Medium-Term Management Plan 2019
(Hydraulic Excavator / Asphalt Paver)

December 1, 2017

Sumitomo Heavy Industries

Shinji Shimomura

President and CEO
Director, Senior Vice President

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Ref. About Sumitomo (S.H.I.) Construction Machinery
Overview of “Medium-Term Management Plan 2019”
Markets are expected to be flat due to geographical factors.

Japan, US and European markets will be stable.
Significant variations in emerging markets, particularly in China.

* Actual: Data from Japan Construction Equipment Manufacturers Association / Forecast: Estimated by the company.
Plan to “establish a stable and unwavering basis for profitability” with a focus on the bottom line

Establish a stable and unwavering basis for profitability

- Supply products and services to the market that customers perceive are adding value
- Enhance area-specific business set-up that closely follows the local market environment
- Ensure “quality improvement” and “speed-up” of all operations

Maximize profits from Japan, US and European markets

Secure stable profits and standalone independence of emerging market operations

Focus on bottom line (prepare against potential risks)

FY19 Target: Net Sales Over 150 billion JPY
Continue to improve product capabilities across generations and pursue competitive edge

<table>
<thead>
<tr>
<th>5th model (Meets Tier 3 Emission Rules)</th>
<th>6th model (Meets Interim Tier 4 Emission Rules)</th>
<th>7th model (Meets Tier 4 Emission Rules)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy Saving Award</strong> (Industry First)</td>
<td><strong>Good Design Award</strong></td>
<td><strong>Good Design Award</strong></td>
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<tr>
<td><strong>Good Design Award</strong></td>
<td><strong>Best100</strong></td>
<td><strong>SH250-7</strong></td>
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<tr>
<td><strong>Double Award Winning Model</strong></td>
<td><strong>The Energy-Efficient Machinery Award</strong></td>
<td><strong>Awarded across three consecutive generations!</strong></td>
</tr>
<tr>
<td><strong>LEGEST 20t model</strong></td>
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</table>

Advancements in “energy-saving”, “operational performance”, “comfort”, “safety performance”, and “durability functions” makes this model surpass the previous 6th generation model!
In addition to “energy-saving” and “operational performance”, “safety performance” was also drastically improved.

Peripheral Monitoring Unit that includes a notification function

Check a 270° backward view with one quick glance
Equipped with not only a “seeing” function but also a “knowing” function

By matching engine performance with oil pressure control technology, a high level of energy saving performance was realized
- Fuel consumption reduction (15%) *
- Increase in operational speed by 8%

*20t 6th model vs 7th model
Develop a product strategy that makes the greatest use of the Company’s strength.

Overview of “MTMP 19” - Product Strategy (Differentiation)

- Dismantle
- Forestry
- Metal Recycle
- Metal Recycle (Hybrid)
- Standard Model
- Standard Machine (Hybrid)
- Asphalt Paver

Synergies

Lifting magnet
Various control devices
Hybrid units
ICT-enabled construction equipment
FVM2 etc

SHI Group
Overview of “MTMP 19” - Asphalt Paver

Focus on “solidifying domestic market” and “growing overseas markets”

Market scale 1800 units
- Largest market
  - Attack the volume zone (8-9.5m pavements)
  - Increase and strengthen distributor network

Market scale 500 units
- Mature markets
  - Improve product capabilities including in areas such as ICT

Market scale 200 units
- Growth markets
  - Improve local sales and customer service setup

Market scale 1500 units
- Mature markets
  - Maintain and improve sales foundation

Target markets
- “Largest market of China”
- “Growth markets of the ASEAN region”

Paving precision → high

- Japan
- Europe
- China (High)
- ASEAN
- MEAF
- China (Low)
- India/Latin America/Africa
- US

Paving speed → high

Market scale
- 4000 units

December 1, 2017

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Respond flexibly to varying customer needs and stabilize service-generated income.

**Target Position**

- As the market changes, the scope of customer satisfaction will change.

