Mid-term Management Plan

“CONNECT TOGETHER 2019”
【FY2017-FY2019】

April 24, 2019
Kotaro Hirano
Representative Executive Officer
Executive Officer, President & CEO
Hitachi Construction Machinery Co., Ltd.
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 business environment

Mega Trend

- Aging, labor shortage
- Tightening of Environmental regulation (SDGs)
- IoT/Digital revolution
- Electrification /Automation

Customer Needs Change

- “Ownership to “Sharing / Rental”
- Tangible goods to intangible goods
  - Operation support / Automation
  - Operation management – from machine to entire construction site
- Safety, Environmental Regulation

Core Competence of OEM

- Base
  - Digital Technology
  - Big Data/AI

Technology

- Engine/EV
- Internal manufacturing of major component

Solution

- Information-oriented construction
- Autonomous operation
- One Stop service
- Preventive maintenance
Deeping Value Chain

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

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

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

Value chain ratio
FY2016: 35%  FY2019 Forecast: 44%

Value chain
- New machinery
- Value chain
- New machinery

Products
- Marketing
- R&D
- Production
- Procurement
- Logistics

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

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Deepring Value Chain – Progress –

- Value chain sales is expected to increase steadily.
- Promote parts and service business through IoT utilization and rental & used business enhancement.

Initiatives to grow value chain

- **Value chain sales ratio**
  - **Solution Business**
    - Bradken · H-E Parts
    - Expansion of Chile facility/Entering Southern Africa
    - Development of next-gen GET (mining consumables)
  - **Used**
    - Global expansion of certified used equipment business
  - **Rental**
    - Europe: Establishment of Synergy Hire Ltd. in UK
    - Americas: Rental business promotion (ACME)
    - Europe & China: Re-rent model promotion
  - **Parts and Service**
    - Global expansion of ConSite (over 129k units)
    - Development and global expansion of ConSite OIL
    - Expansion of the mining remanufacturing business

Forecast

- FY16: 35%
- 17: 40%
- 18: 39%
- 19: 44%
- Forecast: 35%
Deepening Value Chain

ICT・IoT Solution

Solution Linkage  ConSite  LUMADA

Machine & Site Management
- Big Data
- Avoid Machine Downtime
- Predictive Diagnosis

Digital Technology Utilization

Connected

Sharing

C A S E

Rental・Sharing

USA
- Investment in North American Rental Business (ACME, 2018)

UK
- Establishment of Synergy Hire Ltd (2019)

Mining : Autonomous Operation

Autonomous Haulage System (AHS) dump trucks

- Connect Fleet Management System to customer’s system & database
- Propose total asset management which supports management decision

CASE

Electric

Electric Product

- Establishment of a Joint Venture Company to Develop Electric Construction Machinery (Germany, with KTEG, 2018)
- zero-emission electric mini excavator *

* Prototype at bauma2019 exhibition. Release is under consideration

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### Background
Customer’s Needs shift. From Possess to Rental/Sharing

### Rental Business

<table>
<thead>
<tr>
<th>Region</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Expansion of rental business at Hitachi Construction Machinery Japan</td>
</tr>
<tr>
<td>North America</td>
<td>Investment in ACME</td>
</tr>
<tr>
<td>Europe</td>
<td>Establishment of Synergy Hire (UK)</td>
</tr>
<tr>
<td>China</td>
<td>Promotion at sales subsidiary in China</td>
</tr>
<tr>
<td>Australia</td>
<td>Promotion at sales subsidiary in Australia in cooperation with Delta Rental</td>
</tr>
</tbody>
</table>

### Background of Rental Business

#### Customer
- Not want to increase asset
- Want to use machine much with application

#### (HCM)
- High profit ratio
- Service business
- Expand rental machine to used market

#### Rental
- Management as HCM asset
- Build-on Rental + young used equipment business model
- Analyze each regional scheme & expand most suitable one to each region

#### Service
- Used Equipment

### ConSite utilization
Operating data management & utilization of all units incl. used
* Business on operating machine business
* Parts & Service on used equipment

