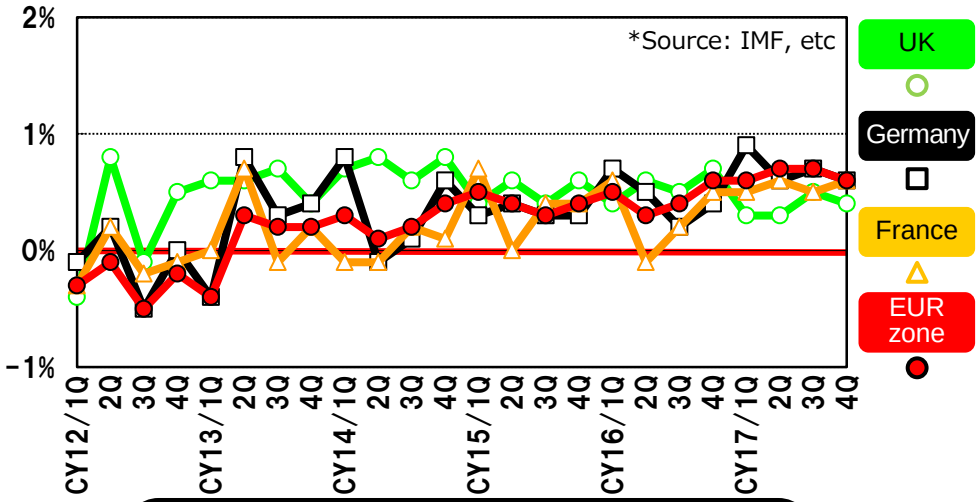


<Europe>

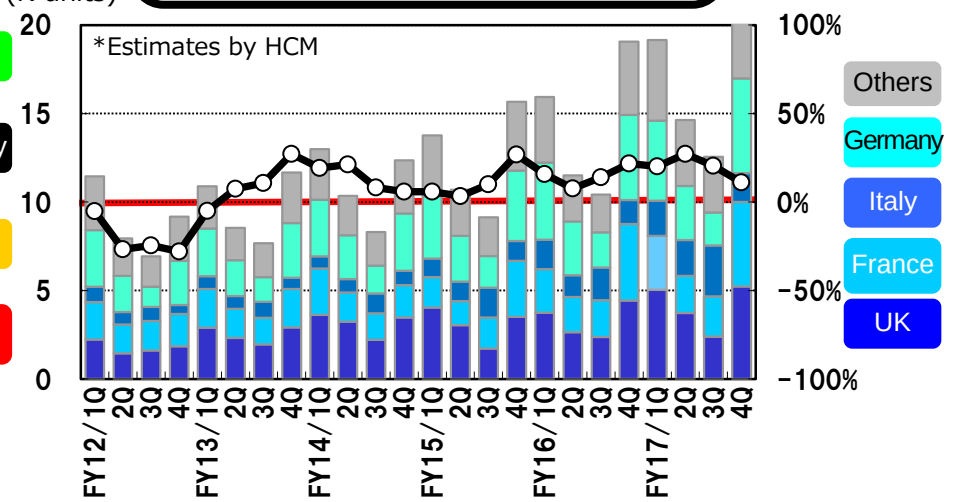
◇GDP showed solid growth throughout the Euro zone.

◇Demand for hydraulic excavators, mini excavators, and wheel loaders remained brisk and increased, mainly in the UK and Italy.
(Demand for hydraulic/mini excavators and wheel loaders increased 12%, 11%, and 6% y-o-y, respectively.)

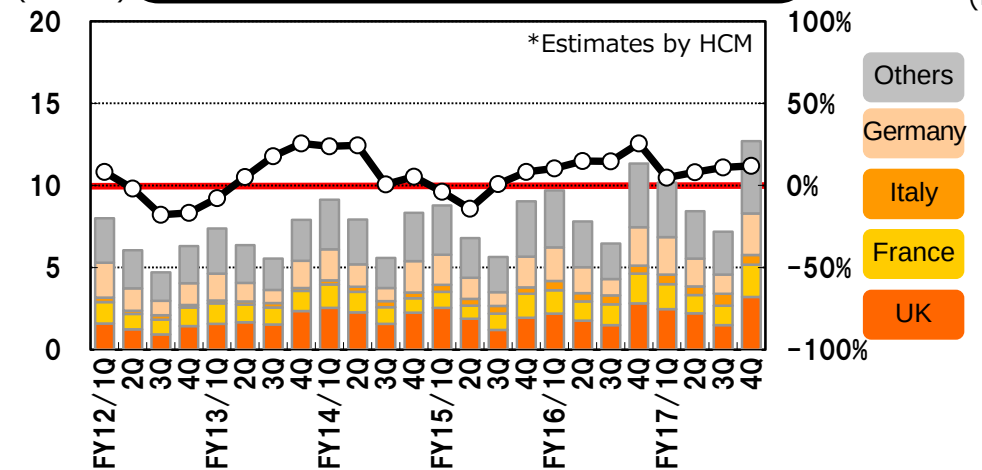
GDP Growth Rate in Major Countries (y-o-y)



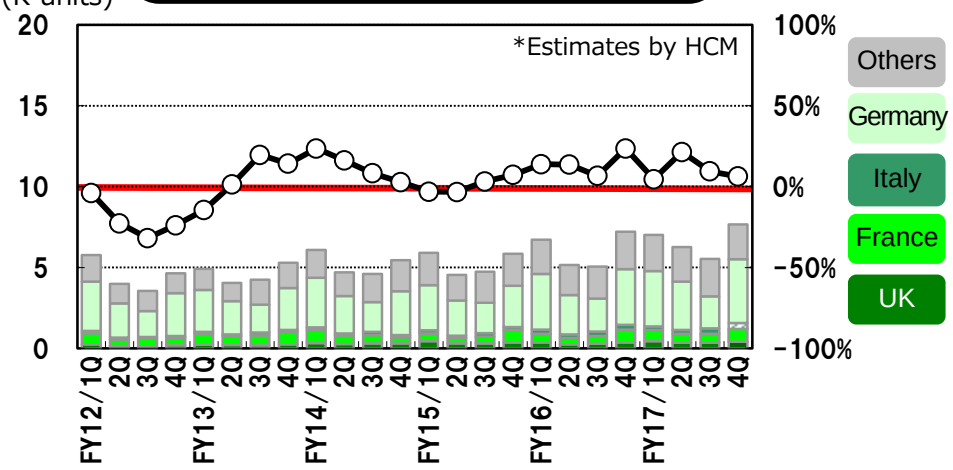
Demand Trend for Mini Excavators



Demand Trend for Hydraulic Excavators



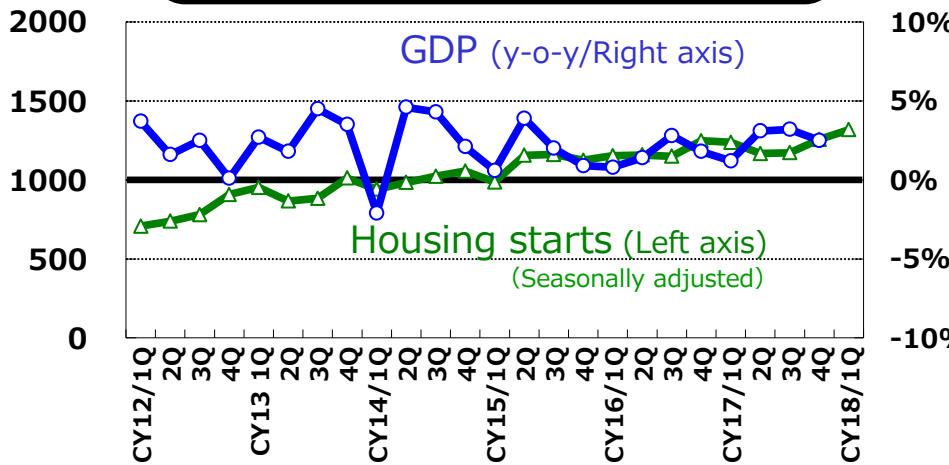
Demand Trend for Wheel Loaders



<North America>

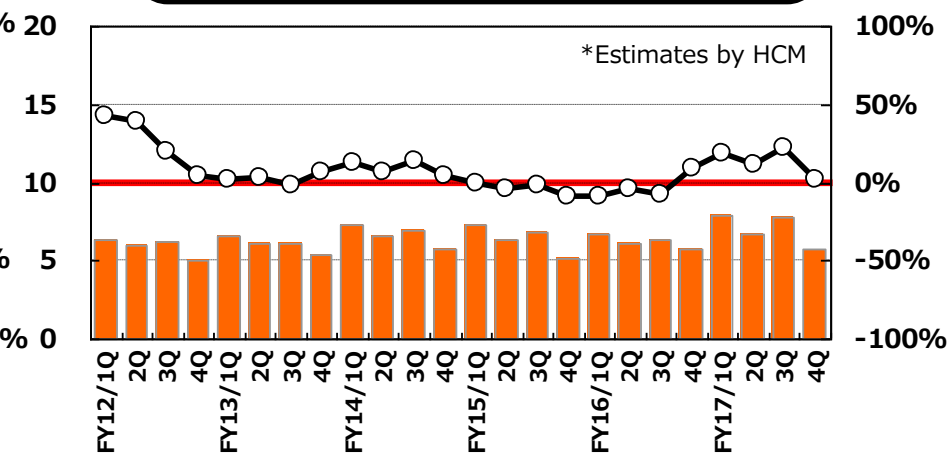
◇Housing starts remained brisk. Public construction spending has increased.
◇Demand for hydraulic/mini excavators slowed (2% and 5% y-o-y, respectively).

GDP Growth Rate, Housing Starts in US

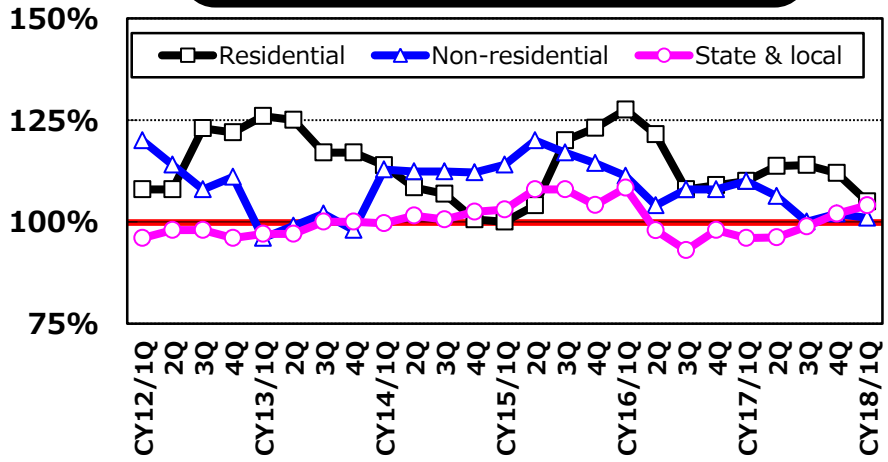


＊Bureau of Economic Census, US Census Bureau

Demand Trend for Hydraulic Excavators

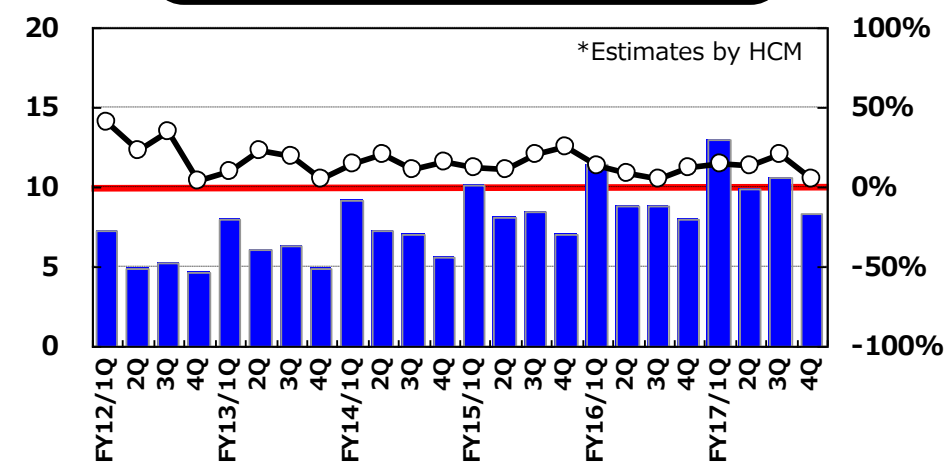


Construction Spending in US (y-o-y)



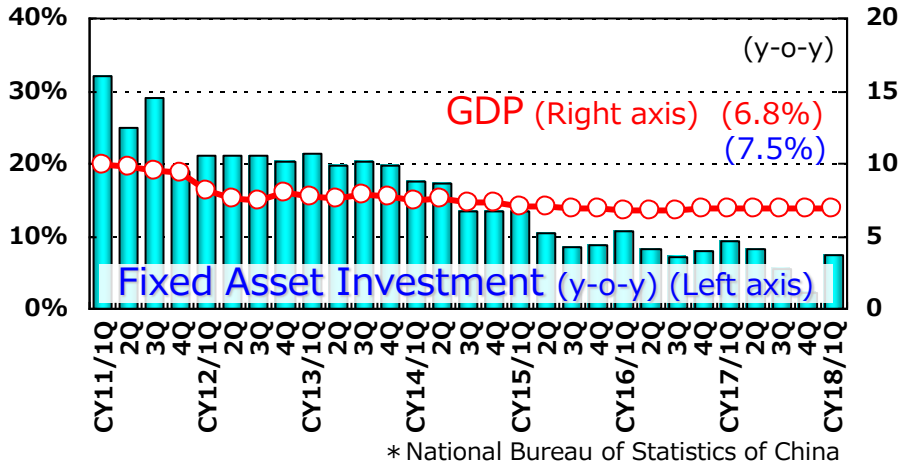
＊Bureau of Economic Census, US Census Bureau

Demand Trend for Mini Excavators



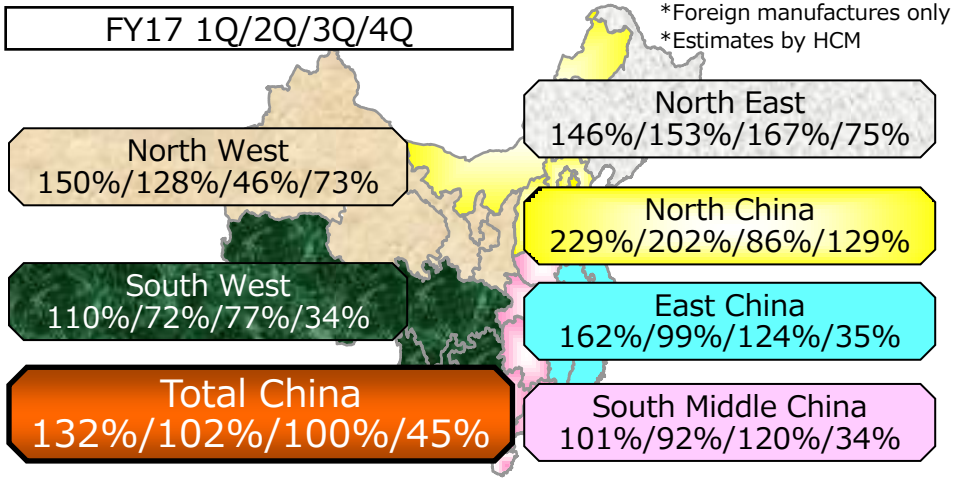
◇The GDP growth rate from January to March 2018 remained stable at around 6.8%.
◇Demand for hydraulic excavators increased (1.5 times y-o-y).

