

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

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Sumitomo Heavy Industries

President and CEO

Director, Senior Vice President

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I N D E X

01

**Overview of “Medium-Term
Management Plan 2019”**

02

**Progress of “Medium-Term
Management Plan 2019”**

Ref.

**About
Sumitomo (S.H.I.) Construction Machinery**

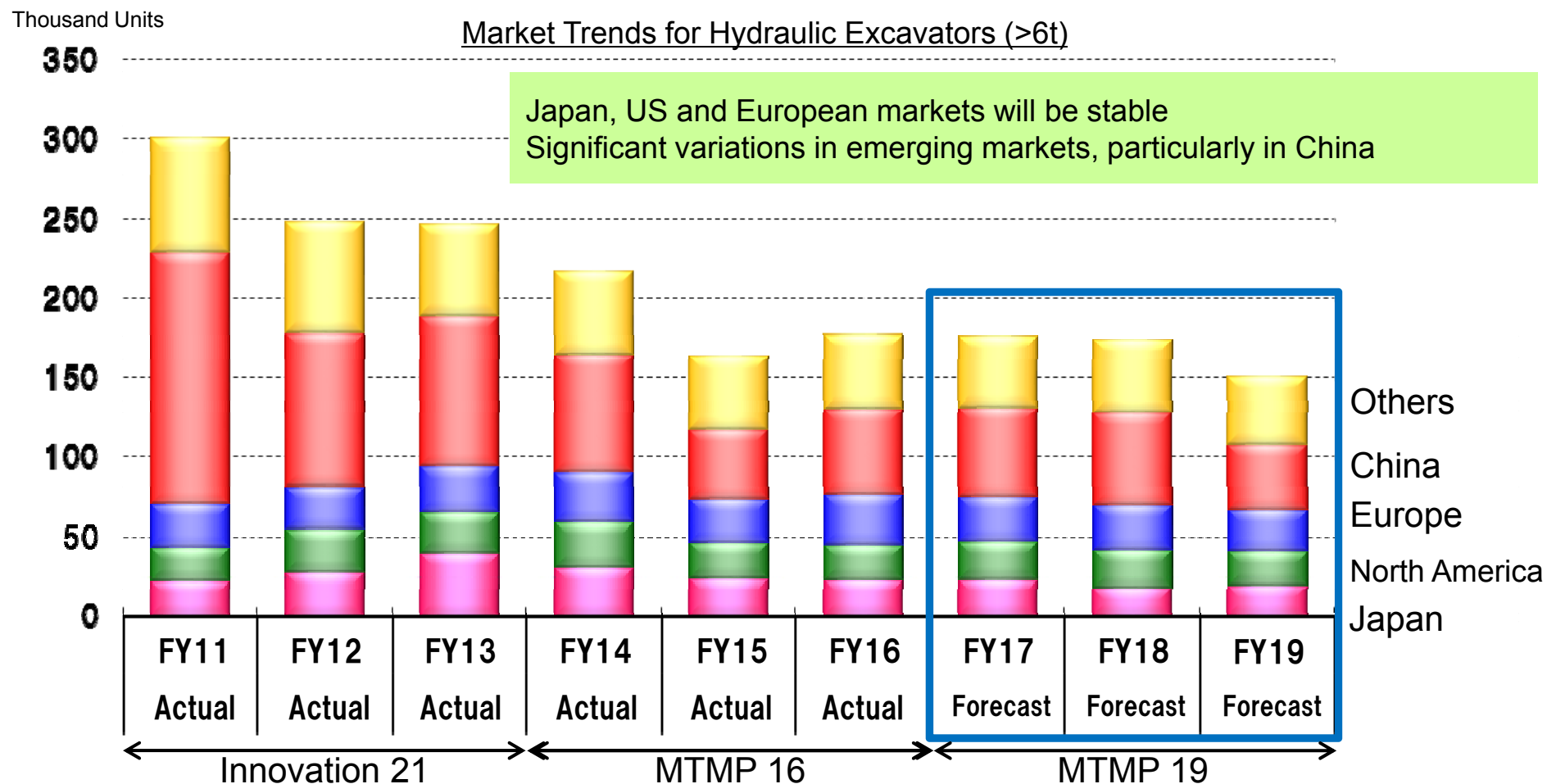
01

Overview of “Medium-Term Management Plan 2019”