**Strategic approach**

Develop strategic specific to customers (markets) and focus on improving customer satisfaction levels.
Promote the introduction of ICT-enabled construction machinery as the popularity of information-based workmanship increases.

Overview of “MTMP 19” - ICT Strategy

Combine information technology with the product technology that the Company has cultivated as a specialist manufacturer over the years. Supply customers with products that have a “high value” and provide “solutions”

Test drive and experience ICT-enabled construction machinery Excavation, sloping and mounding
Increase understanding of i-Construction (Open in Dec,17 /Kariya city, Aichi)

* i-Construction is an initiative led by the Ministry of Land, Infrastructure, Transport and Tourism that aims to create attractive construction sites and a higher level of productivity in overall construction production systems through the implementation of such measures as the “broad utilization of ICT” at such sites.

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Enhance organizational strength through a matrix structure (business and function)

<table>
<thead>
<tr>
<th>Area - Business</th>
<th>Sales (GM)</th>
<th>CS (GM)</th>
<th>R&amp;D (GM)</th>
<th>Manufacturing (GM)</th>
<th>QC (GM)</th>
<th>Control (GM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
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<td>(General Manager: GM)</td>
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<td>Europe/US</td>
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<td>(GM)</td>
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<td>China</td>
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<tr>
<td>(GM)</td>
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<tr>
<td>ASEAN</td>
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<td>(GM)</td>
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<tr>
<td>MEAF/ANZ</td>
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<td>(GM)</td>
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</tbody>
</table>

Regional division heads to be based locally to increase speed of decision making
Responsible for all business operations including local companies

Nurture and enhance global human resources through the rotation of people into regional companies and each function
Overview of “MTMP 19” – CSR

Synchronize business activities with CSR activities and contribute towards building a sustainable society

Promote CSR activities as a member of the SHI Group

**Creating Shared Value (CSV)**

**Corporate Activities (G)**
- Create excellent products and services
- A tireless commitment to improving operational quality

**Environmental Activities (E)**
- Promote environmental risk management
- Contribute towards becoming a low-carbon society
- Realize a resource recycling society

**Social Activities (S)**
- Contribution towards regional society
- Develop biodiversity initiatives
- Aid in disaster recovery activities

**Responsibility**

**Contribution**

- Factory emitted CO₂
  - Across three plants, 16,000 tons was emitted in 2016

- Energy-Saving Construction Machinery
  - 2007 (Base Year Model) CO₂ Emissions
  - 2016 CO₂ Emissions
  - Reduction of 19,000 tons

- Returnable pallets
  - Reduction in the use of wood materials

- Youth baseball classes
  - Development of youths

- Factory tours
  - Regional exchange programs (Indonesia)

- Regional exchange programs (Indonesia)
Progress of “Medium-Term Management Plan 2019”
The market environment, particularly in China, has tended better than the Company expected during the development of the MTMP 19.

**Regional Market Environment**

**Market Environment in 2017**

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Trends for Hydraulic Excavators (&gt;6t)</th>
<th>Market outlook FY17 FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Steady growth in construction investment as figures improved slightly year-on-year. Demand increased slightly as customers looked to replace units with ones that comply with the Tier 4 emission rules.</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>Although growth in residential investment and personal consumption has slowed, the overall trend remains positive. Increased investment in infrastructure is expected under the new administration which will push up demand.</td>
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</tr>
<tr>
<td>Europe</td>
<td>The market trends in Germany and France are positive. The impact of Brexit has not yet been felt.</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>In addition to government-directed infrastructure investment that is propping up the economy, resource-related prices is showing an upwards trend. As a result, demand is increasing significantly.</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>In the ASEAN region, demand levels are showing signs of recovery, especially in Indonesia. Demand is increasing from the Middle East while Africa is on a recovery trend. Australia and New Zealand are trending positively.</td>
<td></td>
</tr>
</tbody>
</table>

*Actual: Data from Japan Construction Equipment Manufacturers Association Forecast: Estimated by the company

* Market outlook for 2017 is compared against the outlook made during the formulation of the MTMP. Market outlook for 2018 is compared against the 2017 outlook.
Increase in revenues during 1H-2017 due to improving market environment. Projecting revenue increase for the full-year.