GDP and Fixed Asset Investment

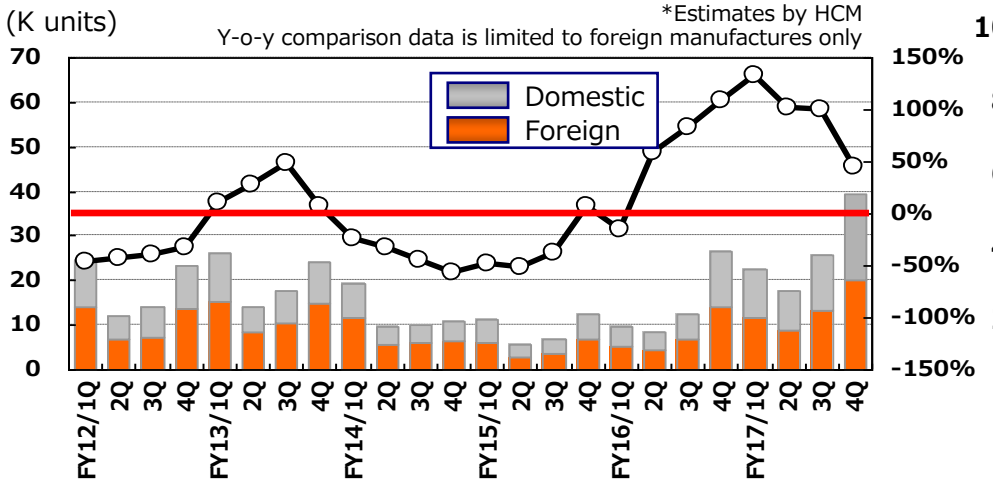


＊National Bureau of Statistics of China

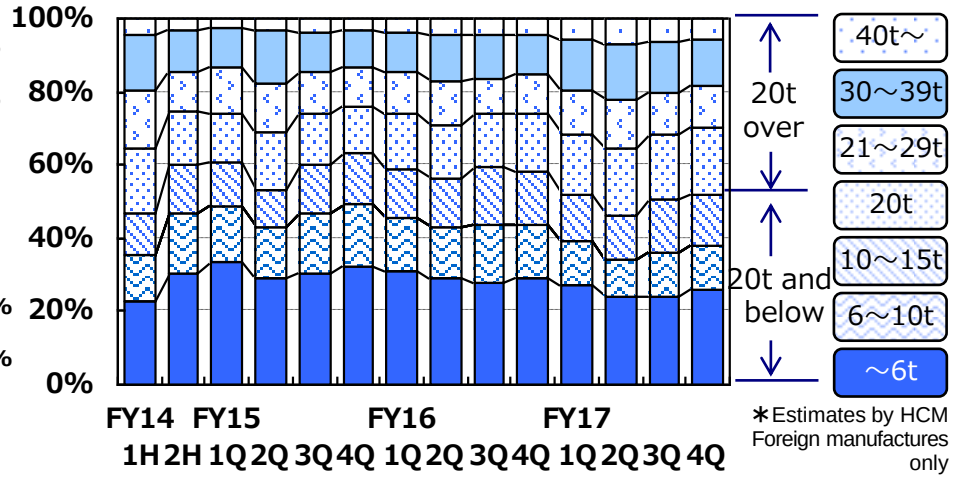
Quarterly Demand for Hydraulic Excavators by Region (y-o-y)



Demand Trend for Hydraulic Excavators



Demand Composition by Class for Mini Excavators and Hydraulic Excavators

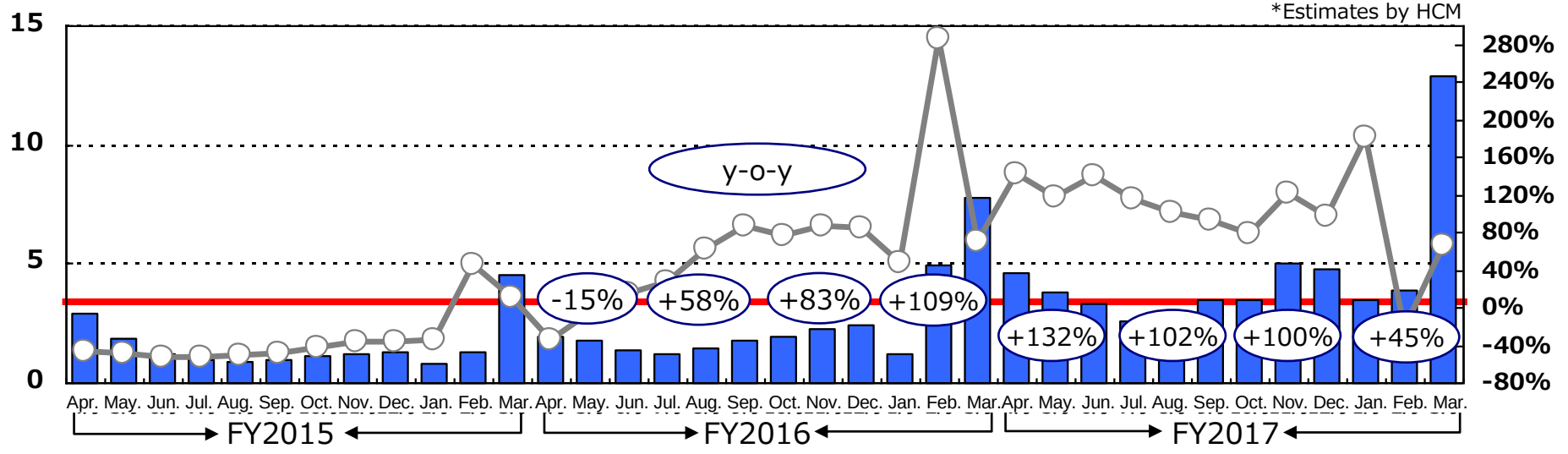


Monthly Demand Trend for Hydraulic Excavators (Foreign Manufactures only)

(K units)

(Compared to the same month in the previous year)

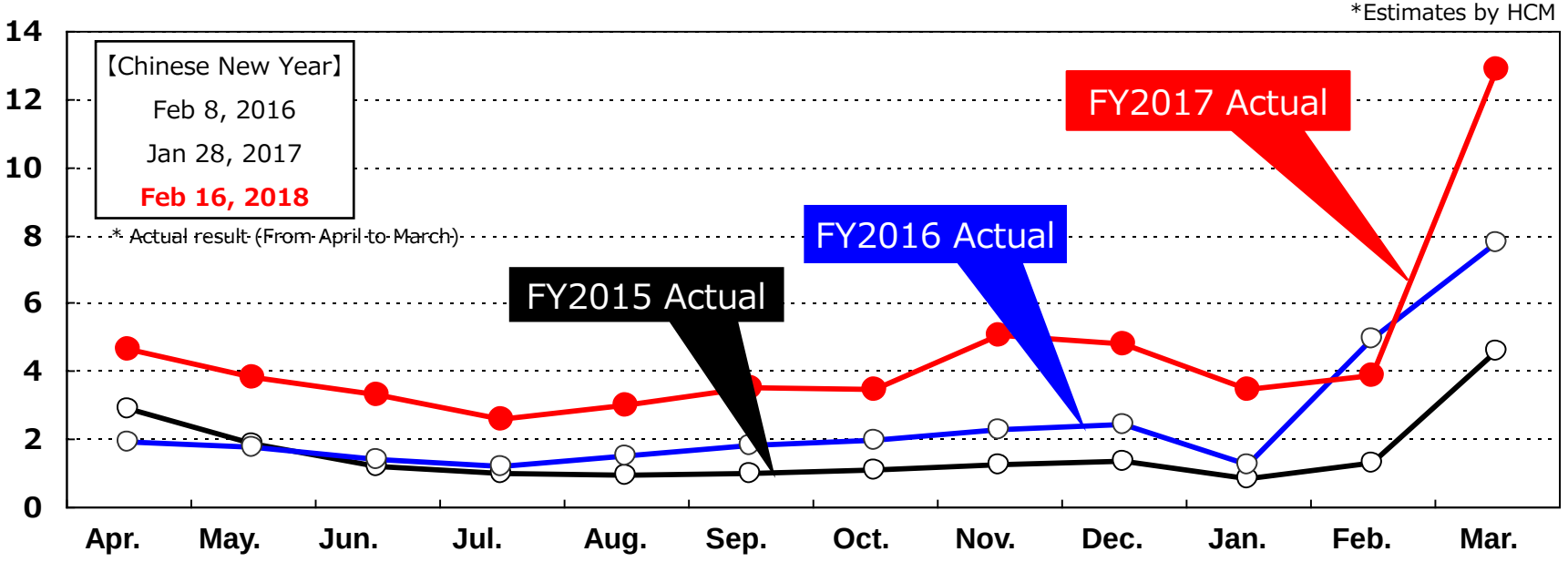
*Estimates by HCM



Demand Trend for Hydraulic Excavators (y-o-y) (Foreign Manufactures only)

(K units)

*Estimates by HCM

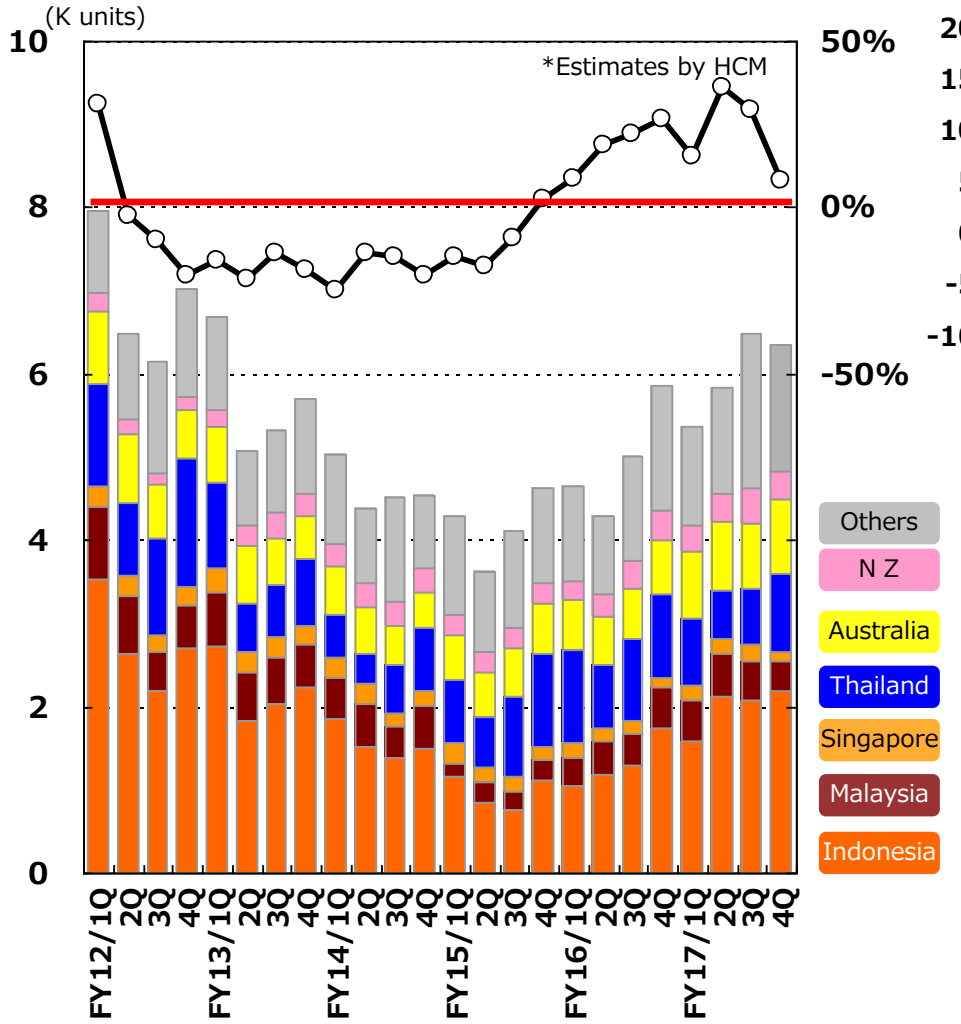


<Asia, Oceania, and India>

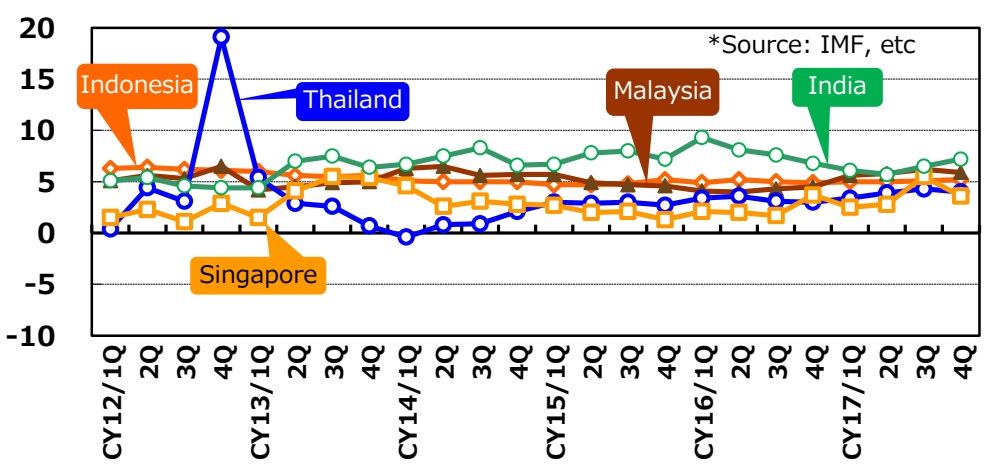
◇Demand for hydraulic excavators increased in Indonesia, the Philippines, and Australia. Despite the decrease in Malaysia and Thailand, demand has increased in the entire Asia Pacific region (8% y-o-y).

◇Demand for hydraulic excavator increased in India (29% y-o-y), mainly for infrastructure investments, such as railways and roads.

Demand Trend for Hydraulic Excavators in Asia & Oceania

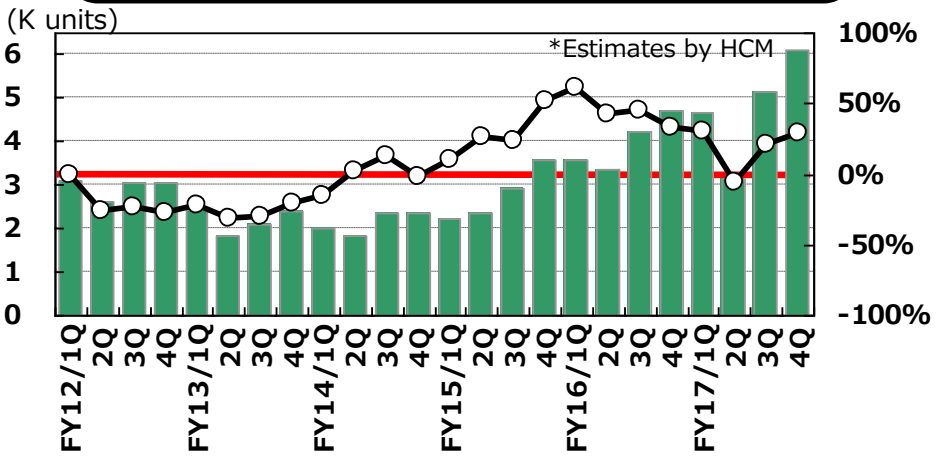


GDP Growth Rate in Major Countries (y-o-y)



* Calculation criteria for GDP growth rate in India was revised in CY2013 2Q

Demand Trend for Hydraulic Excavators in India

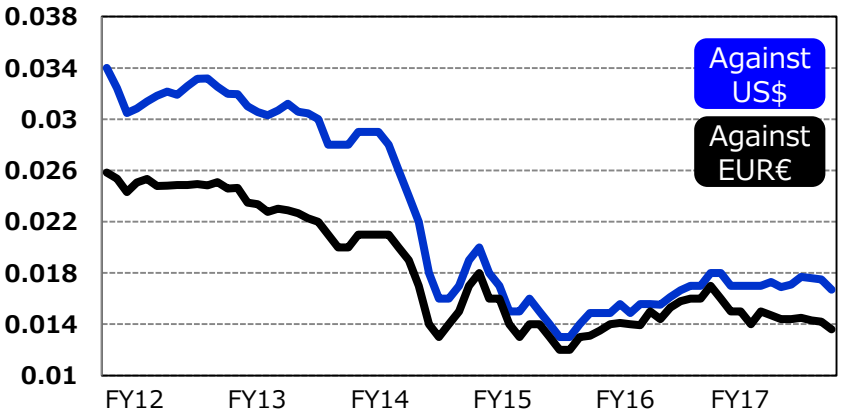


<Russia and the Middle East>

◇In Russia, demand significantly increased throughout the fiscal year, underpinned by the revival of crude oil prices.

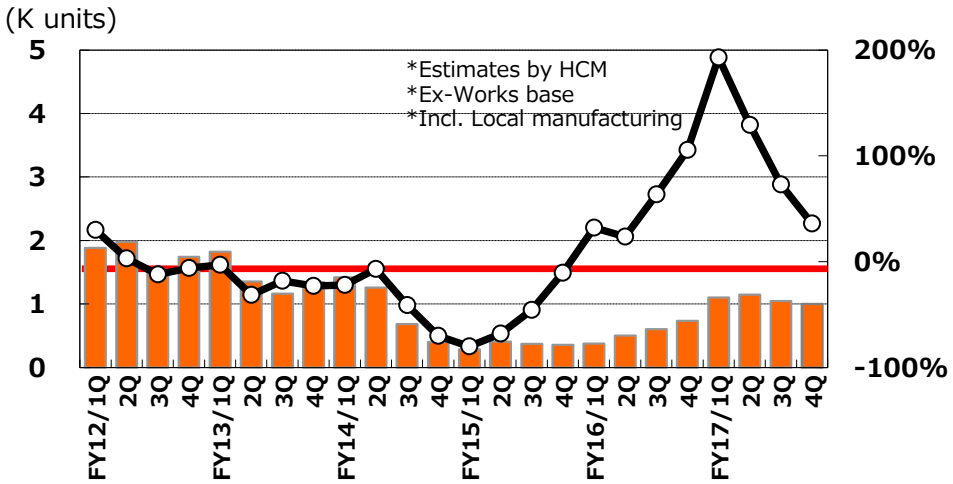
◇In the Middle East, demand remained at a low level, mainly in Saudi Arabia.