### Rental business sales revenue

<table>
<thead>
<tr>
<th>FY</th>
<th>B JPY</th>
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<tbody>
<tr>
<td>17</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
</tr>
<tr>
<td>19(E)</td>
<td>50</td>
</tr>
<tr>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>21</td>
<td>70</td>
</tr>
</tbody>
</table>

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Global Restructuring

- Integration of production and sales (FY17)
- Mining bucket production (FY17)
- Factory integration
- Factory capability expansion
- Factory reformation (FY17)
- Reorganization of manufacturing
- Production rationalization
- Divestment of the second factory (FY16)
- Divestment of the company (FY16)
- Factory closing (FY16)
- Facility expansion for mining service
- Liquidation (FY18)
- Subsidiary integration (FY18)
- Liquidation (FY18)
- Integration of company (FY17)
- Establishment of engine remanufacturing site (FY18)
- New factory establishment (FY18)
- Capacity expansion at parts remanufacturing factory
- Integration of production and sales (FY18)
- Factory closing (FY18)
- Integration of company (FY17)
- Establishment of engine remanufacturing site (FY18)

COGS ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>COGS Ratio</th>
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<tbody>
<tr>
<td>FY16</td>
<td>77.3</td>
</tr>
<tr>
<td>17</td>
<td>72.5</td>
</tr>
<tr>
<td>18</td>
<td>71.2</td>
</tr>
<tr>
<td>19</td>
<td></td>
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Domestic Restructure: Status of business structure reforms from now to 2022

Major restructuring of development and production bases to strengthen global competitiveness

- **FY17~19**: Transferred large excavators from Tsuchiura Works to Hitachinaka-Rinko Works
  *scheduled by 1st half year
- **April 2019**: Implemented an absorption-type merger of KCM Corporation
- **FY18~19**: Transferred components for wheel loaders from Banshu Works to Hitachinaka Works
  *scheduled by 1st half year

...etc
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 “CONNECT TOGETHER 2019” announced in April 2017)

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<tr>
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<tbody>
<tr>
<td>FX rate ¥/$</td>
<td>110.9</td>
<td>111.0</td>
<td>100.0</td>
</tr>
<tr>
<td>¥/€</td>
<td>130.1</td>
<td>127.9</td>
<td>110.0</td>
</tr>
<tr>
<td>¥/RMB</td>
<td>16.8</td>
<td>16.6</td>
<td>15.0</td>
</tr>
<tr>
<td>Global Demand</td>
<td>220K units (y-o-y)+27%</td>
<td>230K units (y-o-y)+6%</td>
<td>220K units (y-o-y)△5%</td>
</tr>
<tr>
<td>Revenue billions of yen</td>
<td>959.2</td>
<td>1,033.7</td>
<td>950.0</td>
</tr>
<tr>
<td>Adjusted operating income ratio</td>
<td>9.8%</td>
<td>11.3%</td>
<td>9.1%</td>
</tr>
<tr>
<td>ROE</td>
<td>14.1%</td>
<td>14.7%</td>
<td>Over 9%</td>
</tr>
<tr>
<td>Net D/E ratio</td>
<td>0.33</td>
<td>0.49</td>
<td>0.4 or less</td>
</tr>
<tr>
<td>Dividend payout policy</td>
<td>30.1%</td>
<td>31.0%</td>
<td>Approximately 30% or more</td>
</tr>
<tr>
<td>Environment of</td>
<td></td>
<td></td>
<td>Over 9%</td>
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ESG Management
Relevance between SDGs and the sustainable growth strategies that leverage our strengths

- Streamlined relevance between our activities and SDGs and set 10 key goals
- Established Sustainability Promotion Division in April 2019

2017 • Expanded sales of certified used equipments
  • Launched ConSite OIL
2018 • Established parts remanufacturing factory for H-E Parts
  • Won the Energy Conservation Grand Prize
  • Received orders for ultra-large electric hydraulic excavators
2019 • Developed prototypes of zero-emission electric excavators

CSV target by 2030
Corporate target
CO₂ reduction rate by product ▲33% (from 2010)

*CSV: Creating Shared Value
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