01

Overview of "MTMP 19" - Market Environment Forecast

Markets are expected to be flat due to geographical factors



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

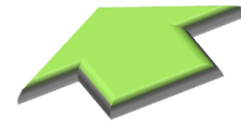
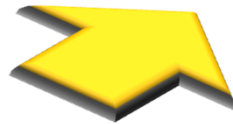
01

Overview of “MTMP 19” - Basic Concept & Target

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

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Overview of “MTMP 19” - Product Strategy (Top of the Class): I

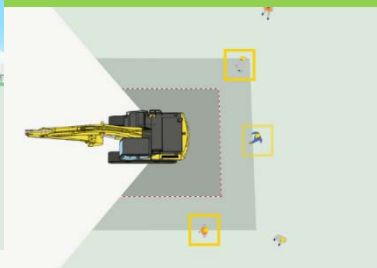
Continue to improve product capabilities across generations and pursue competitive edge

5 th model (Meets Tier 3 Emission Rules)	6 th model (Meets Interim Tier 4 Emission Rules)	7 th model (Meets Tier 4 Emission Rules)	
<p>Energy Saving Award (Industry First) Good Design Award Double Award Winning Model LEGEST 20t model</p>  <p>省エネ大賞 環境省エネルギー・環境政策 推進 大臣賞状</p> <p>GOOD DESIGN AWARD 2007-2008</p>	<p>GOOD DESIGN AWARD 2014 BEST 100 Good Design Award Best100</p>  <p>優秀省エネルギー機器 日本機械工業連合会会長賞 平成25年度 全国機械工業連合会賞</p> <p>The Energy-Efficient Machinery Award</p>  <p>GOOD DESIGN AWARD 2014</p> <p>Advancements in “energy-saving”, “operational performance”, “comfort”, “safety performance”, and “durability functions” makes this model surpass the previous 6th generation model!</p>	<p>Awarded across three consecutive generations!</p> <p>Good Design Award SH250-7 GOOD DESIGN AWARD 2016</p>   <p>限界突破!</p> <p>Performance Refined. Emission Defined. LEGEST</p> 	<p>12 ton</p> <p>20 ton</p> <p>35 ton</p>

01 Overview of "MTMP 19" - Product Strategy (Top of the Class): II

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



Step1: Object is framed in yellow
+ sound



Step 2: Object is framed in red
+ continuous sound



By matching engine performance
with oil pressure control technology,
a high level of energy saving
performance was realized

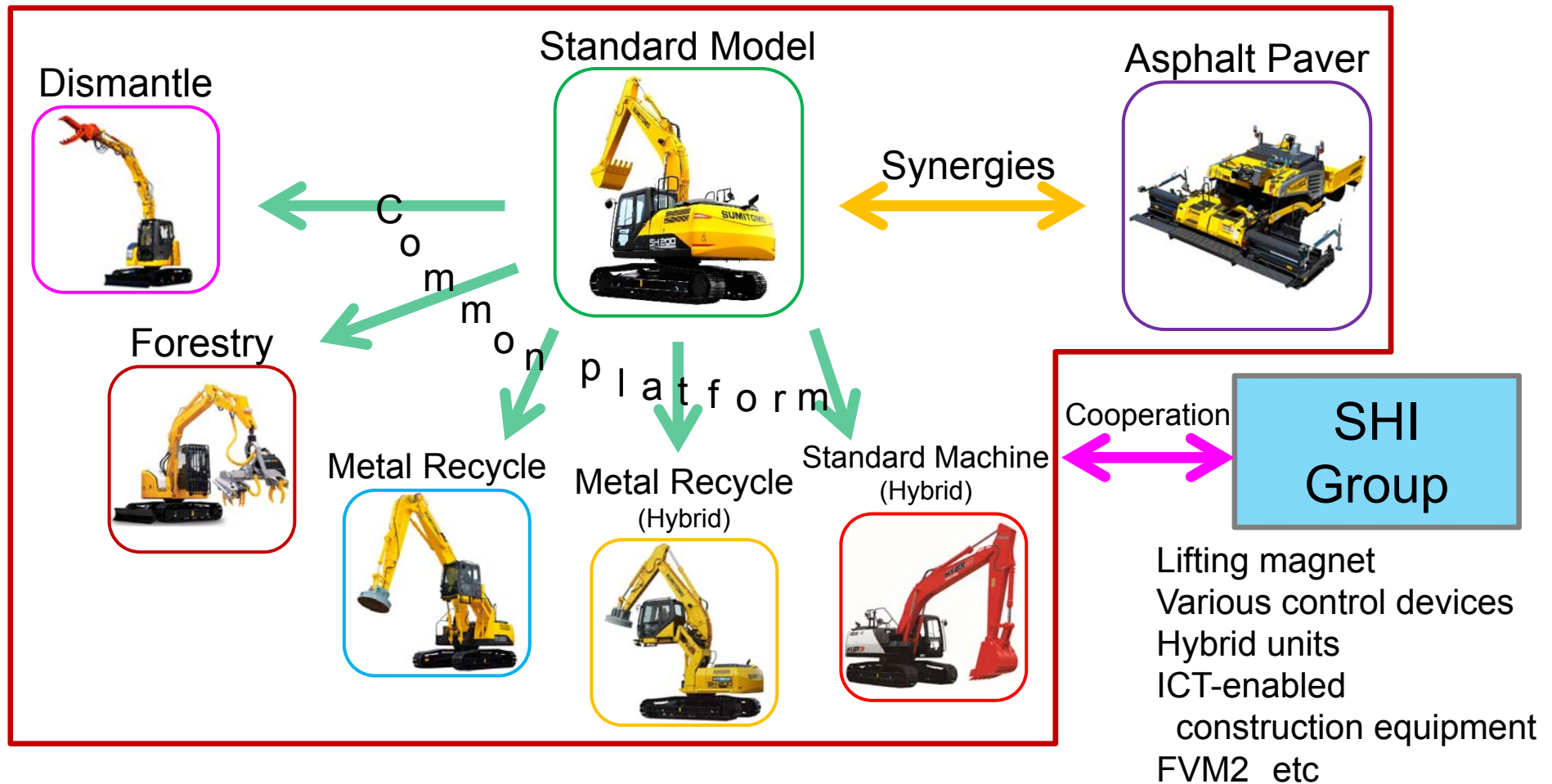
- Fuel consumption reduction (15%) *
- Increase in operational speed by 8%

