

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】

April 24, 2019

Kotaro Hirano

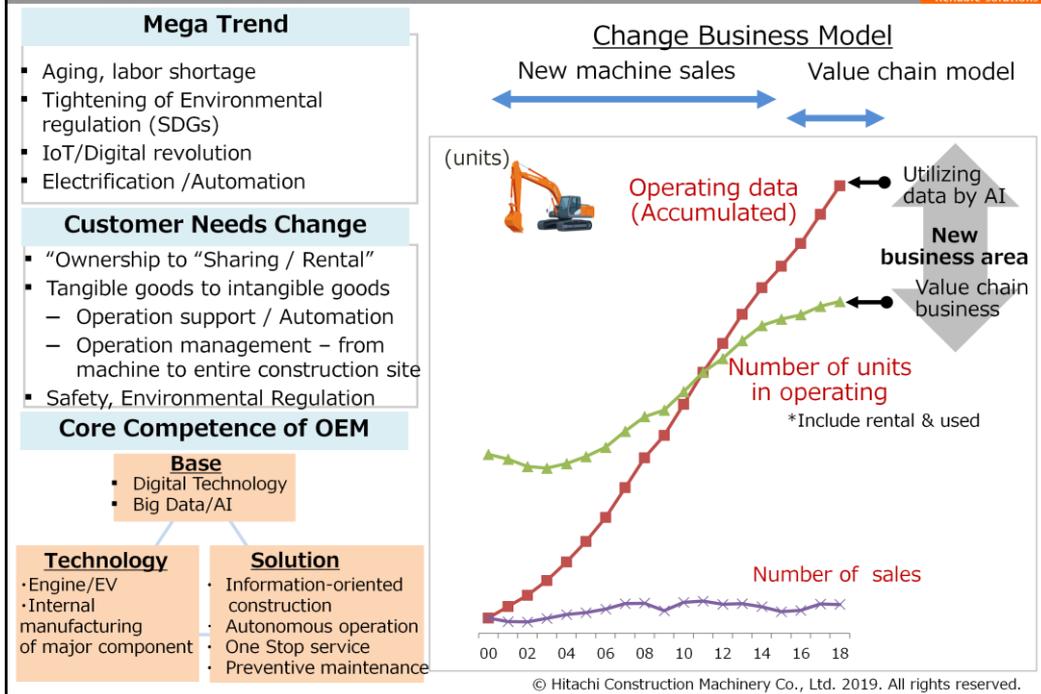
Representative Executive Officer
Executive Officer, President & CEO

Ⓢ **Hitachi Construction Machinery Co., Ltd.**

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

-Six main points are set for the Mid-term Management Plan “CONNECT TOGETHER 2019” that started in fiscal 2017. This fiscal year (2019) is the last year of the Mid-term Management Plan.

-This presentation briefs on the progress of the deepening of value chain, progress of business structure reforms, ESG management, and other progress and state of the mid-term management plan.



- Customer awareness has changed significantly over the past few years.
- General social trends
 - Aging and labor shortages, tighter environmental regulations, IoT and digital revolutions, and electrification/automation
- Changes in customer needs
 - From ownership to rental and sharing
 - From tangible goods to intangible goods: Operation support and automation, provision of solutions for construction site operation management, etc.
 - Safety and environmental compliance

* Electric machinery was introduced at HCM's and other companies' exhibits at bauma 2019 (international construction machinery trade fair held Apr. 8-14) held in Germany the other day, showcasing a growing interest among customers.

In line with the above:

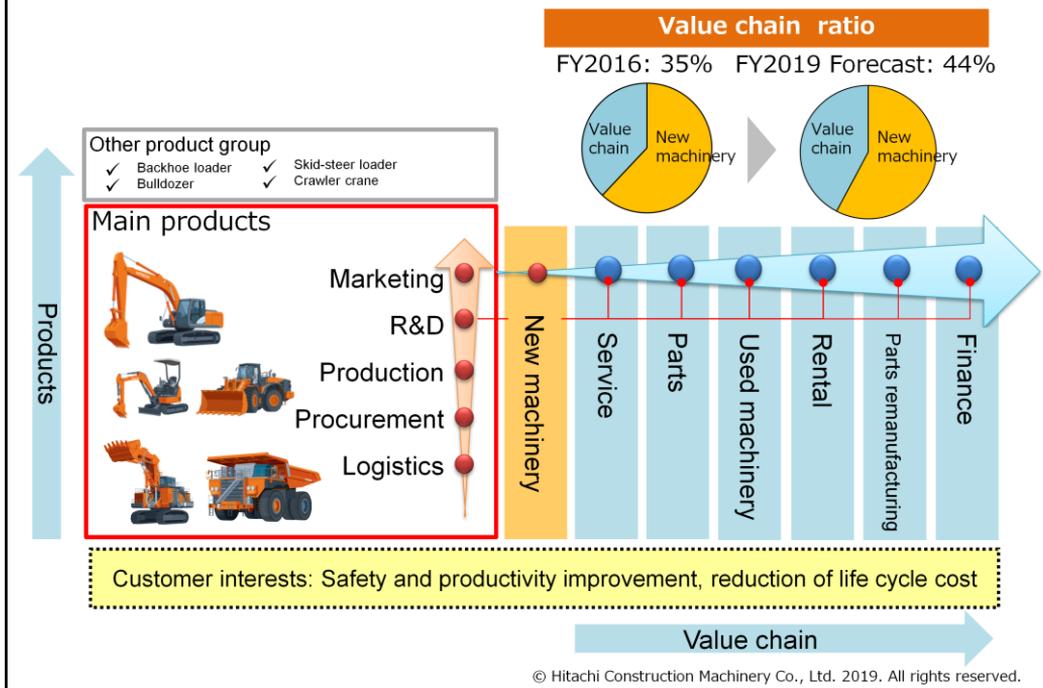
- Alter our business model
 - Respond to the general social trends and the changes in customer needs, and shift from a new machinery-centered business model to a value chain model that targets machinery that operates worldwide after selling new machineries.

While construction machinery is used for about 10 years, more than 400,000 hydraulic excavators, mini excavators, and wheel loaders that HCM has sold are operating worldwide. However, it is possible that parts and service are only provided for less than half of these machinery. How we should capture this:

- Operating data accumulated since 2000 is the source of our service competitiveness.
- Based on the accumulated information, deliver solutions to customers using HCM's major proprietary technical strengths and Hitachi Group's technologies.

Deeping Value Chain

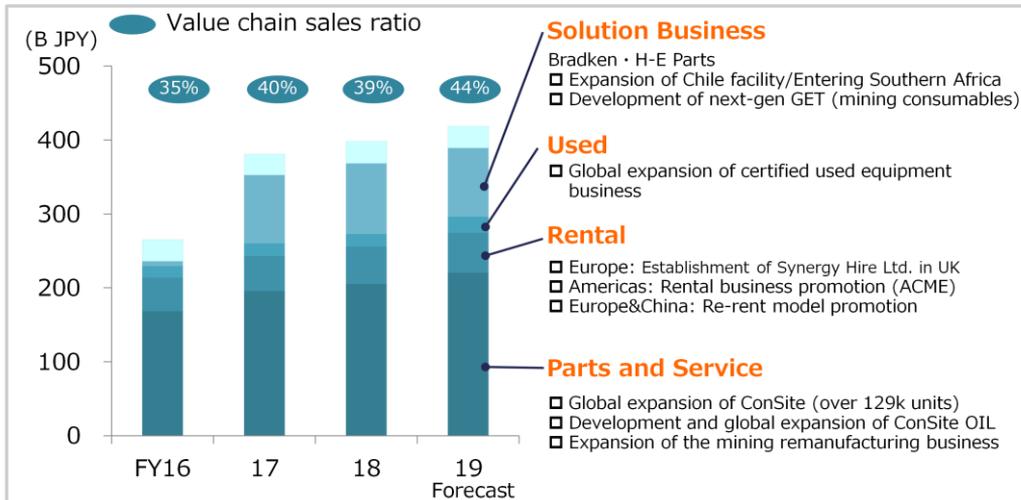
Reliable solutions



- We believe that we are achieving at least a 70% coverage in terms of product lineup; as such, no expansion is planned for this mid-term management plan period.
- As our efforts for the Connect Together 2019 Mid-term Management Plan: HCM will contribute to improving safety and productivity, as well as reducing life cycle costs, all of which are customer interests, through after-purchase service of existing products, rental business, and parts recycling.
- We also intend to stabilize our profit-making structure.
- Value chain ratio: The value chain ratio from the last year of the previous mid-term management plan (2016) was 35%; we forecast 44% for this fiscal year. New machinery sales are currently growing beyond our expectation; while the value chain ratio did not reach the initial target of 50%, the absolute sales revenue figure has met its goal. We will continue to build an organization and way of working to achieve a 50% value chain ratio.