Foreign Exchange Rate of the Ruble

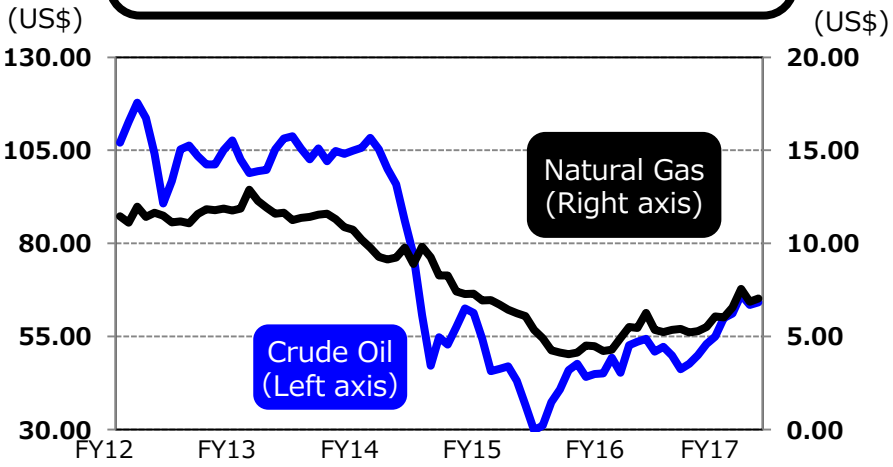


*According to HCM's research

Demand Trend for Hydraulic Excavators in Russia

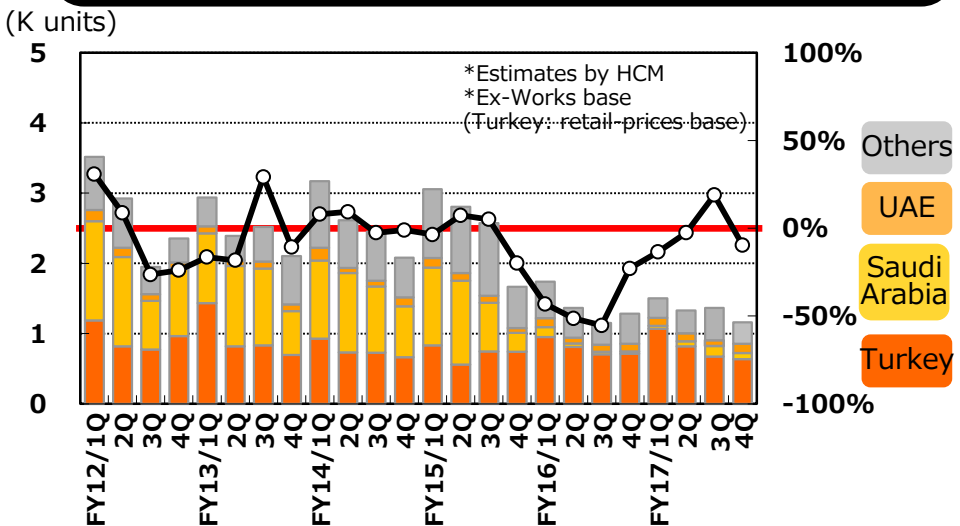


Price Trend of Crude Oil and Natural Gas



*Created by HCM , the source from IMF HP

Demand Trend for Hydraulic Excavators in the Middle East

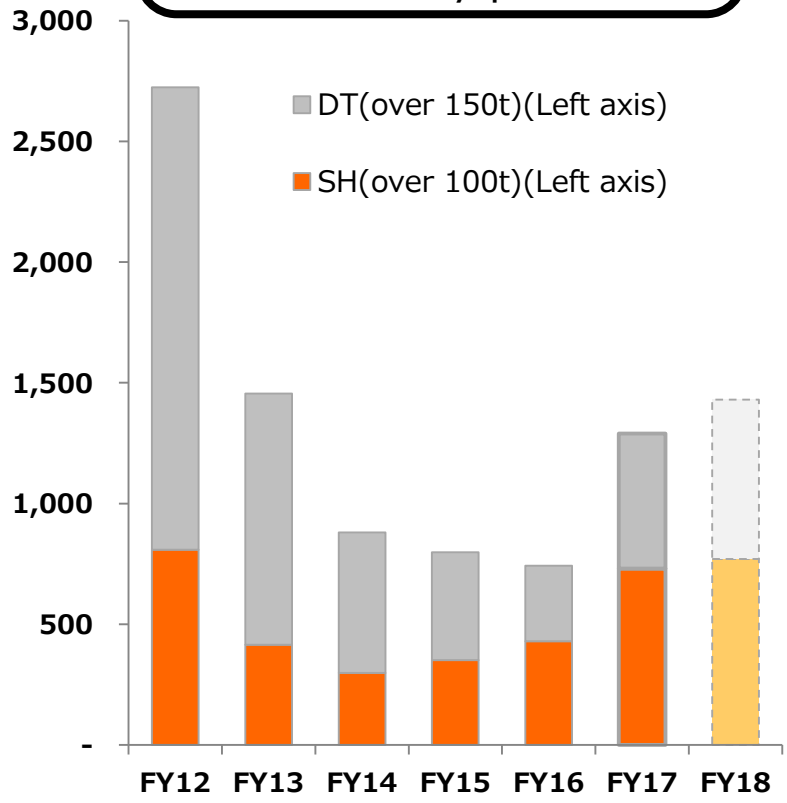


<Mining Machinery>

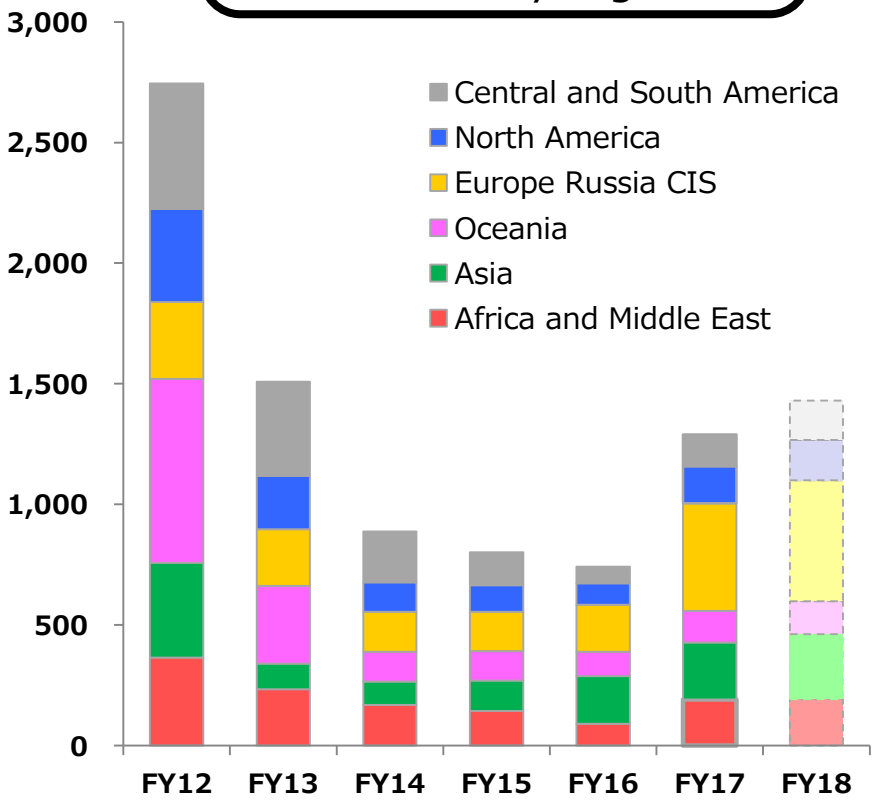
◇Demand for mining machinery is expected to increase significantly, by 74% y-o-y.
◇Demand increased for 100t excavators by +90%, over 200t excavators by 40%, and trucks by 80% y-o-y, respectively.
◇Demand for excavators increased in Russia, Asia, and Africa. Demand for trucks increased in Russia and North, Central, and South America.

Ultra-large Excavator (over 100t), Truck (over 150t)

Demand by product

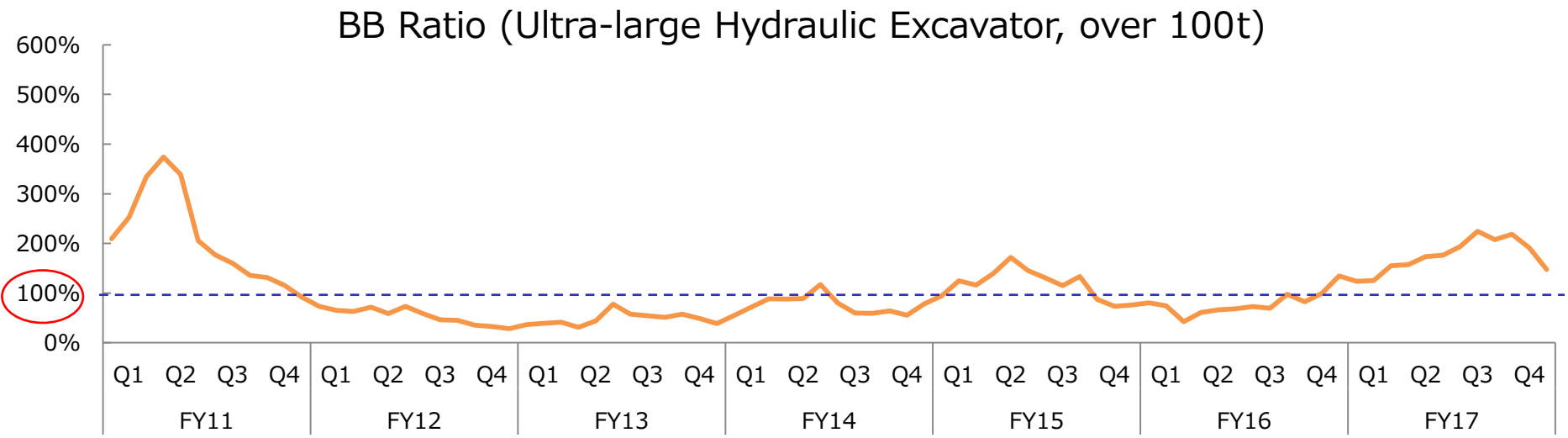


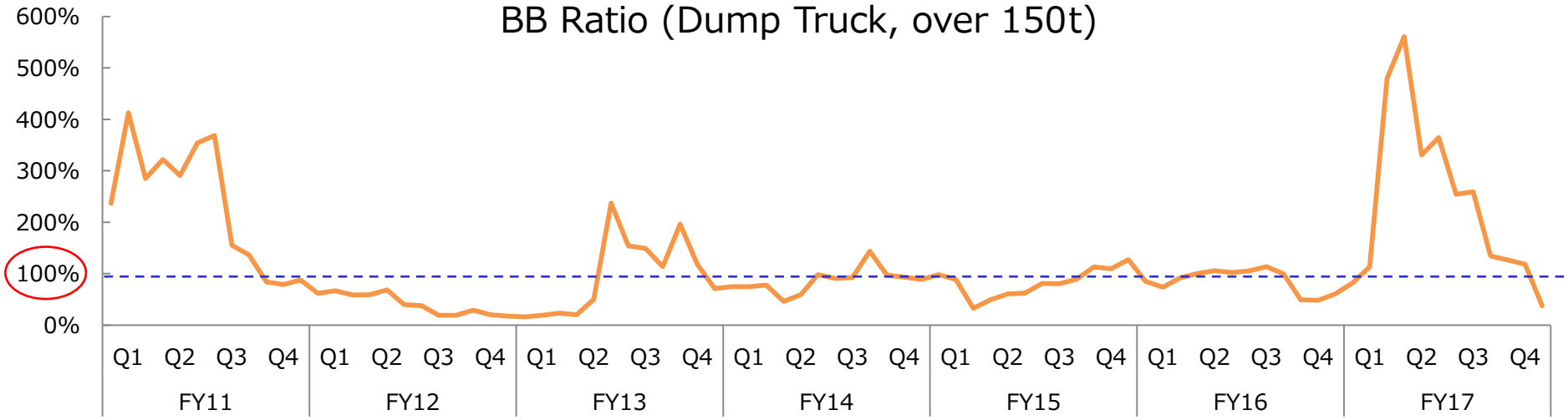
Demand by region



*According to HCM's research

<(Supplementary Information) BB Ratio>





* Book-to-Bill(BB)Ratio = Bookings (Orders received)/Billings (Value of shipment)
Non-consolidated basis (average of 6 months)

HITACHI

Reliable solutions

Corporate Vision

Contents

1. Management Plan
2. Regional Trend & Business Strategy
3. Operating Results & Forecast
4. Company Outline and Topics

I. Summary of consolidated results

- Revenue increased by 27% compared to the previous year mainly due to the increase in sales volume.
- Adjusted operating income and other income increased compared to the previous year.

(billions of yen)

	FY2017 Actual		FY2016 Actual		change
Revenue	< 930.0 >	959.2		753.9	27%
Adjusted operating income *1	< 77.0 > (9.8%)	93.6	(3.7%)	28.3	231%
Operating income	< 77.0 > (10.0%)	95.7	(3.1%)	23.6	305%
Income before income taxes	< 77.0 > (10.0%)	95.6	(3.2%)	23.9	301%
Net income attributable to owners of the parent	< 46.0 > (6.3%)	60.0	(1.1%)	8.0	648%
EBIT *2	< 80.0 > (10.2%)	98.1	(3.3%)	24.7	298%
FX rate — Rate (YEN/US$)	< 110.0 >	110.9		108.7	2.2
FX rate — Rate (YEN/EURO)	< 122.8 >	130.1		118.9	11.2
FX rate — Rate (YEN/RMB)	< 16.1 >	16.8		16.2	0.6
Cash dividend per share (yen) *3	<TBD>	85		12	73

note : < > shows previous forecast as of Jan 2018, ( ) shows revenue ratio

*1 "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income.

*2 "EBIT" stands for Earnings Before Interests and Taxes, and is calculated by excluding "Interest income" and "Interest expenses" from "Income before income taxes"

*3 "Cash dividend per share": The Company will pay dividends linked to its consolidated business results twice, interim and year end, in the fiscal year and aim to achieve a consolidated dividend payout ratio of approx. 30% or more.

Revenue by geographic region (consolidated)

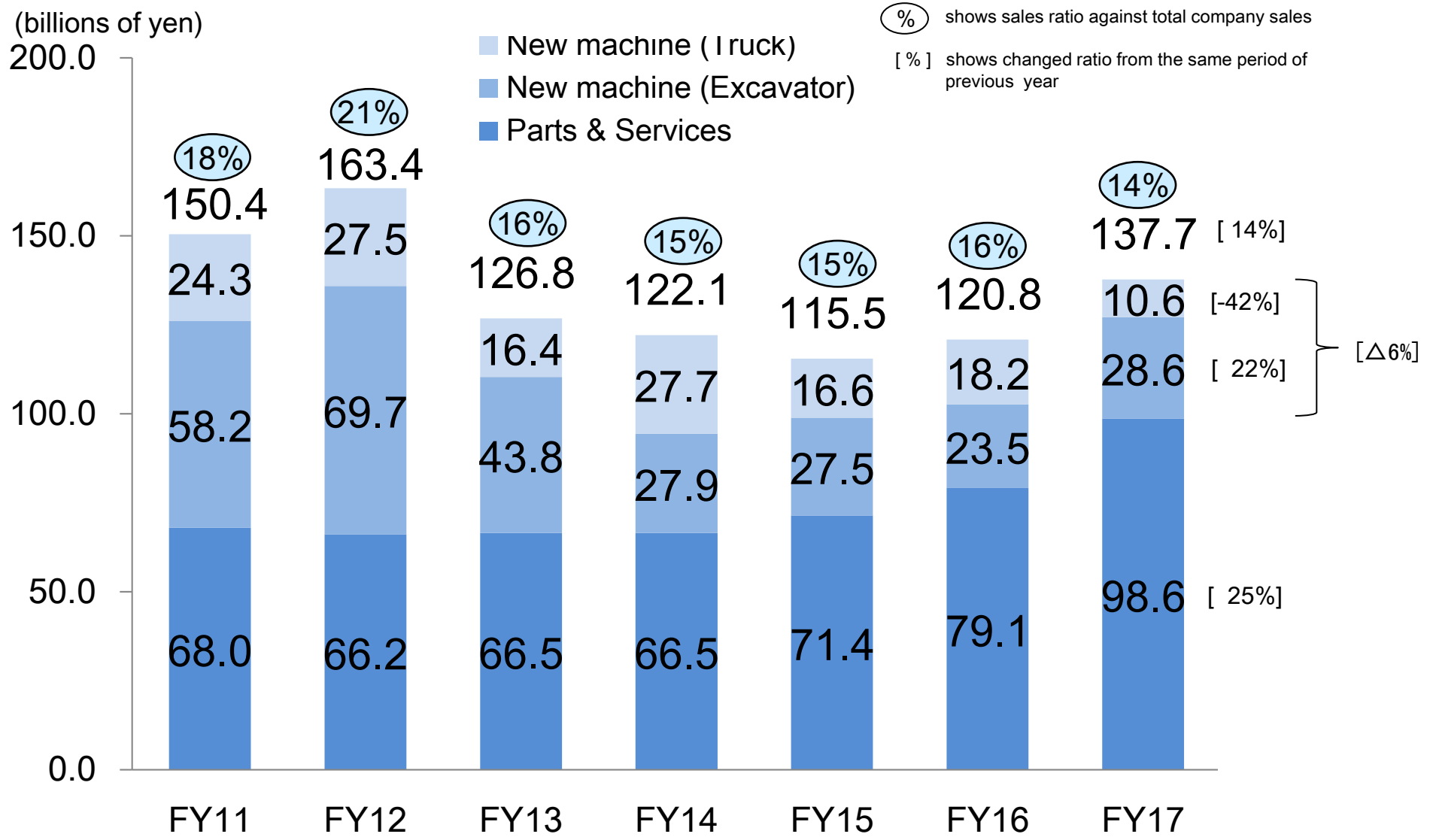
- Revenue increased by 74% or 57.8 billion yen in North America year on year, by 58% or 55.5 billion yen in Oceania year on year, and by 70% or 50.2 billion yen in China year on year.
- Overseas revenue ratio increased by 10 points year on year to 80%.