*20t 6th model vs 7th model

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Overview of "MTMP 19" - Product Strategy (Differentiation)

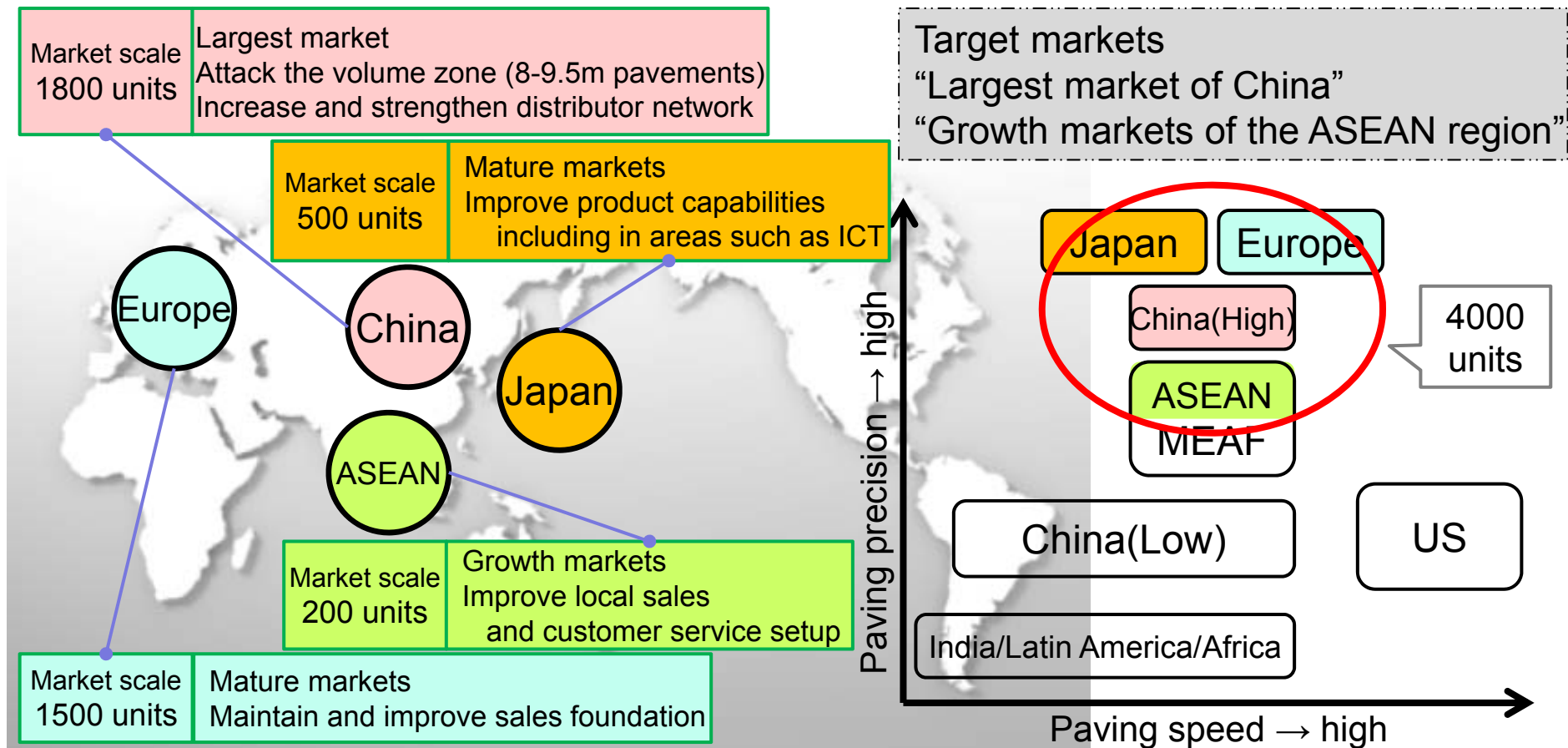
Develop a product strategy that makes the greatest use of the Company's strength