Sales by Regional Segment

- **Europe**
  - 1H-2016: 7.4
  - 1H-2017: 5.5
- **Japan**
  - 1H-2016: 23.1
  - 1H-2017: 30.3
- **North America**
  - 1H-2016: 16.2
  - 1H-2017: 17.1
- **China**
  - 1H-2016: 9.8
  - 1H-2017: 18.2
- **Others**
  - 1H-2016: 10.8
  - 1H-2017: 15.0

<table>
<thead>
<tr>
<th>Region</th>
<th>1H-2016</th>
<th>1H-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>7.4</td>
<td>5.5</td>
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</tr>
<tr>
<td>Others</td>
<td>10.8</td>
<td>15.0</td>
</tr>
<tr>
<td>Total Sales</td>
<td>67.3</td>
<td>86.0</td>
</tr>
</tbody>
</table>

Forecasting sales of JPY172 billion for the full-year 2017 forecast (an increase of JPY33bn as compared to 2016)
## Progress of “MTMP 19” - Area-specific points

### Japan
- Expand sales through the introduction of new products
  - Excavator / Hybrid excavator (Meets Tier 4 Emission Rules)
  - Asphalt paver (Meets Tier 4 Emission Rules)
  - ICT-enabled construction equipment
- Increase customer responsiveness through the strengthening of location network
  - Enhance network in the Kansai area
  - Establish Osaka Training Center / ICT Learning Center

### North America
- Gain customer satisfaction through product appeal and expand sales
  - Expand sales of Tier 4 Emission Rule-compliant models
- Push promotion strategies
  - Enhance finance functions and increase use of IT sales tool
  - Open a demonstration center (by fall of 2018)

### Europe
- Continue and strengthen partnership with CNHi
  - Formalize technology licensing agreement for the next generation model
  - Support CNHi’s own production of models through the provision of technology from SHI
### 02 Progress of “MTMP 19” - Area-specific points

<table>
<thead>
<tr>
<th><strong>China</strong></th>
<th><strong>ASEAN</strong></th>
</tr>
</thead>
</table>
| **Strengthen sales structure in the eight key provinces**  
  - Develop strategies that respond to key features of each province  
    (Expand sales of compact units, price, distributor sales network, etc.)  
| **Expand sales of asphalt paver**  
  - Focus on strengthening service capabilities and expand sales distributor network  
| **Enhance profitability of Tangshan Plant**  
  - Expand production scope  
    (Hydraulic excavators, asphalt pavers, plate working products)  
| **ASEAN**  
  - Indonesia – Focus on general civil engineering and log segments  
  - Thailand – Increase collaboration with distributors through establishment of sales company  
  - Expand sales of asphalt pavers (Indonesia, Thailand)  
  - Increase brand awareness through participation in exhibitions  
  - Expand unit production of Indonesia plant  

**Others**  

- Achieves sales of 1,000 units in Thailand  
- Mining exhibition in Indonesia  
- Achieves produce 10,000 units in Tangshan plant  
- Road paving in Wuhan
Product Line-up

Broad product line-up that meets diverse needs

- **Standard (Small – Large)**
- **Minimum Swing Radius**
- **Hybrid**
- **Asphalt Paver**

The standard 20t model is a double award winner (Energy Saving Award and Good Design Award)!

Production System

A production system that is able to supply the same high quality products to customers around the world

- **Japan - Chiba city, Chiba since 1975**
- **China – Tangshan, Hebei since 2009**
- **Indonesia - Karawang, Jawa Barat since 2011**
All forward-looking statements regarding the company’s future performance are based on information currently available to SUMITOMO (S.H.I) CONSTRUCTION MACHINERY and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in business environments.