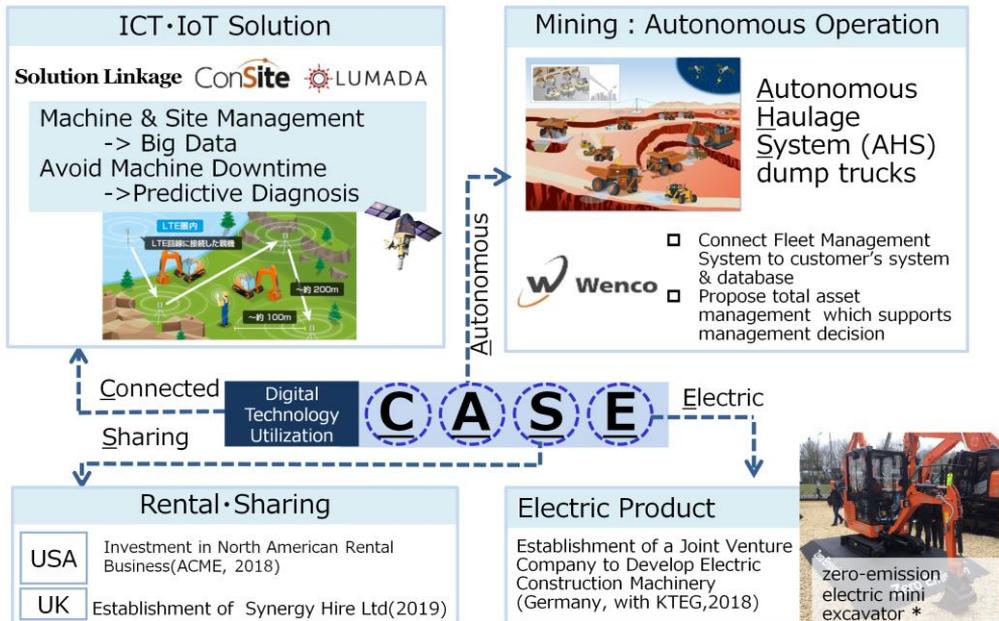
- Value chain sales is expect to increase steadily.
- Promote parts and service business through IoT utilization and rental & used business enhancement

Initiatives to grow value chain



— The value chain sales revenue from sales other than new machineries has been steadily increasing, and is expected to continue increasing during fiscal 2019. The value chain sales revenue increased from 265.2 billion JPY in fiscal 2016 to 418.9 billion JPY in fiscal 2019. Parts and service sales revenue has been particularly and steadily on the increase: 168.2 billion JPY in fiscal 2016 to 220.3 billion JPY in fiscal 2019.

- **Solution business:** Expansion into new areas and development of next generation products.
- **Used machineries:** Worldwide business of certified used machinery sales. Used machinery business also contributes to parts and service.
- **Rental:** Entry into European and American markets.
- **Through ConSite,** which utilizes IoT, HCM is expanding the parts and service business as well as parts remanufacturing business.



* Prototype at bauma2019 exhibition. Release is under consideration
 © Hitachi Construction Machinery Co., Ltd. 2019. All rights reserved.

- CASE (Connected, Autonomous, Shared, and Electric) in the automobile industry also applies to HCM's efforts.
 - Connected: HCM provides ICT construction machinery and IoT solutions through Solution Linkage, ConSite, and Lumada (platform).
 - Autonomous: The AHS realizes dump trucks that autonomously drive through intricate connections. Specifically, this is in a trial phase among customers who purchased AHS trucks in Australia; several machineries have been tested since the summer of 2018.
 - Shared: HCM has rolled out a rental business. HCM invested in ACME in the U.S. and established Synergy Hire in UK, as well as other rental businesses in other areas.
 - Electric: HCM developed a next generation electric hydraulic excavator and exhibited two prototype models at bauma 2019. We aim to productize these models in the future after resolving their problems in cooperation with specific customers.