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Overview of “MTMP 19” - Asphalt Paver

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

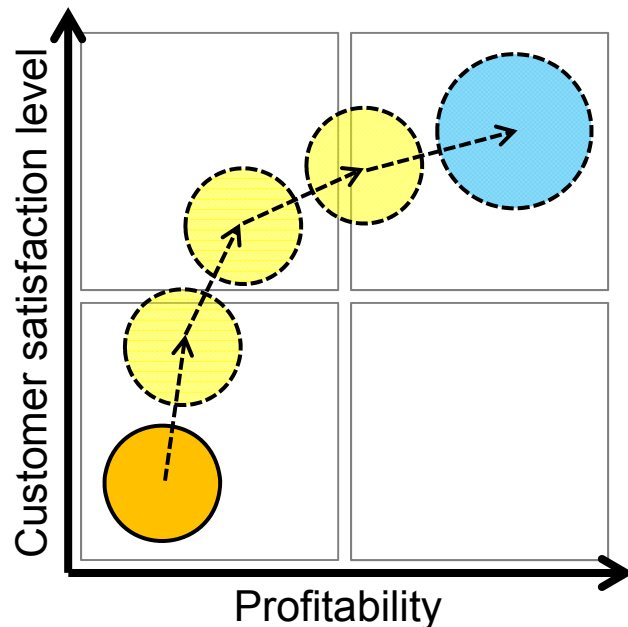


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Overview of "MTMP 19" - Services Strategy

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

Target Position



Strategic approach


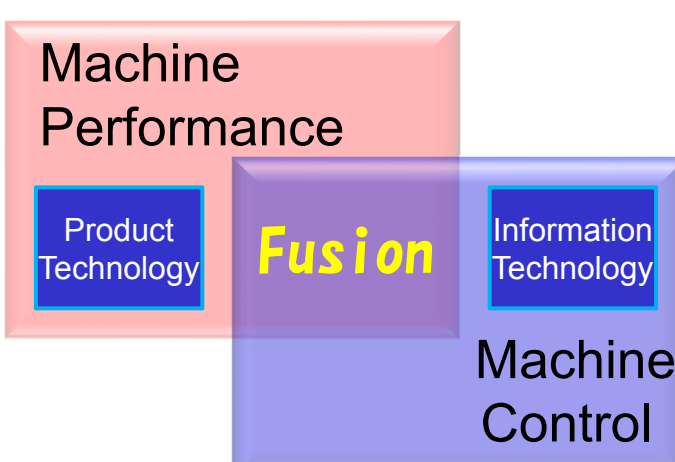

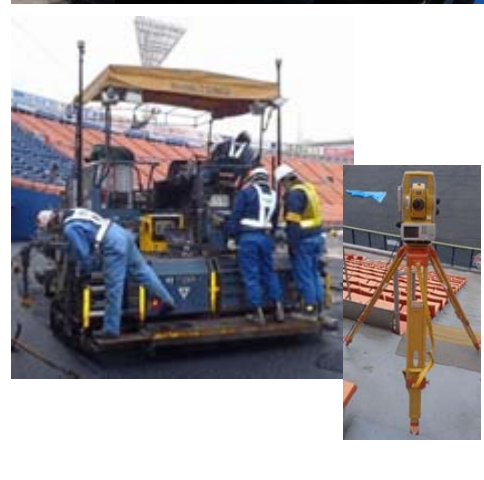

As the market changes, the scope of customer satisfaction will change

Utilize ICT			
Information/Knowledge			
Business model			
Service Skill			
Service Speed			
Component supply capabilities			
Component Price			
Domain Market	Emerging Market	Growth Market	Mature Market

