

**Major Domestic Restructure to Strengthen Global Competitiveness**

KCM Merges with HCM as Part of the Restructuring, Establishing  
a Highly Efficient System for Development and Production

**Tokyo, Japan September 27, 2018** ---- Hitachi Construction Machinery Co., Ltd. (TSE: 6305; "HCM") today announced it has decided to restructure the main domestic bases of the HCM Group to strengthen global competitiveness. As part of the restructuring, HCM plans to merge KCM Corporation<sup>\*1</sup> ("KCM"), a subsidiary since 2015, by April 2019, and are centralizing bases by function, planning to establish unification of the Development Department and a consistent production system of everything from parts to completed products by FY2022.

There is currently a vigorous demand in the construction machinery industry, including the strong domestic market and major overseas markets, and since the markets in many countries and regions are expected to continue growing in the future, mid-to-long term growth is also predicted in the industry overall.

Through all this, there is an increased demand from customers for safety and productivity in their construction machinery, and the production of advanced technology that provides a better environment and automatic operation is necessary. Furthermore, competition on the global scale is becoming more intense, making an optimal production system an urgent necessity.

In this environment, HCM positions after-sales activities, not including new equipment sales, as a value chain in their mid-term management plan "CONNECT TOGETHER 2019", with the goals of transitioning to a structure that is strong against fluctuation of demands and further expanding their industry top-level hydraulic excavator activities, while simultaneously strengthening wheel loader and mining rigid dump truck related activities. Due to this, business structure reformation is continuously in progress overseas, from production to sales, and the unification of production bases is already underway in China, India, the Netherlands, and other regions.

Meanwhile, KCM was made a full subsidiary of HCM in October 2015, and the production and manufacturing of wheel loaders was moved from HCM to KCM in April 2016. Furthermore, HCM sold a portion of their Hitachi Sumitomo Heavy Industries Construction Cranes Co., Ltd. equities, making it an equity method affiliate in March 2017. In this manner, HCM performed transitions of the business structure. Restructuring of the production system is already beginning domestically, including

unification of large hydraulic excavator production from Tsuchiura Works to Hitachinaka-Rinko Works, and the centralization of currently required development resources and restructuring of production bases was officially decided as a result of numerous examinations into fundamentally optimal development and production systems by wheel loader manufacturer KCM and mini excavator maker Hitachi Construction Machinery Tierra Co., Ltd. ("HCM Tierra").

Specifically, restructuring of development and production of machinery by function for general construction<sup>\*2</sup> and mining<sup>\*3</sup> activities, including hydraulic excavators, rigid dump trucks, wheel loaders, as well as compact<sup>\*4</sup> machinery like mini excavators and mini wheel loaders will be completed by 2022.

Note: \*1: An HCM Group company that develops and manufactures wheel loaders.

\*2: Medium to large hydraulic excavators and wheel loaders used in large and medium scale civil engineering and construction work.

\*3: Ultra-large hydraulic excavators and mining rigid dump trucks used in mining and transport in large scale infrastructure construction, quarries and mines.

\*4: Mini excavators and mini wheel loaders used in farming and small scale construction.

There are seven target bases. HCM: Tsuchiura Works, Hitachinaka-Rinko Works, Kasumigaura Works, and Hitachinaka Works (all in Ibaraki prefecture); HCM Tierra: Shiga Works (Shiga prefecture); KCM: Ryugasaki Works (Ibaraki prefecture), and Banshu Works (Hyogo prefecture). As part of the restructuring, KCM is scheduled to be merged by HCM in April 2019.

The amount to be invested into this restructuring is estimated at around 42 billion JPY, this investment is already factored into the management plan, and there are no current intentions for major changes to the performance. Relocation of human resources is also scheduled for the restructuring, the details of which will be determined as it progresses. By combining this policy with the reformations underway overseas, HCM intends to continue their transition into a strong business structure.

### **Major Restructuring Details**

(1) Centralization of the production structure for medium hydraulic excavator and medium to large wheel loader products/parts.

- Tsuchiura Works and KCM Ryugasaki Works will be positioned as "construction" plants. Both plants will be optimized as production bases for medium hydraulic excavators and medium to large wheel loaders for general construction.
- Tsuchiura Works will be transitioned to producing finished "construction" products, while KCM Ryugasaki Works will be dedicated to making the main parts.

The production system, including everything from hydraulic components, canned products, and small parts, to finished products will all be centralized in Tsuchiura and Ryugasaki area.

(2) Centralization of the production structure for large hydraulic excavator and rigid dump truck products/parts for mines.

- Hitachinaka-Rinko Works will be positioned as a "mining" plant. Finished product production of large hydraulic excavators, rigid dump trucks, and ultra-large wheel loaders will be centralized in Hitachinaka-Rinko Works.

(3) Centralization of the production structure for mini excavator and mini wheel loader products/parts.

- HCM Tierra Shiga Works and KCM Banshu Works will be positioned as "compact" plants. Both plants will be optimized as production bases for mini excavators and mini wheel loaders.

- Shiga Works will be transitioned to producing finished "compact" products, while Banshu Works will be dedicated to making the main parts. They will produce canned products, sheet metal parts, and riggings for the driver seat of wheel loader cabs. (Banshu Works will also produce the main parts of medium to large wheel loaders and ultra-large wheel loaders.)