(billions of yen)

	FY2017 Actual	(ratio)	FY2016 Actual	(ratio)	change amount	change %
Japan	193.2	(20%)	226.0	(30%)	-32.8	-14%
Asia	75.4	(8%)	62.2	(8%)	13.2	21%
India	65.1	(7%)	48.6	(6%)	16.5	34%
Oceania	151.9	(16%)	96.4	(13%)	55.5	58%
Europe	104.2	(11%)	87.6	(12%)	16.6	19%
N.America	136.3	(14%)	78.5	(10%)	57.8	74%
L.America	16.1	(2%)	7.0	(1%)	9.1	130%
Russia-CIS	27.4	(3%)	19.5	(3%)	7.9	40%
M.East	23.1	(2%)	22.7	(3%)	0.4	2%
Africa	44.8	(5%)	34.1	(5%)	10.8	32%
China	121.6	(13%)	71.5	(9%)	50.2	70%
Total	959.2		753.9		205.2	27%
Overseas ratio	80%		70%			

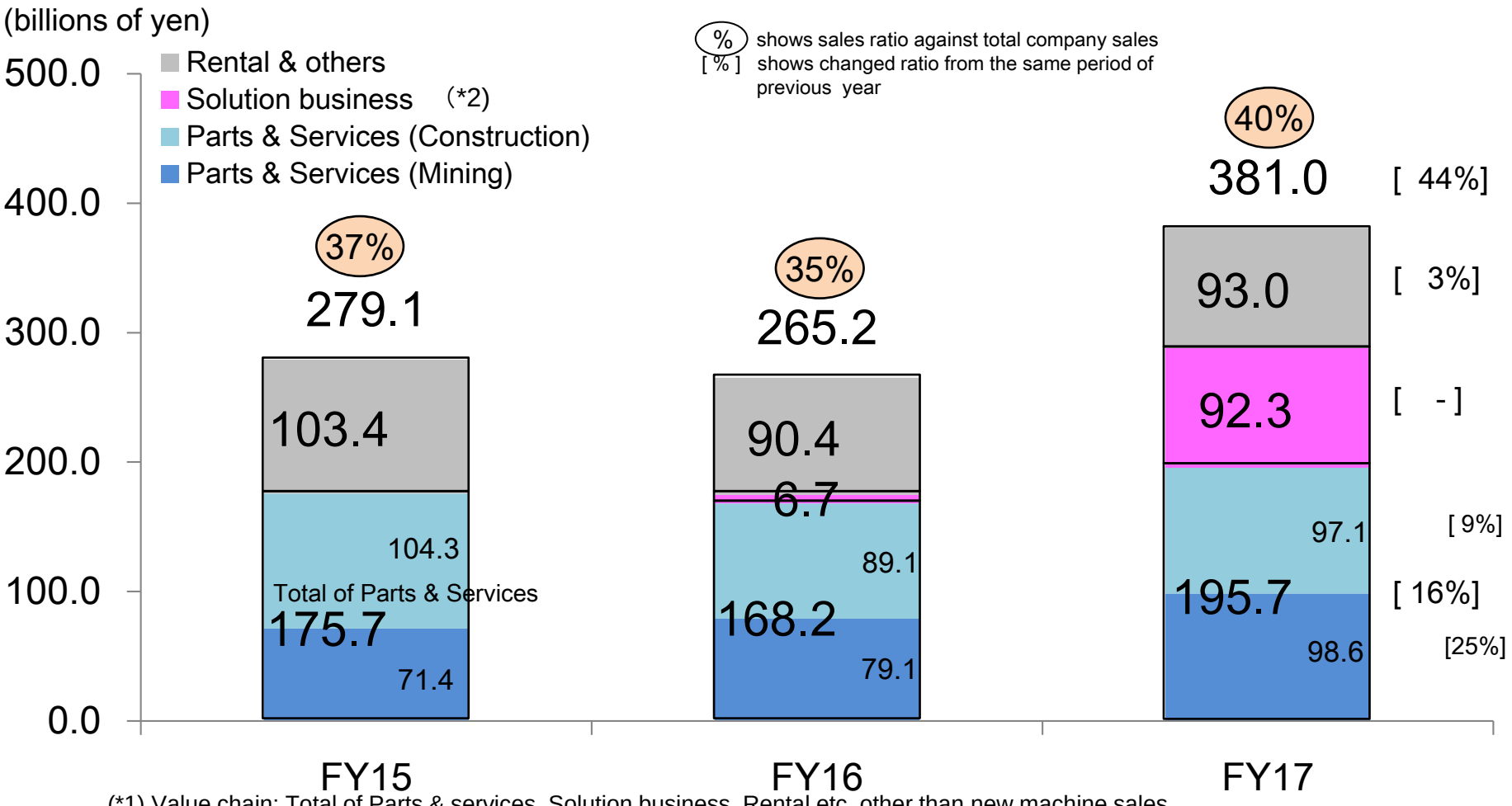
Mining revenue

Revenue of new machines decreased by 6% compared to the previous year due to the temporary production interruption of below 150 tons from this fiscal year. On the other hand, sales of parts and services increased by 25% compared to the previous year.



Value chain (*1) revenue

Sales of value chain business dramatically increased by 115.8 billion yen year on year due to the increase in the sales of parts and service and solution business, which is composed of H-E Parts Group companies and Bradken Group companies. Also, the ratio in total sales increased by 5%.



(*1) Value chain: Total of Parts & services, Solution business, Rental etc. other than new machine sales.

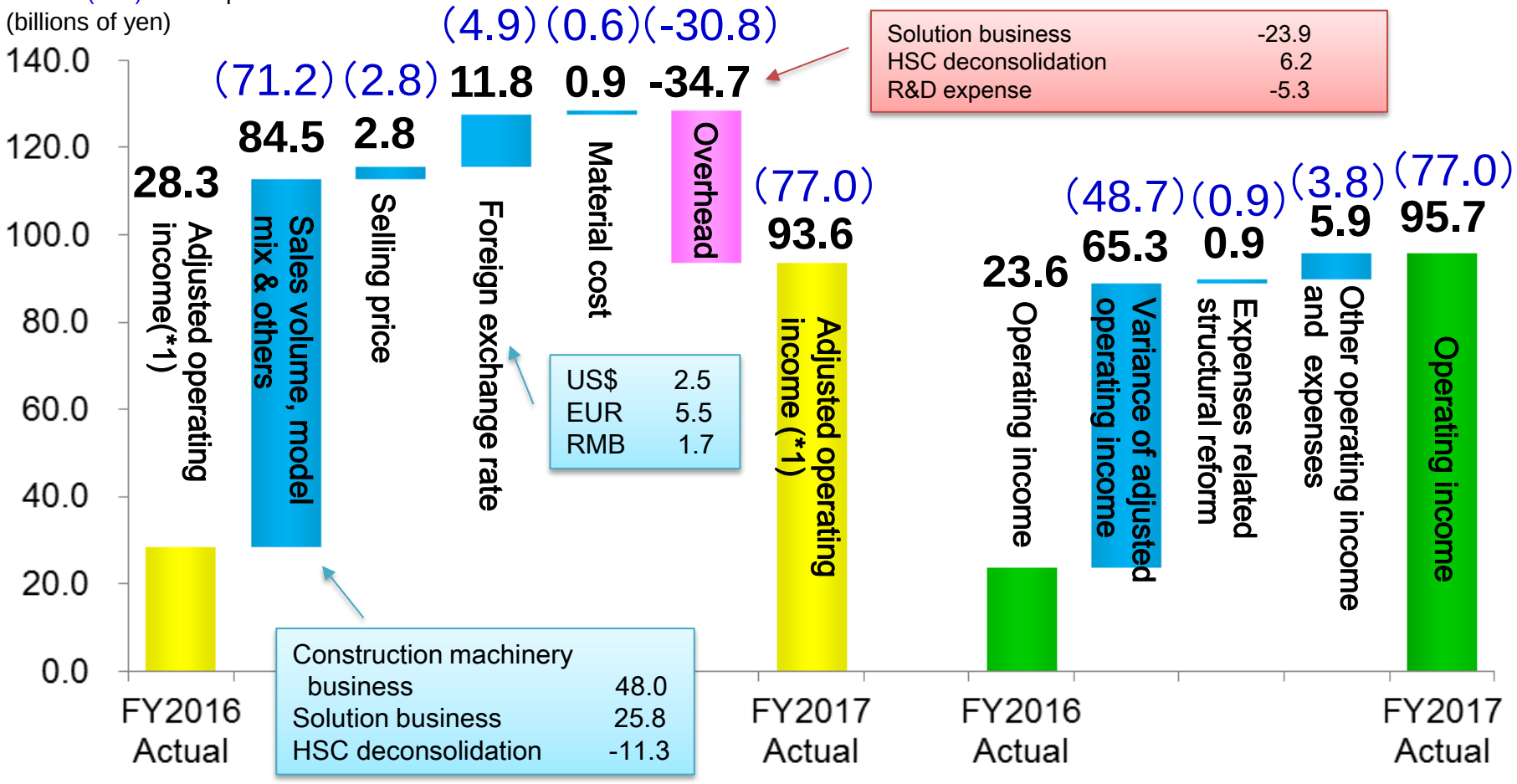
(*2)Solution business: Business segment consists of parts manufacturing, sales of parts and services that are not included in construction machinery business.

Comparison of consolidated profit & loss forecast

Adjusted operating income increased by 65.3 billion yen year on year due to the favorable foreign exchange rates, increased sales volume of construction machines and the incorporation of the solution business despite the HSC deconsolidation.

note : ( ) shows previous forecast as of Jan. 2018

(billions of yen)



*1 "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income.

Consolidated statement of income

Net income attributable to owners of the parent increased by 52 billion yen to 60 billion yen compared to the previous year due to the increase in operating income and share of profits of investments accounted for using the equity method.

(billions of yen)

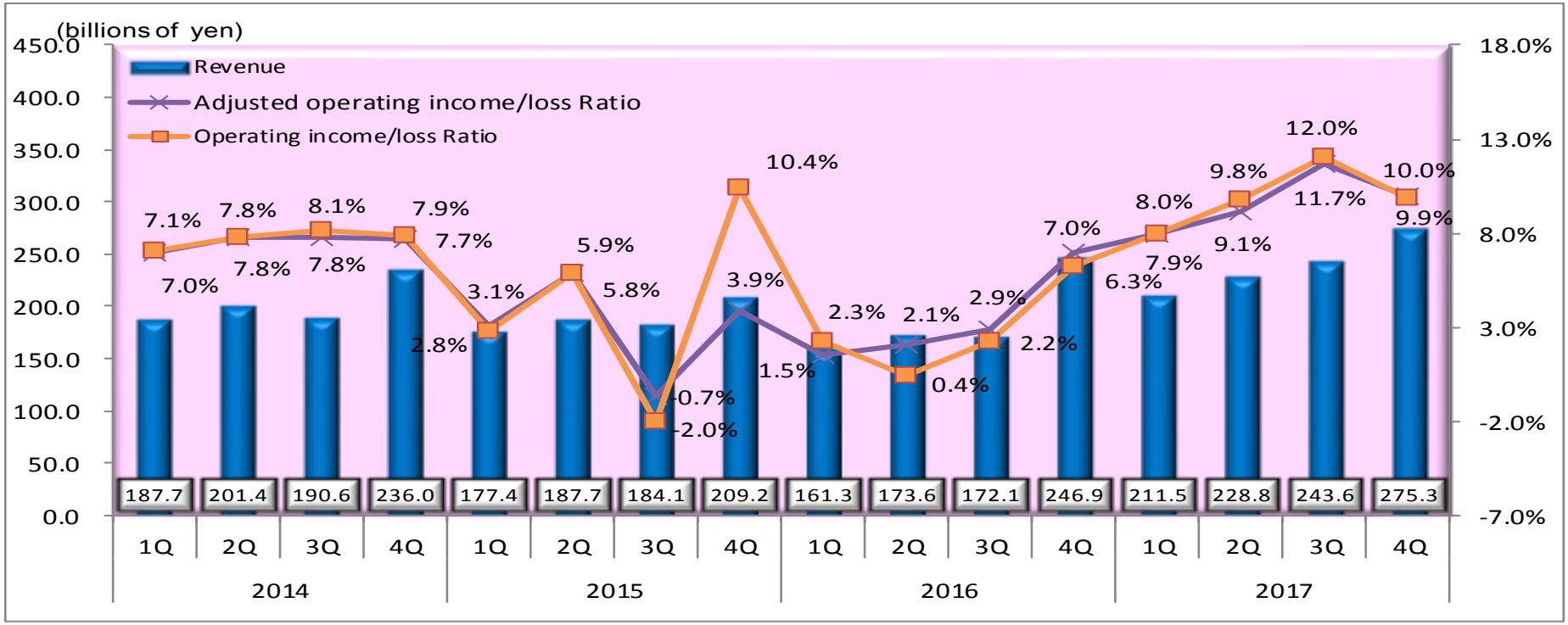
	FY2017 Actual		FY2016 Actual		change	
					amount	%
Revenue		959.2		753.9	205.2	27%
Cost of Sales	(72.5%)	695.3	(77.3%)	583.0	112.3	19%
SGA expenses	(17.8%)	170.3	(18.9%)	142.7	27.6	19%
Adjusted operating income *1	(9.8%)	93.6	(3.7%)	28.3	65.3	231%
Other Income/expenses		2.2		-4.6	6.8	-
Operating income	(10.0%)	95.7	(3.1%)	23.6	72.1	305%
Financial income/expenses		-4.5		0.5	-5.0	-
Share of profits of investments accounted for using the equity method		4.4		-0.3	4.7	-
Income before income taxes	(10.0%)	95.6	(3.2%)	23.9	71.8	301%
Income taxes		26.4		9.7	16.7	173%
Net income	(7.2%)	69.2	(1.9%)	14.2	55.0	388%
Net income attributable to owners of the parent	(6.3%)	60.0	(1.1%)	8.0	52.0	648%
Comprehensive income		67.7		11.7	56.0	480%

*1 "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income.

Summary of quarterly consolidated revenue and operating income/loss (ratio)

(billions of yen)

	2014				2015				2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Revenue	187.7	201.4	190.6	236.0	177.4	187.7	184.1	209.2	161.3	173.6	172.1	246.9	211.5	228.8	243.6	275.3
Adjusted operating income/loss	13.1	15.7	14.8	18.3	5.5	11.0	-1.2	8.1	2.4	3.6	5.0	17.3	16.8	20.9	28.4	27.5
Operating income/loss	13.2	15.8	15.5	18.6	4.9	11.1	-3.8	21.8	3.7	0.7	3.8	15.5	16.9	22.4	29.3	27.1



FX rate	2014				2015				2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Rate (YEN/US$)	102.2	103.9	114.5	119.1	121.4	122.2	121.5	115.5	108.1	102.4	109.3	113.6	111.1	111.0	113.0	108.3
Rate (YEN/EURO)	140.1	137.8	143.1	134.2	134.2	136.0	133.0	127.2	122.0	114.3	117.8	121.1	122.2	130.4	133.0	133.2
Rate (YEN/RMB)	16.4	16.9	16.8	19.1	19.6	19.3	18.9	17.6	16.5	15.4	16.0	16.6	16.2	16.6	17.1	17.1

Consolidated statement of financial position

・ The number of days of inventories on hand were reduce by 15 days to 97 days compared to the previous fiscal year-end.
・ The number of days of net working capital on hand were reduce by 26 days to 125 days compared to the previous fiscal year-end.

(billions of yen)

	(A) Mar '2018	(B) Mar '2017	(A)-(B) change
Cash and cash equivalents	81.9	65.5	16.5
Trade receivables	219.6	184.5	35.1
Inventories	255.6	232.4	23.3
Total current assets	597.8	527.0	70.8
Total non-current assets	492.0	472.6	19.4
Total assets	1,089.8	999.6	90.2
Trade receivables incl. non-current	261.0	215.7	45.3

	(D) Mar '2018	(E) Mar '2017	(D)-(E) change
Trade and other payables	287.1	227.3	59.7
Bonds and borrowings	230.7	248.7	-18.0
Total current liabilities	584.8	549.2	35.6
(Equity attributable to owners of the parent ratio)	(41.2%)	(40.0%)	(1.2%)
Total equity	505.0	450.4	54.6
Total liabilities and equity	1,089.8	999.6	90.2

Inventories by products

Unit	56.7	49.8	6.9
Parts	93.5	86.3	7.2
Raw materials, WIP and etc	105.5	96.3	9.2
Total inventories	255.6	232.4	23.3

On hand days(divided by net sales) (Days)

Trade receivables	99	104	-5
Inventories	97	112	-15
Trade payables	71	64	7
Net working capital	125	151	-26

	(21.2%)	(24.9%)	(-3.7%)
Interest-bearing debt	230.7	248.7	-18.0
Cash and Cash equivalents	81.9	65.5	16.5
Interest-bearing debt, net	(13.6%)	(18.3%)	(-4.7%)
Debt	148.7	183.2	-34.5

Net D/E Ratio	0.33	0.46	-0.13

*The balance as of the end of FY2016 announced in April 2017 is before the reclassification to specify the impact of purchase price allocation.

Consolidated cash flow

・ Net cash provided by (used in) operating activities was a positive 84.5 billion yen due to the increase in net income despite the increase in working capital arising from the increase of revenue.
・ Free cash flow was a positive 47 billion yen despite 17.6 billion yen of acquisition shares to acquire 100% ownership of the Bradken Group.