Develop strategic specific to customers (markets)
and focus on improving customer satisfaction levels

01 Overview of “MTMP 19” - ICT Strategy

Promote the introduction of ICT-enabled construction machinery as the popularity of information-based workmanship increases

Excavator		 <p>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”</p>		ICT Learning Center
Paver				

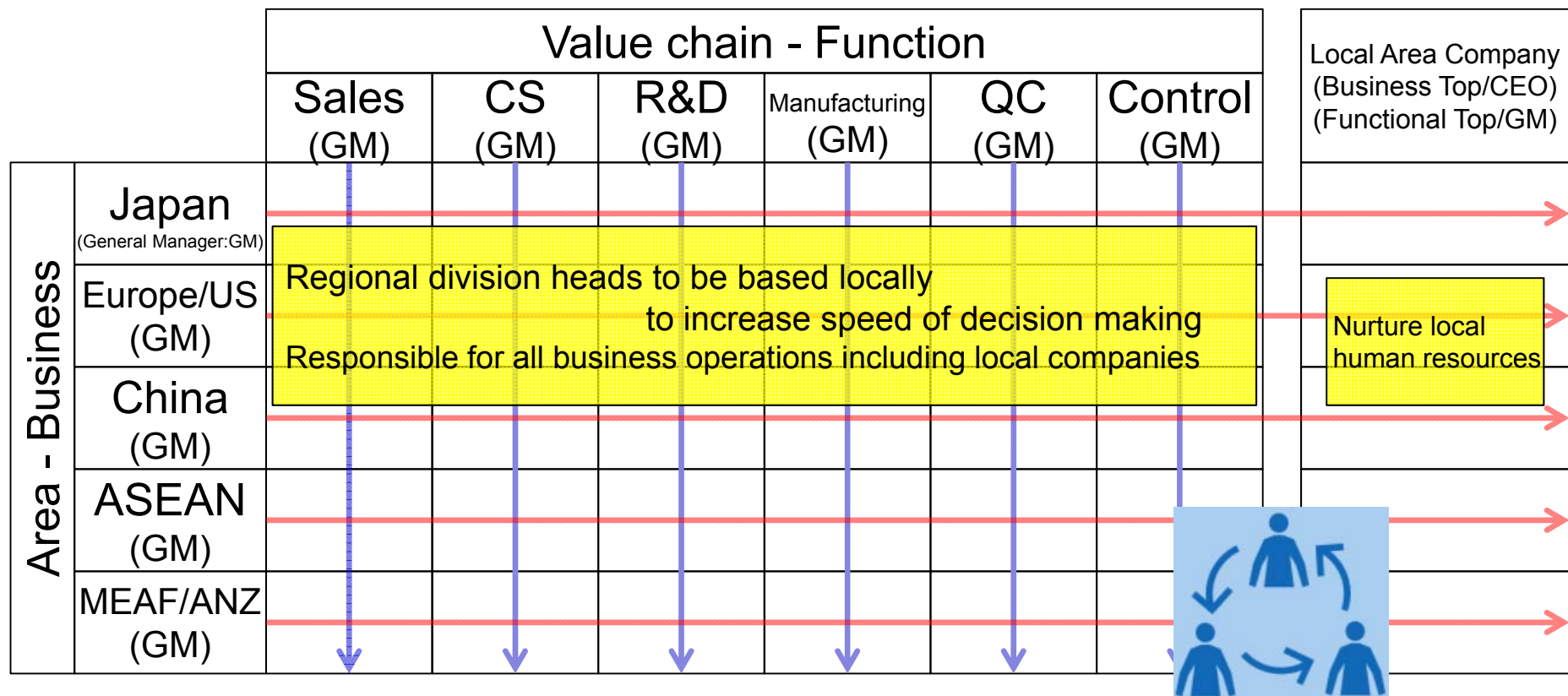
Test drive and experience ICT-enabled construction machinery Excavation, sloping and mounding
Increase understanding of i-Construction
(Open in Dec,17 /Kariya city, Aichi)