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



Rental Business

| | | |
|-----------|---|---|
| Japan | <ul style="list-style-type: none"> Expansion of rental business at Hitachi Construction Machinery Japan | |
| New | North America | <ul style="list-style-type: none"> Investment in ACME Increase of product range in cooperation with HCM |
| | Europe | <ul style="list-style-type: none"> Establishment of Synergy Hire (UK) |
| | China | <ul style="list-style-type: none"> Promotion at sales subsidiary in China |
| Australia | <ul style="list-style-type: none"> Promotion at sales subsidiary in Australia in cooperation with Delta Rental | |

ConSite utilization

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

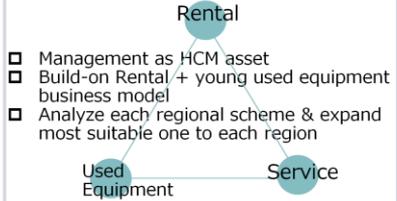
Background of Rental Business

Customer

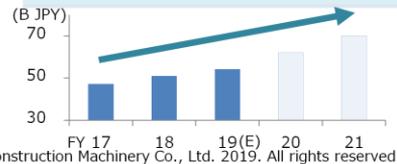
- Not want to increase asset
- Want to use machine much with application

(HCM)

- High profit ratio Service business
- Expand rental machine to used market



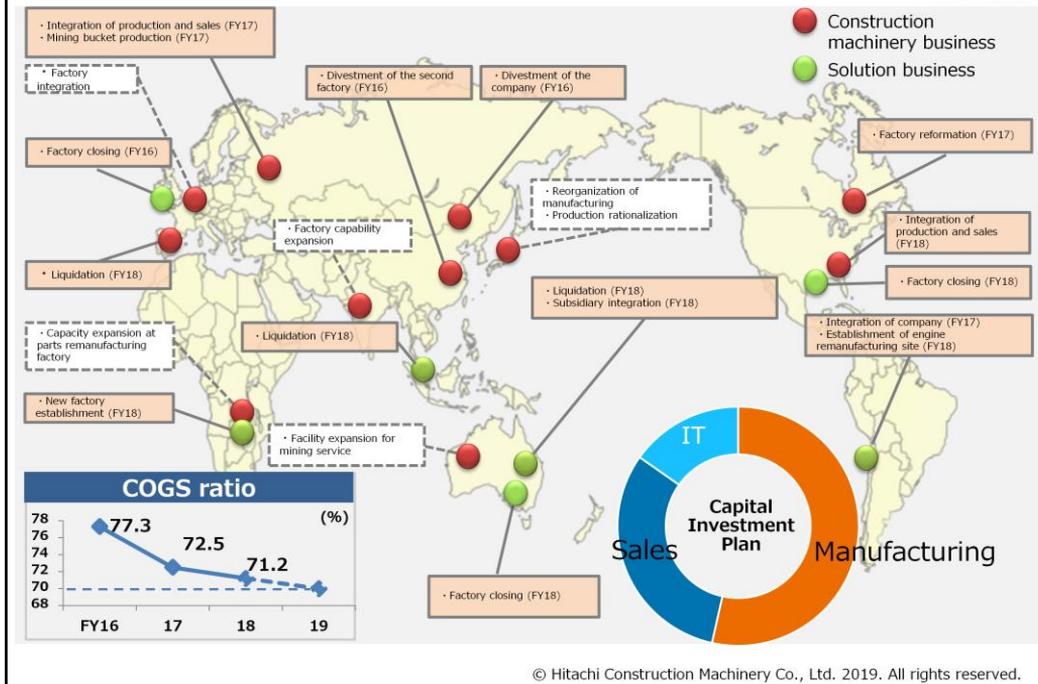
Rental business sales revenue



© Hitachi Construction Machinery Co., Ltd. 2019. All rights reserved.

- HCM has engaged in a wide range of businesses across Japan; on the other hand, customer demand is changing from possession to rental and sharing even in emerging countries, as well as in the U.S. and Europe.
- We have already rolled out rental business in Japan and Australia. Rental business is newly started in North America through ACME, which we have invested in, Synergy Hire is established in UK to enter the local rental market, and a local subsidiary is being used to enter into the Chinese market.
- With the collaboration of the rental, service, and used machinery businesses, we intend to incorporate all operating machinery into the business model.
- We aim to steadily increase our sales revenue from rental business.