(billions of yen)

	FY2017 Actual		FY2016 Actual		change	
Net income		69.2		14.2		55.0
Depreciation and amortization	107.1	37.8	48.2	34.0	58.9	3.9
(Increase)decrease in trade/lease receivables		-41.8		-6.2		-35.5
(Increase)decrease in inventories		-24.7		29.0		-53.6
Increase(decrease) in trade payables	-13.1	53.3	43.3	20.6	-56.4	32.8
Others, net		-9.4		-3.5		-5.9
Net cash provided by (used in) operating activities		84.5		88.0		-3.4
Cash flow margin for operating activities		8.8%		11.7%		-2.9%
Net cash provided by (used in) investing activities		-37.6		-74.6		37.0
Free cash flows		47.0		13.4		33.6
Net cash provided by (used in) financing activities		-30.5		-25.8		-4.7

Summary of consolidated earnings forecast

・ HCM forecasts a decrease of 1% in total revenue for FY2018 compared to the previous year due to the impact of the strong appreciation in the expected exchange rate of the yen despite the increase sales volume.
・ Adjusted operating income will also decrease by 9.6 billion yen compared to the previous year.

(billions of yen)

		FY2018 Forecast	FY2017 Actual	change amount	change %
Revenue		950.0	959.2	-9.2	-1%
Adjusted operating income *1		(8.8%) 84.0	(9.8%) 93.6	(-0.9%) -9.6	-10%
Operating income		(8.6%) 82.0	(10.0%) 95.7	(-1.3%) -13.7	-14%
Income before income taxes		(8.4%) 80.0	(10.0%) 95.6	(-1.5%) -15.6	-16%
Net income attributable to owners of the parent		(5.2%) 49.0	(6.3%) 60.0	(-1.1%) -11.0	-18%
EBIT *2		82.8	98.1	-15.4	
FX rate	Rate (YEN/US$)	100.0	110.9	-10.9	
	Rate (YEN/EURO)	120.0	130.1	-10.1	
	Rate (YEN/RMB)	15.5	16.8	-1.3	
Cash dividend per share (yen) *3		to be determined	85	-	

*1 "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income.
*2 "EBIT" stands for Earnings Before Interests and Taxes, and is calculated by excluding "Interest income" and "Interest expenses" from “Income before income taxes”
*3 “Cash dividend per share”: The Company will pay dividends linked to its consolidated business results twice, interim and year end, in the fiscal year and aim to achieve a consolidated dividend payout ratio of approx. 30% or more.

Segment information

・ We booked 5.4 billion yen of the amortization cost resulting from PPA for H-E Parts and Bradken for FY2017.
・ HCM forecasts the FY2018 adjusted operating income ratio of solution business to be 7.5% including 1.4 billion yen of amortization cost resulting from PPA. (9.1% excluding the amortization cost)

(billions of yen)

< Actual > FY2017	Reportable segment		Adjustments *1	Total
	Construction Machinery Business	Solution Business		
Revenue	866.9	92.6	-0.4	959.2
Adjusted operating income	10.5% 91.2	8.4% 7.8	-	10.3% 99.0
Amortization of PPA		-5.4		-5.4
Adjusted operating income (After amortization of PPA)	10.5% 91.2	2.6% 2.4	-	9.8% 93.6

(billions of yen)

< Forecast > FY2018	Reportable segment		Adjustments *1	Total
	Construction Machinery Business	Solution Business		
Revenue	857.9	92.1	0.0	950.0
Adjusted operating income	9.0% 77.1	9.1% 8.4	-	9.0% 85.4
Amortization of PPA		-1.4		-1.4
Adjusted operating income (After amortization of PPA)	9.0% 77.1	7.5% 7.0	-	8.8% 84.0

PPA = Purchase Price Allocation
Note(*1): Adjustments represent eliminations of intersegment transactions, and amounts of companies that do not belong to any operation segment.

Consolidated revenue forecast by geographic region

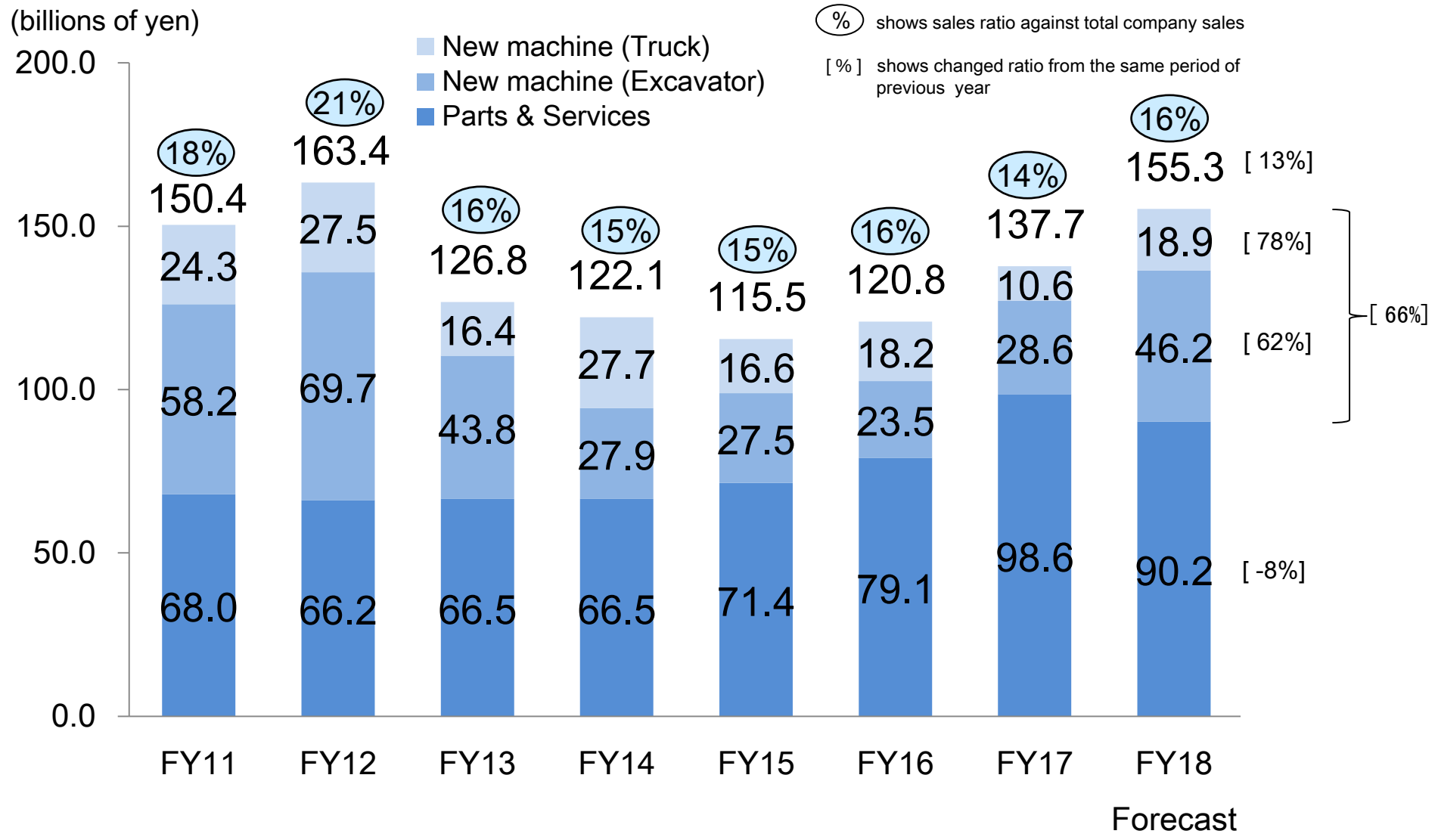
Compared with the previous year, HCM forecasts a decrease of 1% in total revenues for FY2018 due to the impact of the strong appreciation in the expected exchange rate of the yen despite the increase in revenue in Japan, Russia-CIS and Middle East.

(billions of yen)

	FY2018 Forecast		FY2017 Actual		change	
					amount	%
Japan	202.0	(21%)	193.2	(20%)	8.8	5%
Asia	74.8	(8%)	75.4	(8%)	-0.7	-1%
India	61.7	(6%)	65.1	(7%)	-3.4	-5%
Oceania	141.8	(15%)	151.9	(16%)	-10.1	-7%
Europe	103.6	(11%)	104.2	(11%)	-0.6	-1%
N.America	135.4	(14%)	136.3	(14%)	-1.0	-1%
L.America	15.6	(2%)	16.1	(2%)	-0.5	-3%
Russia-CIS	30.9	(3%)	27.4	(3%)	3.5	13%
M.East	25.7	(3%)	23.1	(2%)	2.5	11%
Africa	42.1	(4%)	44.8	(5%)	-2.8	-6%
China	116.6	(12%)	121.6	(13%)	-5.1	-4%
Total	950.0	(100%)	959.2	(100%)	-9.2	-1%
Overseas ratio	79%		80%			

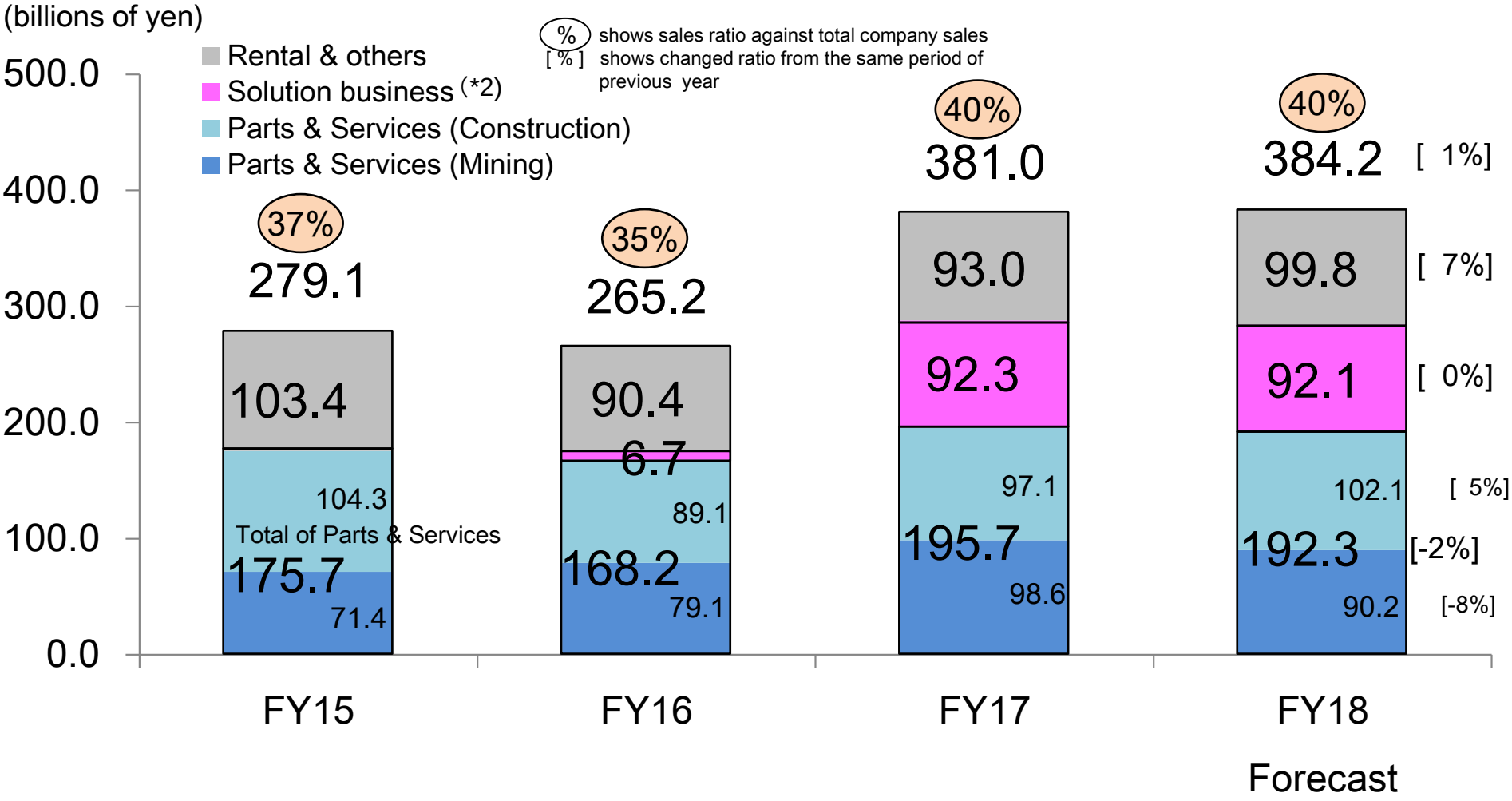
Mining revenue forecast

HCM forecasts an increase in FY2018 sales of new machines by 66% compared to the previous year due to the sales volume increase based on demand increase despite the strong appreciation in the expected exchange rate of the yen.
HCM forecasts that the sales of parts and services will decrease by 8% compared to the previous year.



Value chain (*1) revenue forecast

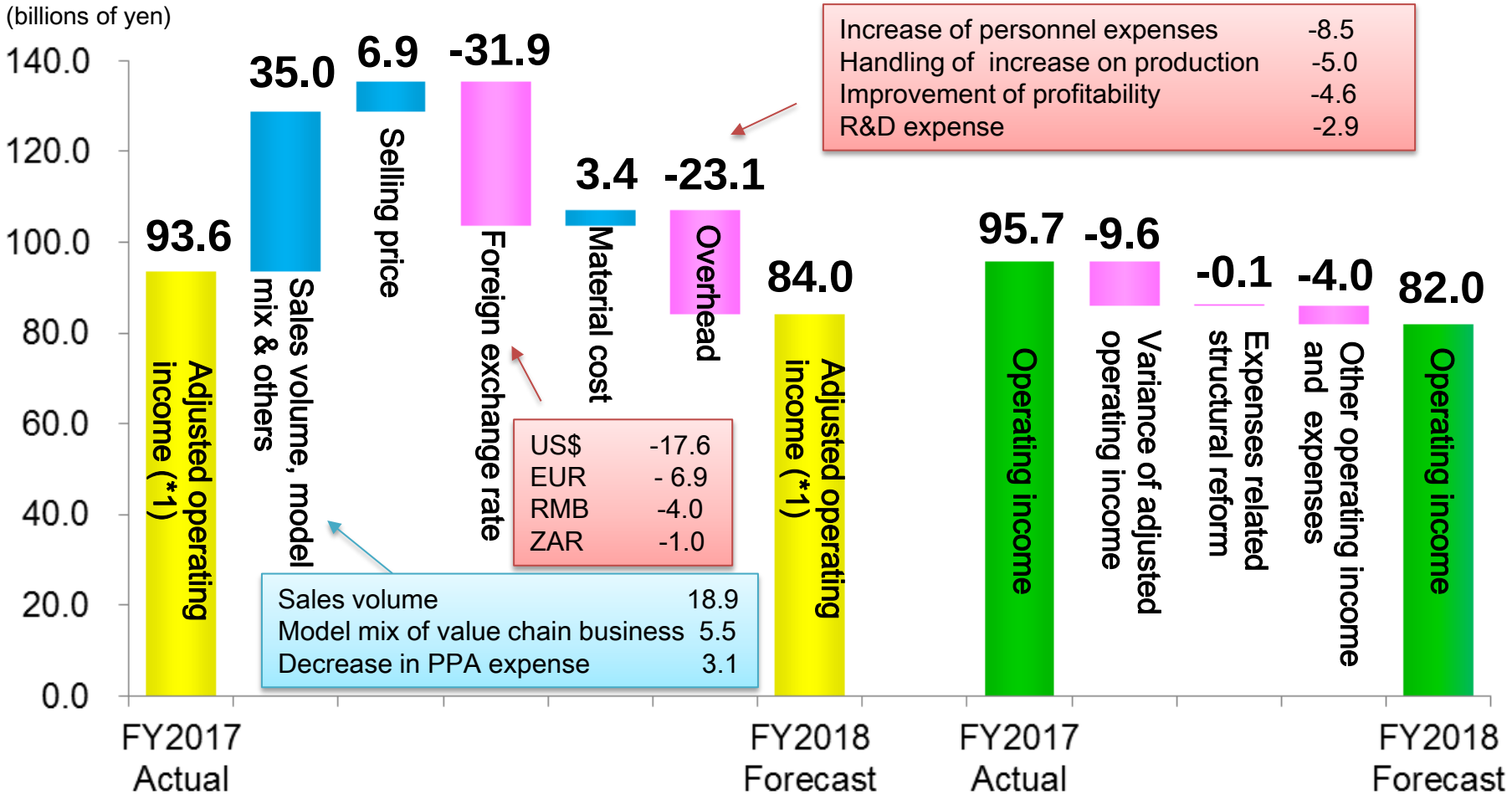
HCM forecasts an increase in FY2018 sales of value chain business by 1% (3.2 billion yen) compared to the previous year due to the increase in the revenue of rental business despite the decrease in revenue of parts and service and solution business as a result of the impact of the strong appreciation in the expected exchange rate of the yen.



(*1) Value chain: Total of Parts & Service, solution business, rental etc. other than new machine sales.
(*2)Solution business: Business segment consists of parts manufacturing, sales of parts and services that are not included in construction machinery business.

Comparison of consolidated profit & loss forecast

HCM forecasts FY2018 adjusted operating income to be 84.0 billion yen or a decrease of 9.6 billion in adjusted operating income year on year due to the impact of the strong appreciation in the expected exchange rate of the yen, despite the increase in sales volume and selling price-up.



*1 "Adjusted operating income" is calculated by excluding "Other income" and "Other expenses" from "Operating Income" listed in Consolidated Statements of Income.