* 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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Overview of "MTMP 19" - Strengthen organizational capabilities

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

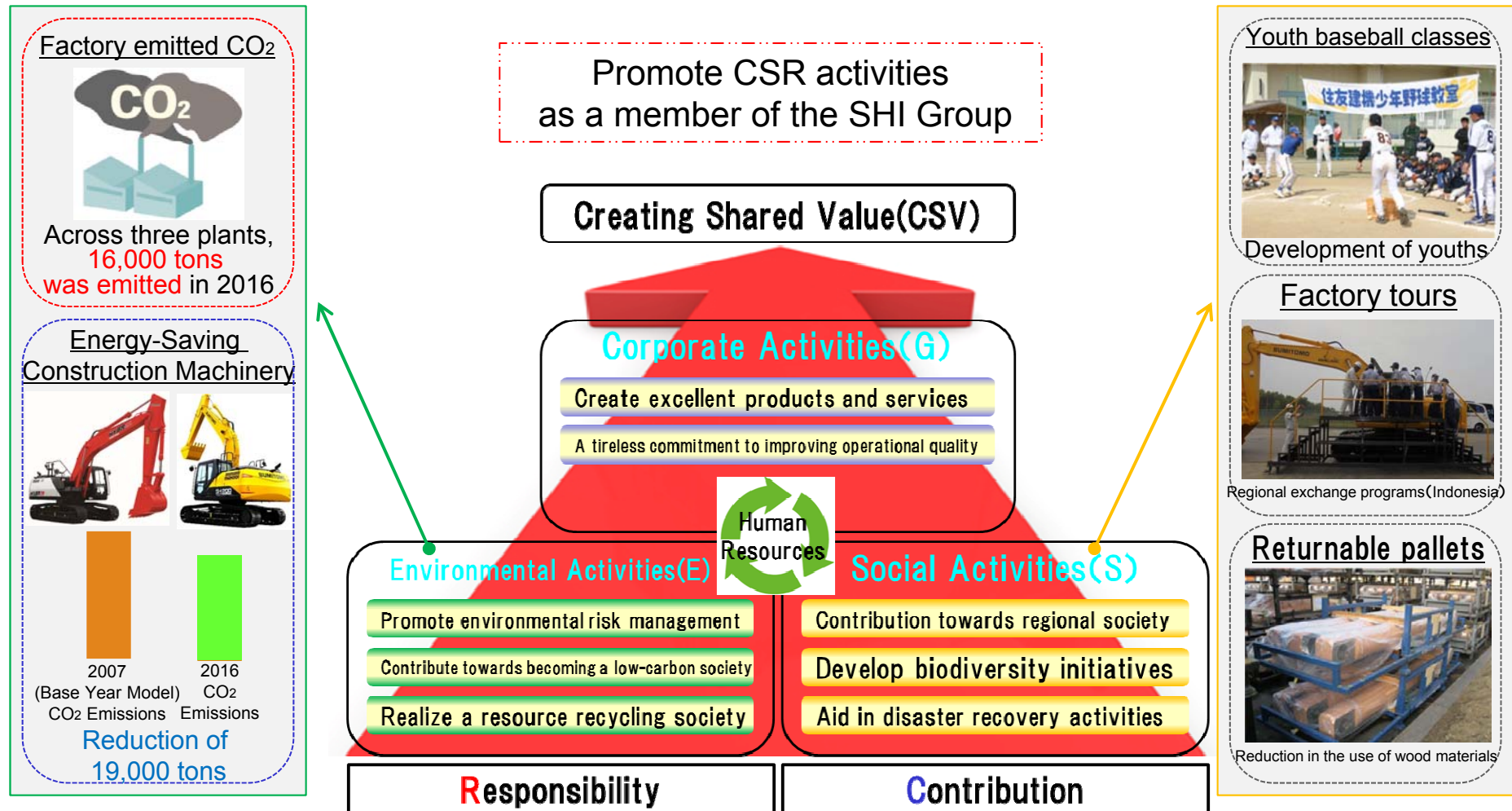


Nurture and enhance global human resources through the rotation of people into regional companies and each function