Global Restructuring



- At all HCM bases worldwide, while we build and improve on our framework to deepen the value chain, we will also consolidate efforts to improve efficiency. The value chain abroad has in large part been dealt with, and we are now setting for full-scale operation in Japan.
- We are working on improving the cost of sales to revenue ratio through such initiatives and aiming for a 70% level for fiscal 2019.
- No major change from the fiscal 2017 plan regarding capital investment; we are staying at a total of 120 billion JPY for the three years mid-term plan.

Domestic Restructure : Status of business structure reforms from now to 2022

8

HITACHI

Reliable solutions

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



© Hitachi Construction Machinery Co., Ltd. 2019. All rights reserved.

- As our main measure for strengthening HCM's global competitiveness, we have significantly reorganized the major development and production bases in Japan as part of our long-term plan until the next mid-term management plan. The progress of the reorganization is explained hereafter.
- As part of the plan to centralize large machinery production at Hitachinaka-Rinko Works, we are transferring large hydraulic excavators from Tsuchiura Works. Specifically, this move is planned to take place during the May Golden Week holidays.
- The production of components for wheel loaders is being transferred from Banshu Works to Hitachinaka Works in Ibaraki Prefecture.
- HCM merged with KCM, which has been developing and producing various sizes of wheel loader products.
- We will respond to customers' needs by product size in order to improve development and production efficiency.

* The key element of the domestic business structure reform is to consolidate development at Tsuchiura Works and HCM Tierra and consolidate production by product size.

Numerical Management Targets

9

HITACHI

Reliable solutions

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)

| | CT2019 March 2018 Actual (FY17) | CT2019 March 2019 Actual (FY18) | CT2019 March 2020 Forecast (FY19) (※As of April 2019) | CT2019 March 2020 Guidance (※As of April 2017) |
|------------------------------------|--|--|---|---|
| FX rate | | | | |
| ¥/\$ | 110.9 | 111.0 | 100.0 | 100.0 |
| ¥/€ | 130.1 | 127.9 | 110.0 | 110.0 |
| ¥/RMB | 16.8 | 16.6 | 15.0 | 15.0 |
| Global Demand | 220K units ※(y-o-y)+27% | 230K units ※(y-o-y)+6% | 220K units ※(y-o-y)△5% | 170K units |
| Revenue billions of yen | 959.2 | 1,033.7 | 950.0 | Environment of 850.0 |
| Adjusted operating income ratio | 9.8% | 11.3% | 9.1% | Over 9% |
| ROE | 14.1% | 14.7% | Over 9% | Over 9% |
| Net D/E ratio | 0.33 | 0.49 | 0.4or less | 0.4or less |
| Dividend payout policy | 30.1% | 31.0% | Approximately 30% or more | Approximately 30% or more |

- To be a company with higher tolerance to changes in the business environment, we will improve profitability and efficiency through enhancement of the value chain and global structure reform.
- The mining business is currently steady, and even with the same level of performance as in fiscal 2018 forecast for global demand in hydraulic excavators, considering the possible range of performance for fiscal 2019—specifically, between $\pm 0\%$ and -5% compared to the previous fiscal year—we forecast 220,000 units, taking the bottom figure. We also set the currency exchange rate to 100 yen per dollar from our estimated ranges between 100 to 110 yen per dollar. Demand forecast and currency exchange rates are set using the least optimistic estimates.
- While the sales revenue will fluctuate depending on the global hydraulic excavator demand environment, we will carry out the HCM group-wide measures for the final year of the mid-term management plan to achieve our goals: an adjusted operating income ratio of over 9%, ROE of over 9%, and Net D/E ratio of 0.4 or less.

ESG Management

Relevance between SDGs and the sustainable growth strategies that leverage our strengths

HITACHI

Reliable solutions

- 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



© Hitachi Construction Machinery Co., Ltd. 2019. All rights reserved.

- HCM has always set “sustainable growth strategy” at the core of our management. HCM set 10 key goals using the 17 SDGs.
- To further promote the incorporation of “sustainable growth” in our management strategy, we established the Sustainability Promotion Division in April 2019 by integrating the Environmental and CSR Promotion Divisions.
- In particular, we intend to promote hybrid and electric machinery for the reduction of CO₂ emissions. Our Creating Shared Value goal for 2030 is to reduce CO₂ emissions output by our products by 33% (compared with fiscal 2010).

[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.

END

For further inquiries:

Hitachi Construction Machinery Co., Ltd.

Corporate Brand & Communications Div.

TEL : +81-3-5826-8152

FAX : +81-3-5826-8209