<Appendix 1> FX rate and FX sensitivity

FX rate and FX sensitivity (1Q-4Q)

(billions of yen)

Currency	FX rate			FX sensitivity		
	FY18 Forecast	FY17 Actual	Change	Condition	Revenue	Adjusted operating income
US$	100.0	110.9	-10.9	Impact by 1 yen depreciation	1.9	1.7
EURO	120.0	130.1	-10.1	Impact by 1 yen depreciation	0.7	0.7
RMB	15.5	16.8	-1.3	Impact by 0.1 yen depreciation	0.7	0.3

<Appendix 2> Detail of mining revenue

(billions of yen)

		FY16 Actual (A)	FY17 Actual (B)	Change (B)-(A)	FY18 Forecast (C)	Change (C)-(B)
America	Excavator	10.1	13.6	3.5	12.8	-0.8
	Dump Truck	6.0	7.8	1.7	6.5	-1.3
	Total	16.1	21.4	5.3	19.3	-2.1
Europe, Africa and Middle East	Excavator	15.3	18.2	2.9	27.2	9.0
	Dump Truck	18.6	15.9	-2.7	20.5	4.5
	Total	33.9	34.1	0.2	47.7	13.6
Asia and Oceania	Excavator	47.1	58.7	11.6	59.4	0.8
	Dump Truck	21.1	21.1	-0.1	25.2	4.1
	Total	68.3	79.8	11.5	84.7	4.9
China	Excavator	1.2	1.9	0.7	1.5	-0.4
	Dump Truck	0.2	0.1	-0.1	0.2	0.1
	Total	1.4	2.0	0.6	1.7	-0.3
Japan	Excavator	1.1	0.5	-0.6	2.0	1.5
	Dump Truck	0.0	0.0	0.0	0.0	0.0
	Total	1.1	0.5	-0.7	2.0	1.5
Total	Excavator	74.8	92.9	18.1	103.0	10.0
	Dump Truck	46.0	44.8	-1.2	52.3	7.5
	Total	120.8	137.7	16.9	155.3	17.6

<Appendix 3> Actual and forecast of consolidated capital expenditures, depreciation, and R&D expenses

1.Capital Expenditure (Based on completion)

(billion of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018
	Actual	Actual	Actual	Actual	Forecast
Capital Expenditure	16.5	21.0	14.1	18.7	42.9
Assets held for operating lease	15.9	14.1	16.5	23.1	27.9
Total	32.4	35.2	30.7	41.8	70.7

2.Depreciation (tangible and intangible fixed assets)

(billion of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018
	Actual	Actual	Actual	Actual	Forecast
Capital Expenditure	27.2	23.7	22.4	27.5	25.5
Assets held for operating lease	11.5	11.8	11.5	10.3	11.6
Total	38.7	35.4	34.0	37.8	37.1

3.R&D expenses

(billion of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018
	Actual	Actual	Actual	Actual	Forecast
Total of consolidation	17.8	18.8	19.3	24.6	27.5

Impact of settlements by solution business of purchase price allocation (PPA).

The impact on the consolidated financial results for FY2017 from the PPA for the acquired assets and liabilities of H-E Parts and Bradken acquired in FY2016 and the forecasted impact on the consolidated financial results after FY2018 are as follows.

1. Prospect of depreciation (amortization) by PPA.

(billions of yen)

Assets	Term of depreciation(amortization)	FY2017 (Actual)	FY2018 (Forecast)	FY2019 (Forecast)	FY2020 (Forecast)	After FY2021 (Including the foreign currency translation adjustments) (Forecast)	Total
1. Inventories	Depreciation in one year	3.1				-----	3.1
2. Tangible assets	Non-depreciable/ Average of depreciation is 15years	0.4	0.3	0.3	0.3	----	5.7
3. Intangible assets	One-time amortization/ Average of amortization is 20years	1.9	1.1	1.1	1.1	-----	24.2
Total depreciation(amortization)		5.4	1.4	1.4	1.4	-----	33.0

※ For the H-E Parts Group, the amortization expense of FY2017 is the total for the period from January 2017 through March 2018 (15 months) since the company recognizes it retroactively to the acquisition date.

2. Remeasurements of goodwill by PPA.

(billions of yen)

Goodwill on Consolidation (Before PPA)	**34.6**
Goodwill of Individual	14.6
Total Goodwill (Before PPA)	**49.2**
Increased assets	-33.0
Deferred tax liability, etc.	12.6
Goodwill on Consolidation (After PPA)	**28.8**

HITACHI

Reliable solutions

Corporate Vision

Contents

1. Management Plan
2. Regional Trend & Business Strategy
3. Operating Results & Forecast
4. Company Outline and Topics

Company Outline

•Company Name	Hitachi Construction Machinery Co., Ltd. Stock Exchange Listings：Tokyo (#6305)
•Major Operations	Manufacturing , sales and service of construction machinery, transportation machinery, and other machines and devices.
•Established	1 October, 1970
•Capital	81.6 billion Yen (Hitachi, Ltd：51%)
•President	Kotaro Hirano
•Subsidiaries Affiliates	Japan: 10 companies, Overseas: 74 companies Japan: 4 companies, Overseas: 17 companies
•Number of Employees	Consolidated :23,925 Non-consolidated :4,072

(March 31, 2018)

Our Products and Revenue

Construction

Hydraulic Excavator
(Hybrid hydraulic excavator,
ICT hydraulic excavator)

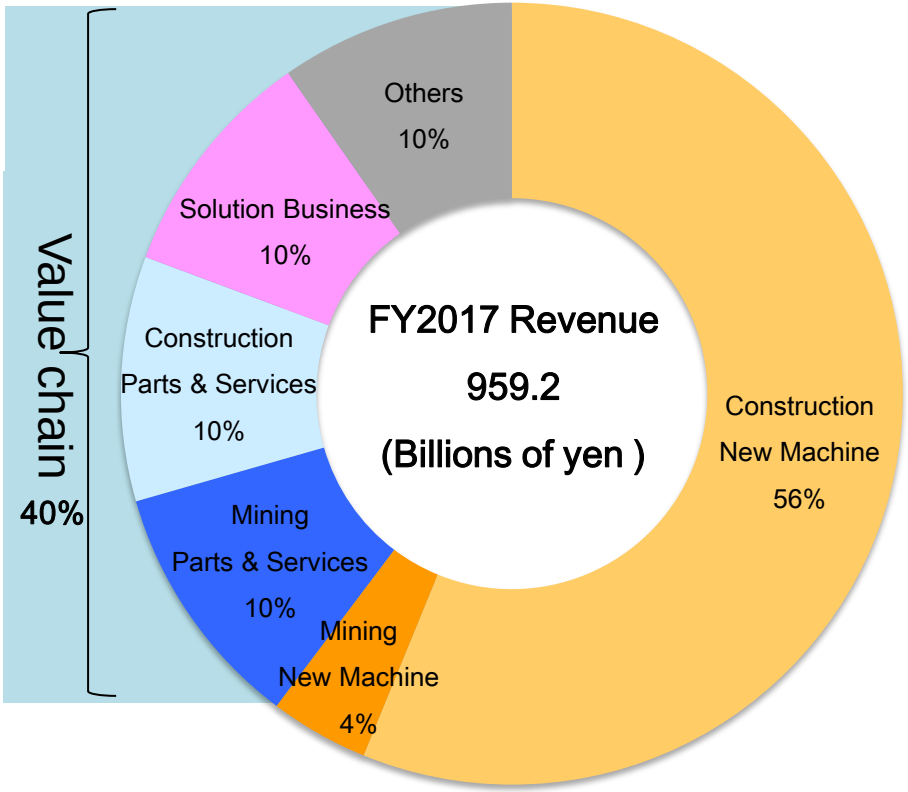
Wheel-drive Type Hydraulic Excavator

Mini excavator

Double-Front Work Machine

Wheel Loader

Road Construction Machinery

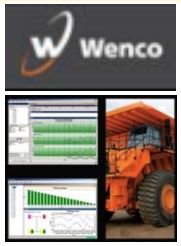


Mining

Dump Truck

Ultra-large Hydraulic Excavator

Solution Business



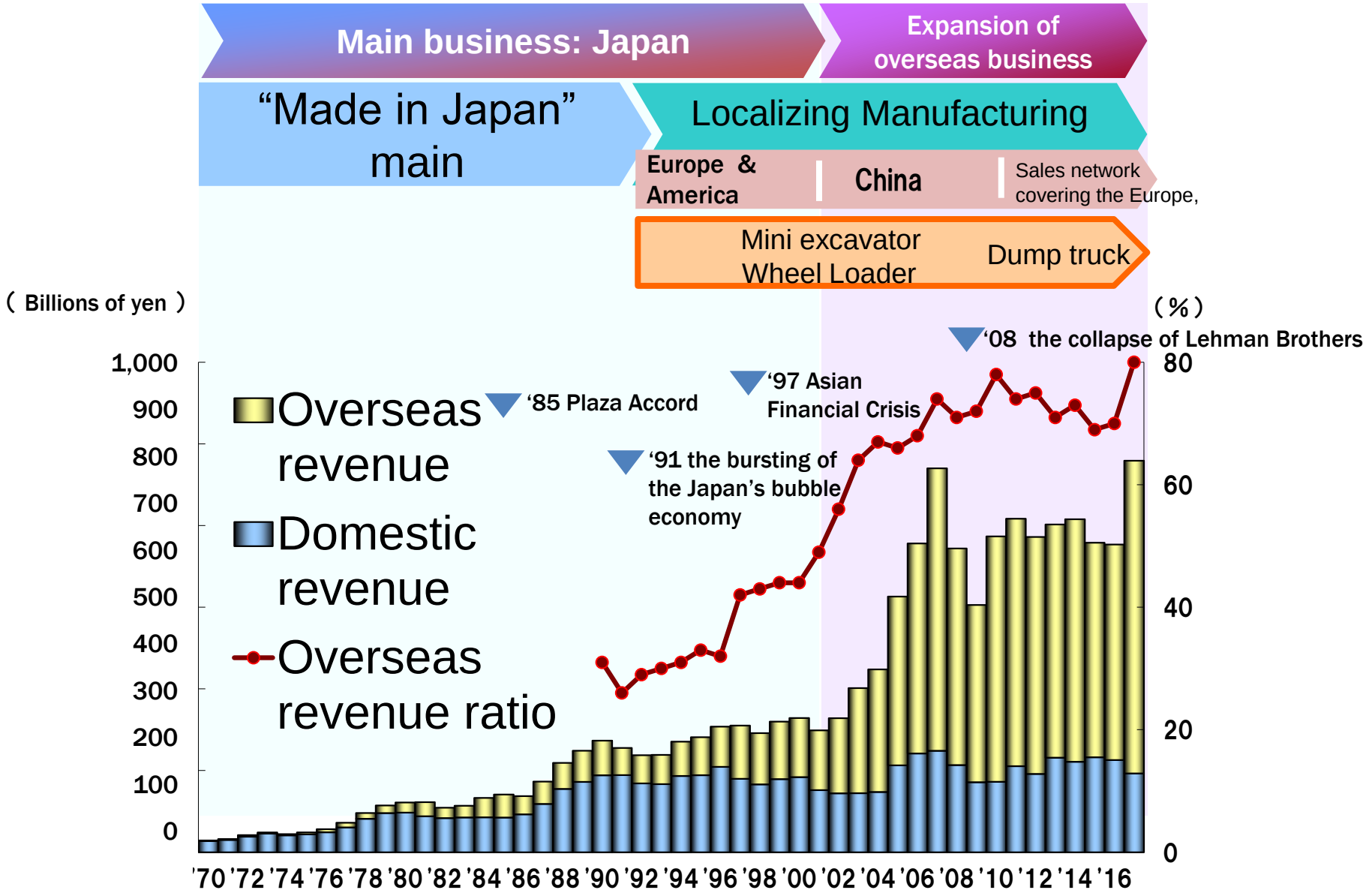
Mine management system

H-E Parts

Bradken

ConSite

Globalizing and Localizing Manufacturing



Globalization of Manufacturing & Sales Bases (Major group companies)

The Americas
Manufacturing:3
Sales:2

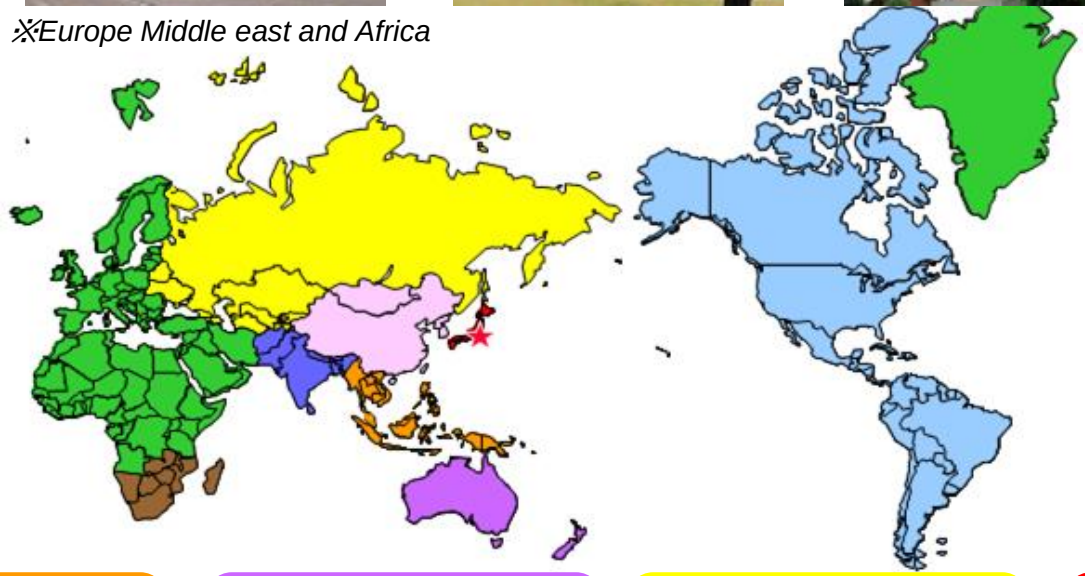
EMEA※
Manufacturing & Sales:1
Sales:4

Southern Africa
Manufacturing & Sales:1

India
Manufacturing & Sales:1

China
Manufacturing:2
Sales:3

※Europe Middle east and Africa



Asia
Manufacturing:1
Sales:5

Oceania
Manufacturing & Sales:1
Sales:2

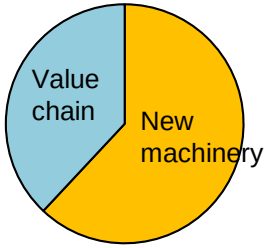
Russia & CIS.
Manufacturing & Sales:1

Japan
Manufacturing:4
Sales:1

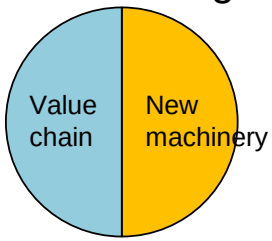
Deepening Value Chain

Value chain business ratio

FY2016 actual



FY2019 target



Products

Other product group

- ✓ Backhoe loader
- ✓ Bulldozer
- ✓ Skid-steer loader
- ✓ Crawler crane

Main products

Marketing
R&D
Production
Procurement
Logistics

New machinery
Service
Parts
Used machinery
Rental
Parts remanufacturing
Finance

Solution Business

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

Value chain

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New value created by Hitachi Construction Machinery

HITACHI
Reliable solutions

Customers' needs

Enhancement of safety

Improvement of productivity

Reduction of life-cycle cost

Solution Linkage

ICT/IoT solutions solving problems together with customers

- AHS Solutions [Autonomous Haulage System] — AHS
- Fleet Management Solutions — Wenco®
- ICT Solutions for i-Construction — ICT
- Service Solutions — ConSite®

One Hitachi

Hitachi Construction Machinery

Open Innovation

AHS: Autonomous Haulage System
ICT: Information & Communication Technology

* Wenco, ConSite is a registered trademark of Hitachi Construction Machinery Co., Ltd.
* Solution Linkage is currently applying for registered trademarks.