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Overview of "MTMP 19" – CSR

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



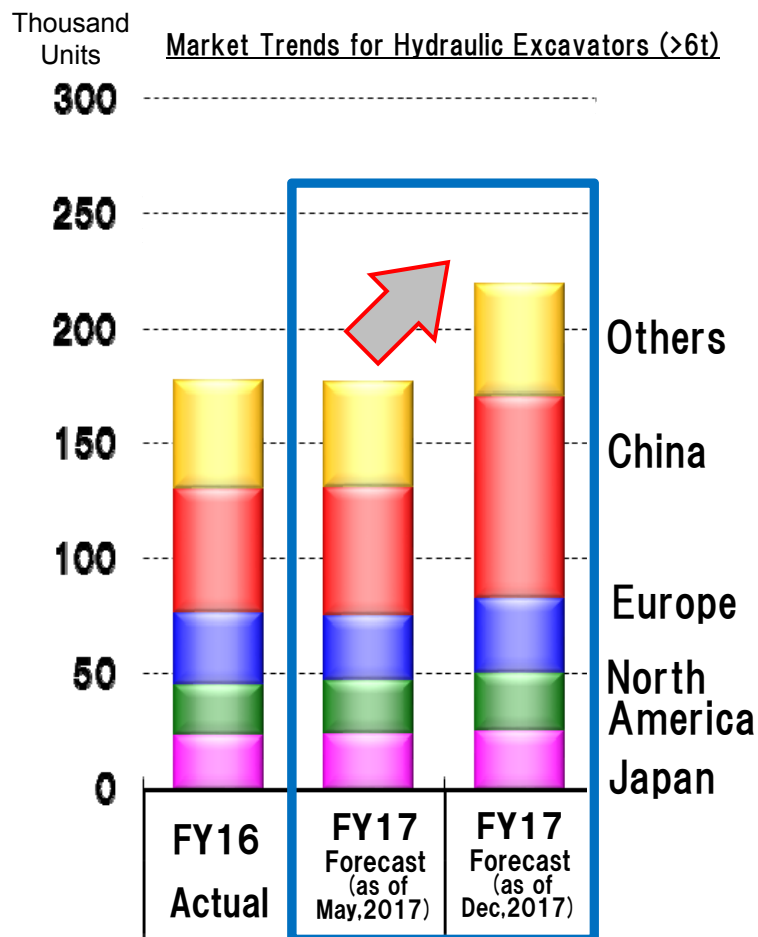
02

Progress of “Medium-Term Management Plan 2019”

02

Progress of "MTMP 19" - Market Environment

The market environment, particularly in China, has trended better than the Company expected during the development of the MTMP 19



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

Regional Market Environment

Market Environment in 2017

Market outlook FY17 FY18

Japan	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.		
North America	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.		
Europe	The market trends in Germany and France are positive. The impact of Brexit has not yet been felt.		
China	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.		
Others	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.		

* 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.

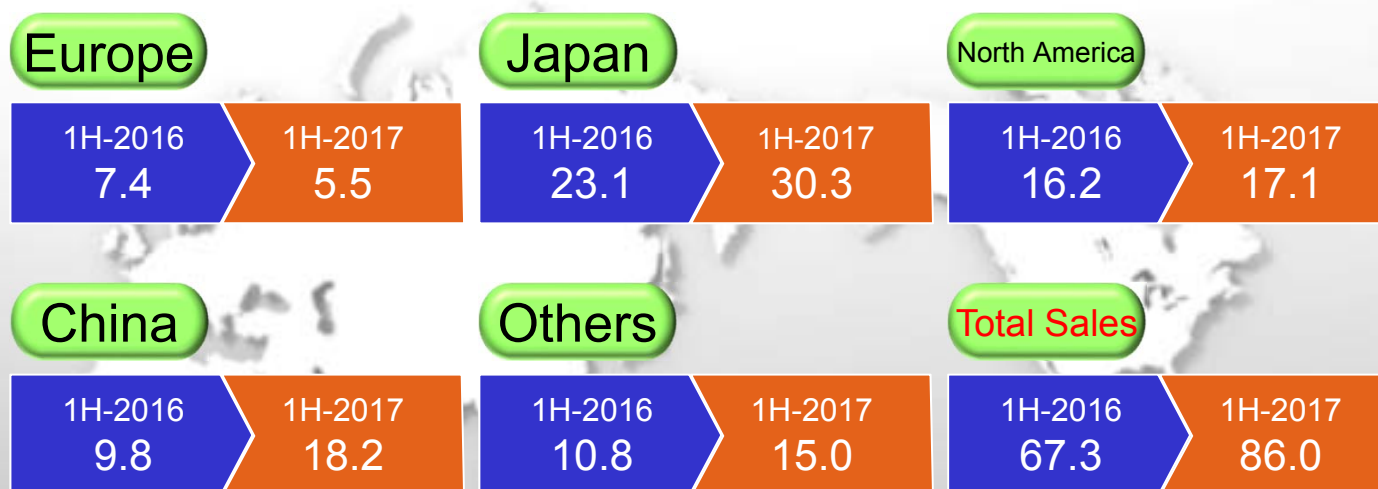
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Progress of "MTMP 19" - Sales