- The production system, including everything from the parts to the finished products of mini excavators and mini wheel loaders will all be centralized in Shiga and Banshu area.

(4) Centralization of the component production system

- Kasumigaura Works and Hitachinaka Works will be positioned as "component" plants. Both plants will be transitioned to mass production of major hydraulic components and drive units for hydraulic excavators, dump trucks and wheel loaders, becoming production bases for "construction" and "mining" parts.

(5) Centralization of development systems

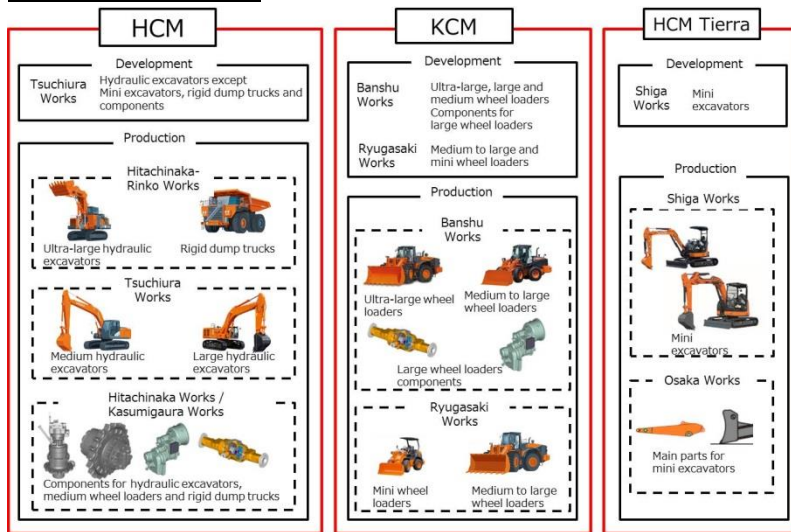
- The Development Department is currently divided between Tsuchiura Works, Banshu Works, Ryugasaki Works, and Shiga Works. In the future, "construction" and "mining" will be centralized at Tsuchiura Works, and "compact" at Shiga Works, focusing development resources to improve development efficiency and reduce development time, and strengthening development capabilities overall.

Through this restructuring, we, HCM Group, aim to strengthen their technical and product development capabilities for the global market, as well as create a more

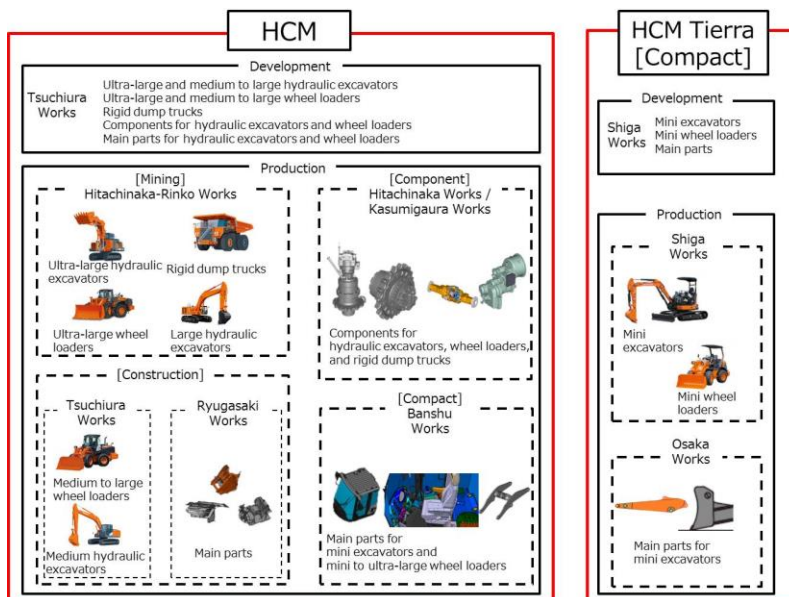
efficient production system. At the same time, we are working to optimize capital investments and reduce fixed costs, establishing a high profit structure.

We, HCM Group, have acted as a close and reliable partner for our customers, working to make "Reliable solutions" for solving social issues a reality, and will continue working together to reliably accomplish our currently decided policies and strive earnestly to solve our customers' issues.

**Current Diagram**



**Post-restructuring (2022) Diagram**



The details of the post-restructuring diagram may change due to various matters and situations between now and the year 2022.

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

Hitachi, Construction Machinery Co., Ltd., (TSE: 6305), headquartered in Tokyo, Japan, is a global Construction Machinery company with approximately 20,000 employees worldwide. Fiscal 2017 (ended March 31, 2018) consolidated revenues totaled 959 billion yen. Hitachi Construction Machinery will focus more than ever on the Construction and Mining Machinery Business, which includes Hydraulic Excavators, Wheel Loaders, Rigid Dump Trucks, Compaction Equipment, Applications and Mine Management Systems. For more information on Hitachi Construction Machinery, please visit the company's website at <https://www.hitachicm.com/global//>.

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**Information contained in this news release is current as of the date of the press announcement, but may be subject to change without prior notice.**

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