【AHS】Autonomous Haulage System (AHS) for dump trucks

Scalability

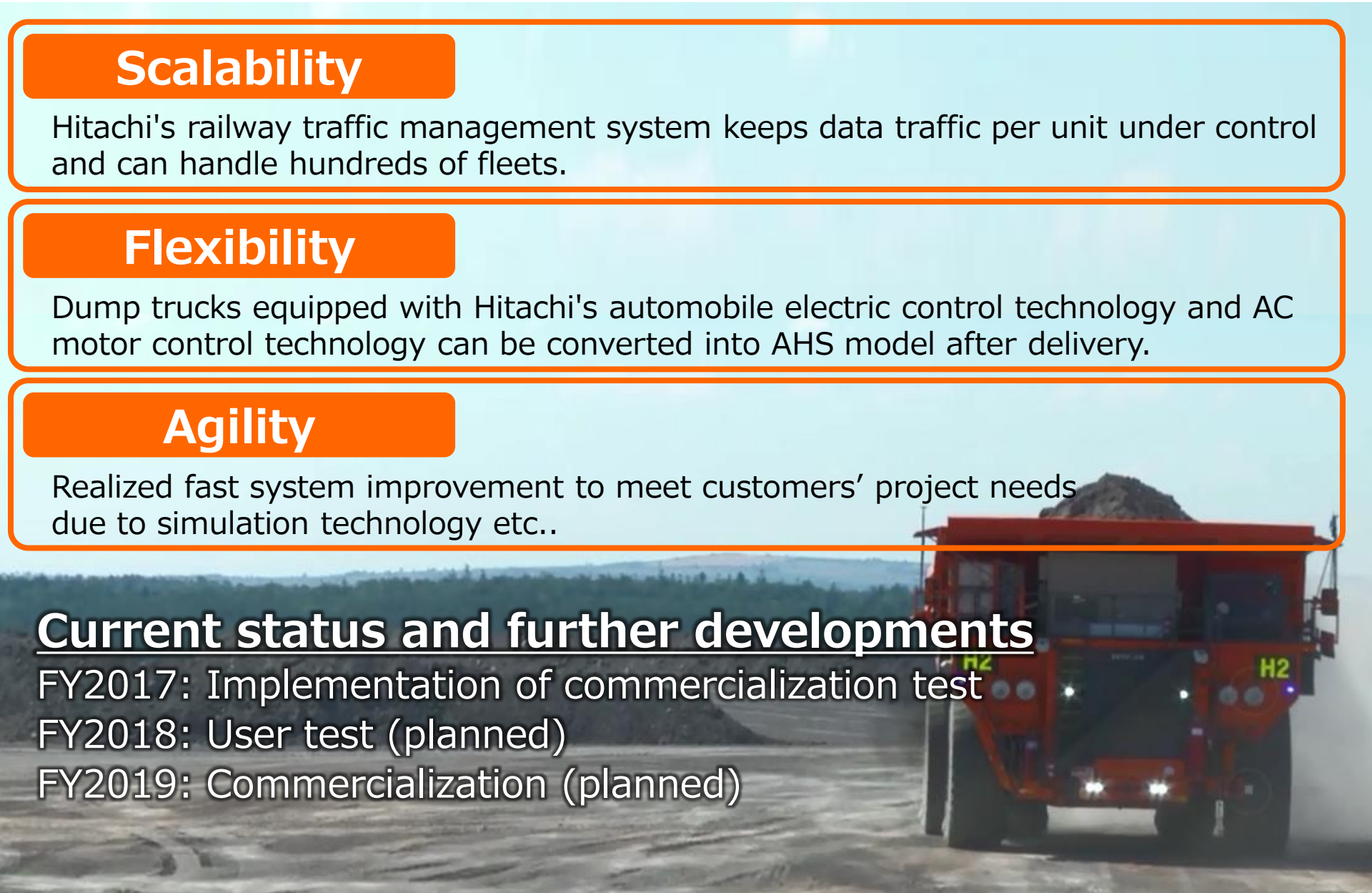
Hitachi's railway traffic management system keeps data traffic per unit under control and can handle hundreds of fleets.

Flexibility

Dump trucks equipped with Hitachi's automobile electric control technology and AC motor control technology can be converted into AHS model after delivery.

Agility

Realized fast system improvement to meet customers' project needs due to simulation technology etc..



Current status and further developments

FY2017: Implementation of commercialization test
FY2018: User test (planned)
FY2019: Commercialization (planned)

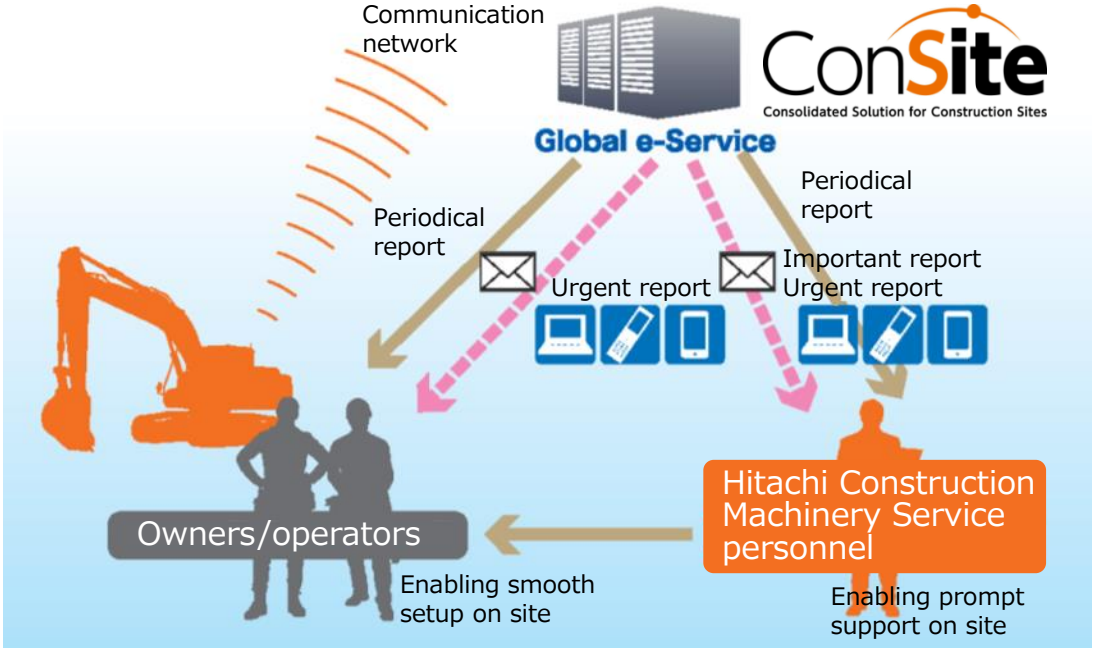
We constantly monitor machines remotely and support stable operation with our data report service.

- **Distribute data report** to 82,000 units worldwide via our **fully automated system.**
- Assess malfunction risk from sensing data. **Distribute alarm report and correspondence manual automatically** in accordance with the seriousness of problem.
- **Strengthen efforts for sign diagnostics** and further expand future service menus.

Periodical report (33 languages)

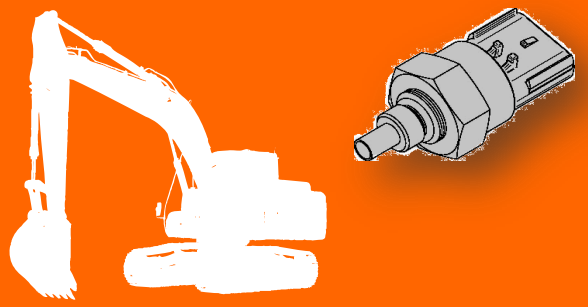
Corresponding manual (16 languages)

Offered worldwide
Registered number exceeded 82,000
※ As of March 31, 2018



Launched ConSite OIL to improve prognostic detection rate

Rolled out ConSite OIL, enabling 24-hour oil monitoring for the first time in the construction machinery industry in Europe, Australia, and Japan.



【Supplement】 Necessity of preventive maintenance based on oil diagnosis

If you do not perform proper oil management and maintenance…

Because of sudden trouble	Due to repair after trouble occurrence	Due to response after trouble occurrence
Machine breakage	Increased running cost	Increased repair time

Cooperation with Bradken and H-E Parts

BRADKEN

- Expand sales channels by utilizing each other's networks.
  - Expand sales of Bradken's undercarriage parts and GETs* for mining equipment (consumables).
  - Utilizing GETs for wheel loaders procured by Bradken.

*Ground Engaging Tools

- Newly promote parts remanufacturing business of H-E Parts by collaborating with HCM Zambia.

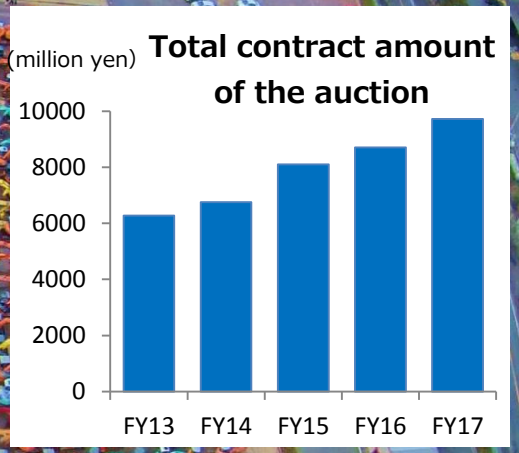
H-E PARTS INTERNATIONAL

- Establish an operating base of parts remanufacturing business of H-E Parts in Chile.

Used Equipments

Expansion of sales of used equipments from Japan (auction business)

- Hosting auctions of 3500 units per year
- Sales of good-conditioned used equipments, which made possible through the distinctive service as a manufacturer



Auction venue of HCM Japan

Expansion of sales of certified used equipments

Hitachi Construction Machinery PREMIUM USED

- Sales of well-maintained, high-value added used equipments in Japan, China, and Europe, etc.

Japan

China

Dump Truck　The synergy of Hitachi Group

- The synergy of Hitachi Group
- High-Performance Stability Control Technologies

Dump Truck Product characteristic

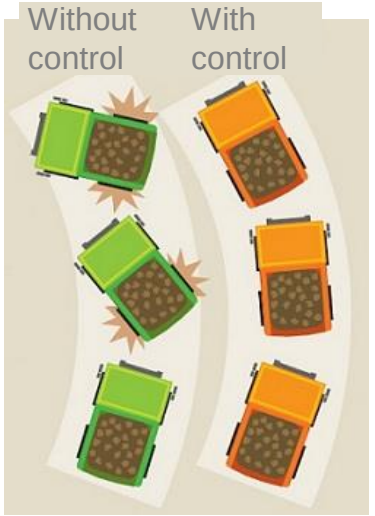
AWARD - JSME(The Japan Society of Mechanical Engineer) Medal for New Technology 2014,

We received JSME Medal for New Technology 2014 from The Japan Society of Mechanical Engineers for “High-Performance Stability Control Technologies” installed in the new AC-3 dump truck series.

The technologies were “Pitching restraint control” and “Sideslip prevention control”. The former reduces pitching of the truck, resulting in better operating comfort and fewer load spillage. The latter prevents sideslip of the truck, resulting in enabling stabilized operation under various road conditions including slippery rutted surfaces. This award was highly evaluated these two technologies.

EH5000AC-3 dump equipped with
”High-Performance Stability Control Technologies"

Pitching restrain control



Sideslip prevention control

《H-E Parts》 Acquisition of H-E Parts International

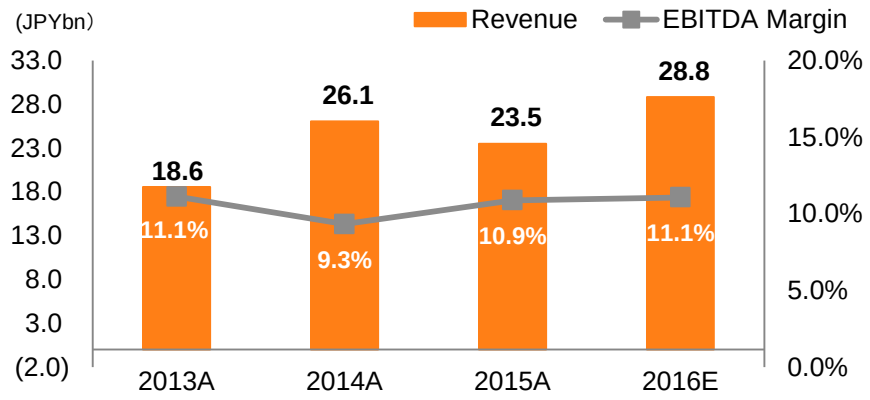
Overview of H-E Parts International

Business Description	Provides service solutions for mining / construction machines and develops, manufactures and sales aftermarket parts
CEO	Steve McBrayer
Headquarters	Atlanta (USA)
Countries	Australia, USA, Chile, Canada, et al.
Foundation	2006 (commencement of business)
Employees	approx. 750

Transaction Overview

Acquisition Ownership	100%
Enterprise Value	USD 240mn
Key Dates	Board Resolution: Dec 21, 2016 Agreement: Dec 21, 2016 Closing: Dec 21, 2016
Seller	H-E Parts Investors LLC (SPC owned by Frontenac and Champ Ventures)

Financial Overview(1)



Overview of Seller

Frontenac	▪ US-based PE fund established in 1971 ▪ Focus on food, services and industrials ▪ Invests in mid-sized companies
Champ Ventures	▪ Australia-based PE fund established in 1987 ▪ Invests in a broad range of companies from seed stage to later stage ▪ Invests in mid-sized companies

(1) Consolidated base, exchange rate of USD/JPY:115.0, AUD/JPY:85.0

《H-E Parts》 Transaction Rationale

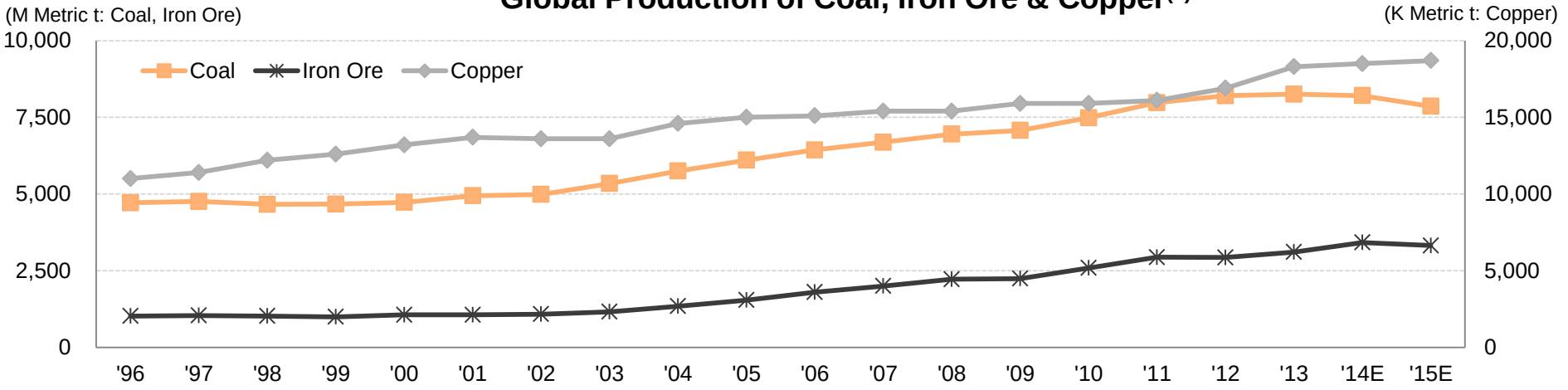
Industry Trends

- ❑ Demand for mining equipment is recovering
  - Growth market in the medium to long-term
- ❑ Increase in customers' needs driven by improvements in safety and productivity as well as decreases in life-cycle cost
  - Market participants are differentiated by providing value added solutions to customers' challenges
- ❑ Innovation led by ICT-IoT at production & operating site

Strategic Rationale of the Acquisition

- ❑ Grow solutions business and establish a leading position in the aftermarket services segment by leveraging H-E Parts' platform
- ❑ Strengthen distribution network by utilizing sales and services network of H-E Parts
- ❑ Enhancement of our value chain through gaining access to the aftermarket services, remanufactured parts, and non-genuine parts markets
- ❑ Effective use of remanufacturing / rebuilding facilities

Global Production of Coal, Iron Ore & Copper(1)



(1) HCM research

《H-E Parts》 Operating Segments

Mining Solutions

59% of Total Revenue

- Comprehensive aftermarket solutions for mobile mining equipment including haul trucks, shovels and dozers
- Maintenance and repair services and alternative parts for major makes and models
- Largest global footprint and broadest product coverage of any non-OEM
- Customize parts to meet clients' demands
- **Products and Services Offered:**
  - General Parts
  - Drive Systems
  - Cooling Systems
  - Clutch & Brakes
  - Hydraulics

Crushing Solutions

28% of Total Revenue

- Aftermarket services & parts for crushing equipment as well as on-site and off-site services & repairs
- Services to design, evaluate and optimize to reduce costs and increase productivity
- Innovative computer modelling and scanning for application-specific crushing machines
- **Products and Services Offered:**
  - Crusher Parts
  - Wear Plates

Engine Solutions

6% of Total Revenue

- Comprehensive, high-horsepower diesel engine remanufacturing solutions
- Parts and rebuilds for diesel engines ranging from 1,500 to 4,000 horsepower
- Provide rebuilding services using customized parts and components, which boast the industry's lowest failure rates and superior engine performance
- **Products and Services Offered:**
  - Camshaft Machining
  - Dyno Testing
  - Crankshafts Machining
  - Cylinder Block Machining
  - Magnaflux

Construction

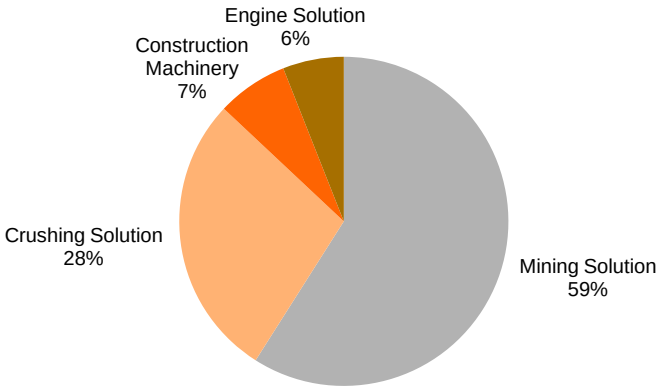
7% of Total Revenue

- Comprehensive undercarriage parts and ground engagement tools (G.E.T.) for mobile construction equipment
- In-house designing and engineering to lower the total cost of undercarriage and G.E.T.
- **Products and Services Offered:**
  - Undercarriage for construction
  - G.E.T. (Ground Engaging Tools) for construction