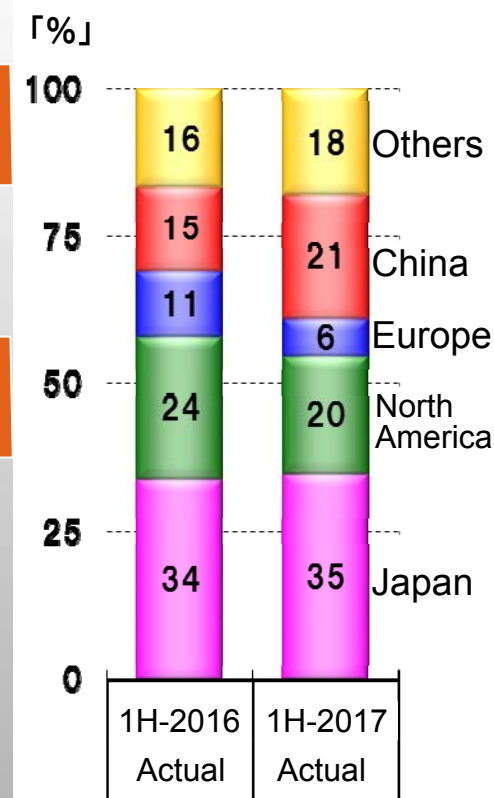
Increase in revenues during 1H-2017 due to improving market environment. Projecting revenue increase for the full-year

■ Sales by Regional Segment

Unit : JPY
billion








■ Composition of Sales by Region



Forecasting sales of JPY172 billion for the full-year 2017 forecast (an increase of JPY33bn as compared to 2016)

02

Progress of “MTMP 19” - Area-specific points

Japan	<ul style="list-style-type: none"> ■ <u>Expand sales through the introduction of new products</u> <ul style="list-style-type: none"> ▪ Excavator / Hybrid excavator (Meets Tier 4 Emission Rules) ▪ Asphalt paver (Meets Tier 4 Emission Rules) ▪ ICT-enabled construction equipment ■ <u>Increase customer responsiveness through the strengthening of location network</u> <ul style="list-style-type: none"> ▪ Enhance network in the Kansai area ▪ Establish Osaka Training Center / ICT Learning Center 	  
North America	<ul style="list-style-type: none"> ■ <u>Gain customer satisfaction through product appeal and expand sales</u> <ul style="list-style-type: none"> ▪ Expand sales of Tier 4 Emission Rule-compliant models ■ <u>Push promotion strategies</u> <ul style="list-style-type: none"> ▪ Enhance finance functions and increase use of IT sales tool ▪ Open a demonstration center (by fall of 2018) 	
Europe	<ul style="list-style-type: none"> ■ <u>Continue and strengthen partnership with CNHi</u> <ul style="list-style-type: none"> ▪ 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

China	<ul style="list-style-type: none"> ■ <u>Strengthen sales structure in the eight key provinces</u> <ul style="list-style-type: none"> ▪ Develop strategies that respond to key features of each province (Expand sales of compact units, price, distributor sales network, etc.) ■ <u>Expand sales of asphalt paver</u> <ul style="list-style-type: none"> ▪ Focus on strengthening service capabilities and expand sales distributor network ■ <u>Enhance profitability of Tangshan Plant</u> <ul style="list-style-type: none"> ▪ Expand production scope (Hydraulic excavators, asphalt pavers, plate working products) 	 <p>Road paving in Wuhan</p>  <p>Achieves produce 10,000units in Tangshan plant</p>
Others	<p>ASEAN</p> <ul style="list-style-type: none"> ▪ 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 	 <p>Marks Another Great Success</p> <p>Achieves sales of 1,000units in Thailand</p>  <p>Mining exhibition in Indonesia</p>

Ref. About Sumitomo (S.H.I.) Construction Machinery

Product Line-up

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

Broad product line-up that meets diverse needs

Customize



Standard (Small – Large)

Minimum Swing Radius

Hybrid

Asphalt Paver



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.