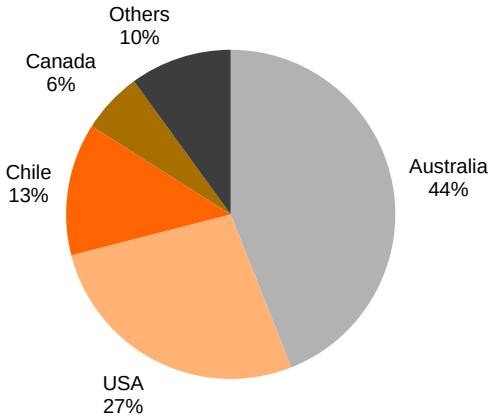
Note: Revenue share for FY2015

《H-E Parts》 Revenue Breakdown

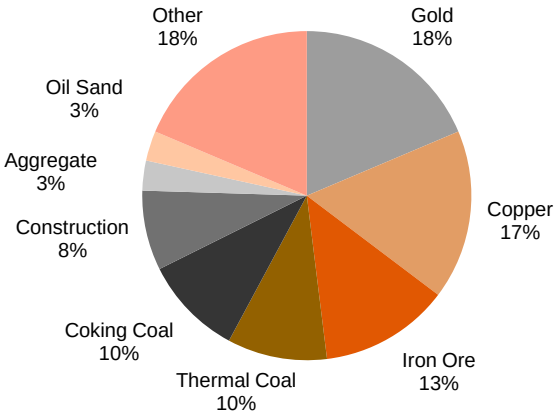
Segment



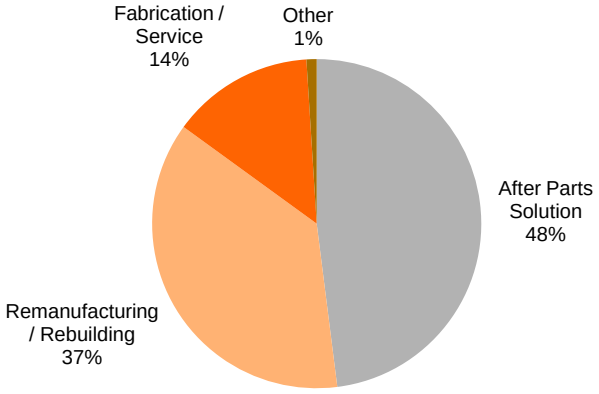
Geography



Commodity

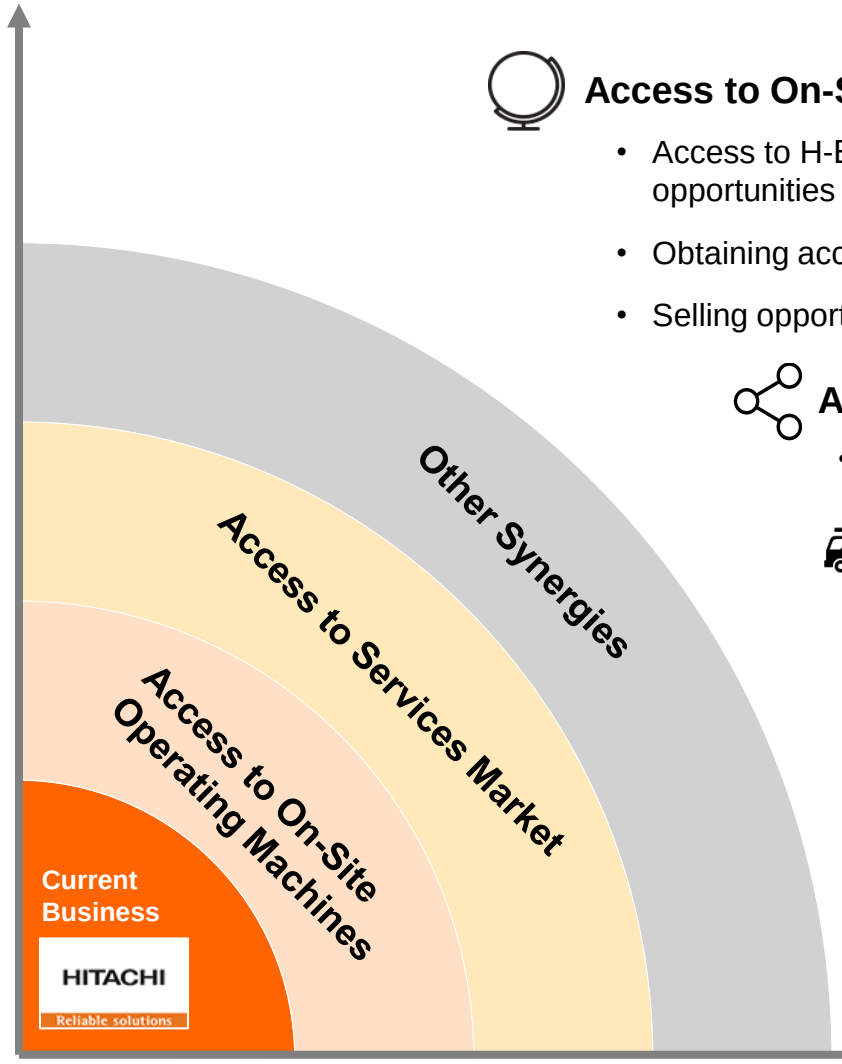


Solution Sales by Type



Note: Revenue share for FY2015

《H-E Parts》 Anticipated Synergies



Access to On-Site Operating Machines

- Access to H-E Parts' existing clients presents significant business opportunities
- Obtaining access to long-term operating machines
- Selling opportunity of H-E Parts' original compatible parts

Access to Services Market

- Rebuilding / remanufacturing engines

Expansion of Mining Parts Offering

- Rebuilding and remanufacturing engines as well as processing services
- Differentiation through upgraded parts

Collaboration with Wenco System

Distribution and Services Network

- Utilization of distribution and services network of H-E Parts

《Bradken》 Acquisition of Bradken

Overview of Bradken

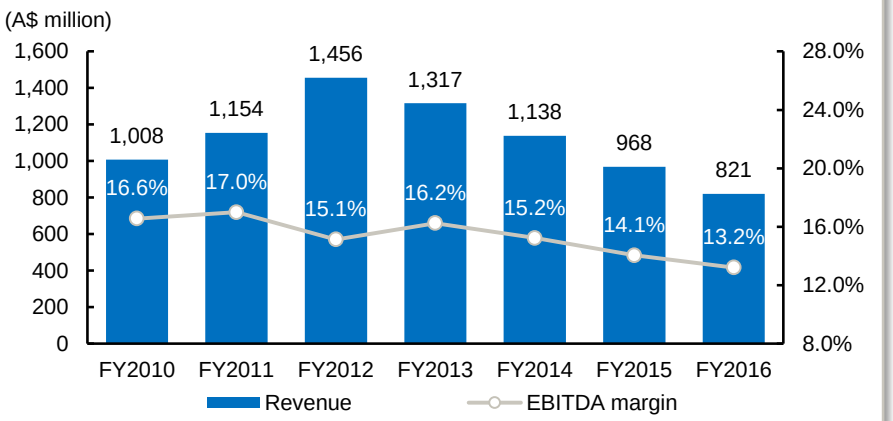
Name	Bradken Limited
Business	Casting, manufacturing and distribution service of casting products
Representative	Paul Zuckerman (CEO)
Headquarters	Newcastle (NSW), Australia
Established	1922
No. of employees	Almost 3,500
Stock listing	Australian Stock Exchange (ASX: BKN)

Overview of the Transaction

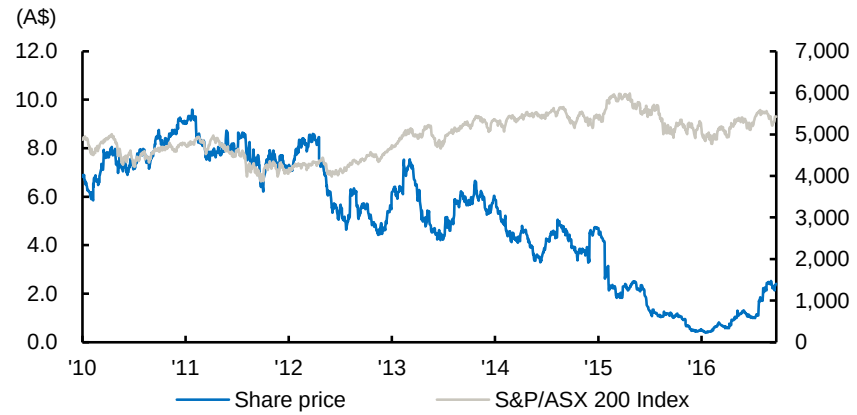
Acquisition price	A$ 3.25 per ordinary share (a 37.7% premium to the 1 month VWAP of Bradken shares up to 30 September) Maximum total consideration of A$ 689 million (JPY 51.6 billion JPY75=A$)
Acquisition structure	A cash takeover offer for 100% of the ordinary shares
Source of funds	Existing cash reserves and external funding
Anticipated schedule*1	1 Nov. 2016: Commence takeover bid 7 Apr. 2017: Complete takeover bid
Number of Shares Tendered	193,741,575 shares
Ratio of Shares Tendered	92.8%

*1 The schedule is subject to extension

Key Financials



Share Performance



《Bradken》Core Products and Solutions

Mining wear parts business

High-precision wear parts for mobile mining equipment

Revenue：A$228.4mm
% total revenue：27.8%

☑ Global leader in crawler systems, GET

- Crawler systems

- GET（Ground Engaging Tools）

- Industrial product for infrastructure

Wear surface solutions for fixed plant mining equipment

Revenue：A$349.5mm
% total revenue：42.6%

☑ Global leader in metallic mill liners

- Metallic mill liners

- Wear surface solutions

- Live, remote wear monitoring technology

Specialty castings business

High-spec, specialty castings for the industrial, energy and defence industries

Revenue：A$227.2mm
% total revenue：27.7%

☑ Customized specialty castings

- Industrial

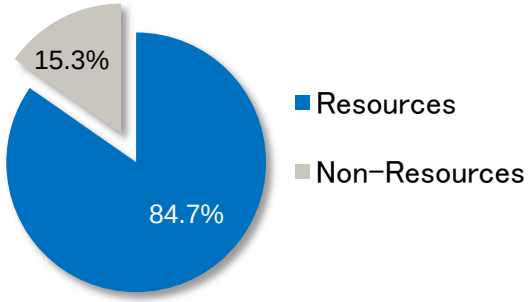
- Energy

- Defence

* Revenue and % Total Revenue based on 2016/6A.
In addition to these three businesses, Bradken's total revenue includes Cast Metal Services (A$13.9 mm, 1.7%), Others (A$1.6mm, 0.2%).

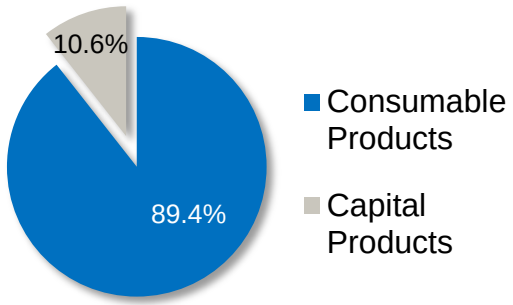
《Bradken》 Overview～Revenue Breakdown～

REVENUE BY INDUSTRY SECTOR



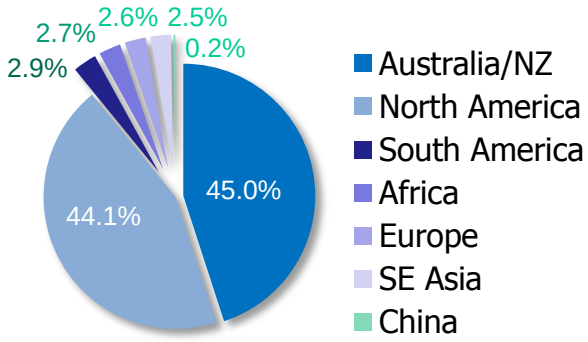
☑ Strong presence in the resources sector

REVENUE BY PRODUCT



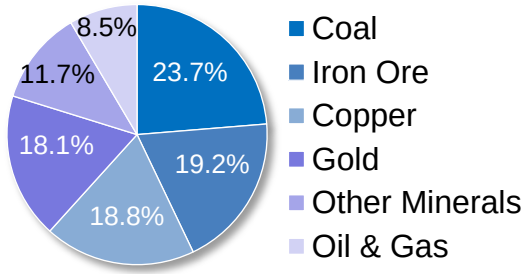
☑ Consumable products account for c. 90% of total revenue

REVENUE BY REGION



☑ Strong presence in Australia and North America

REVENUE BY COMMODITY



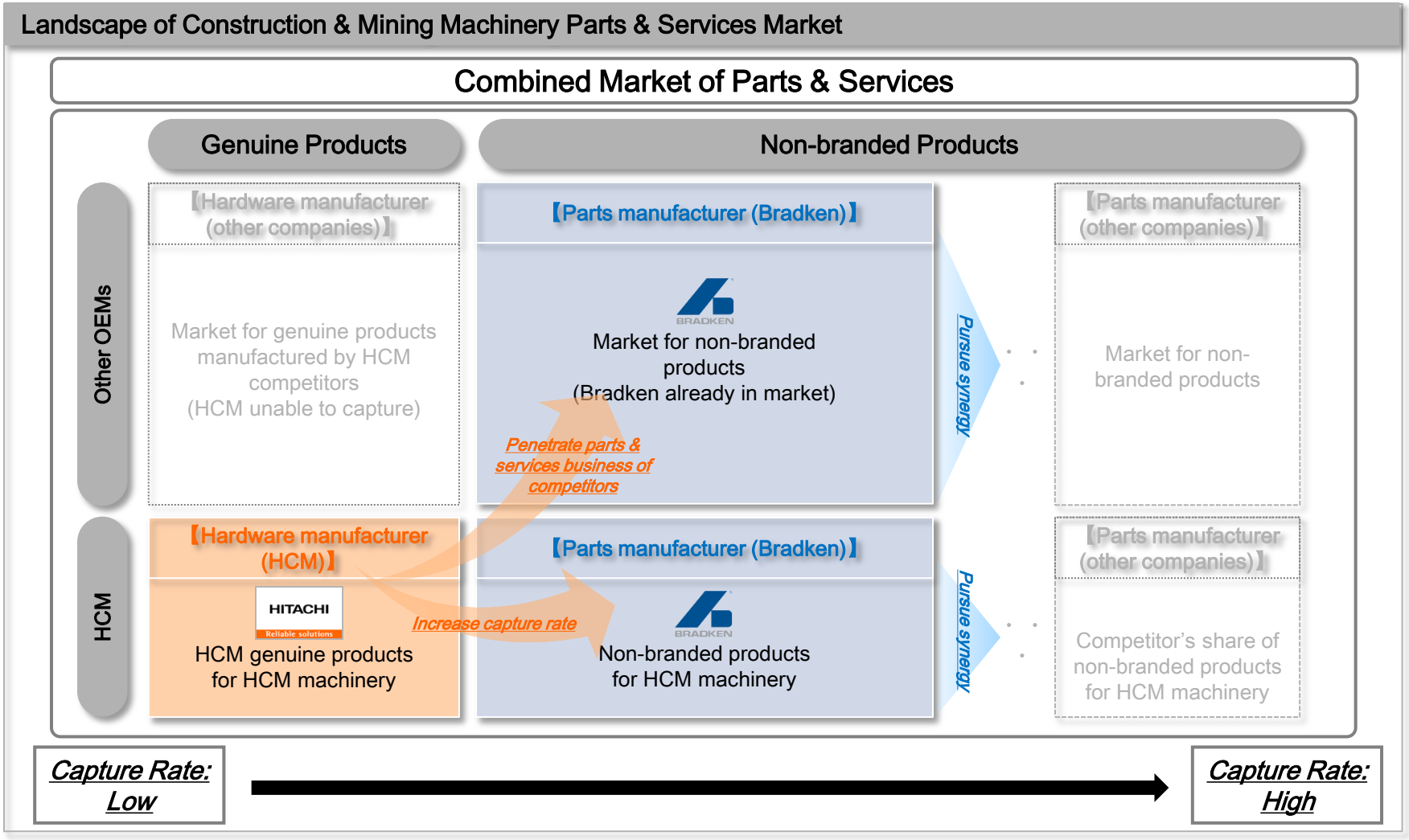
☑ Well-balanced exposure to commodities

Note: Revenue for FYE 2016/6.

《Bradken》 Anticipated Synergies①

Enhancement of Value Chain through Reinforcement of the Mining Wear Parts Business

The acquisition of Bradken will not only raise the capture rate of mining wear parts used in our own construction machinery, but also raise those in our competitors' machinery.



《Bradken》 Anticipated Synergies ② Accelerate Innovation

Combining Superior Technology, Product Capability and Operational Know-How

HCM's Strength

- New Equipment development capability
- Production technology cultivated over years
- Continuous innovation (ICT・IoT, hybrid)
- Large operating fleet based on high reliability and durability
- Brand value based on established relationship with customers

Bradken's Strength

- Competitive mining consumable products
- Ability to respond to sophisticated customers' needs
- Superior casting technology
- Experienced management team
- Brand value based on established relationship with customers

Consolidated revenue
JPY 758bn*1

Synergies

HITACHI Reliable solutions × BRADKEN

Synergies

Consolidated revenue
A$821mn *1

Provide solutions to customers

Improve safety

Upgrade productivity

Reduction of life cycle cost

*1 HCM: 2016/3A; Bradken: 2016/6A

Any forward-looking statements in the “Corporate Vision” , including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially.

END

Corporate Vision

Public Relations Strategy Office
Hitachi Construction Machinery Co., Ltd.

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