

Medium-Term Management Plan 2023 (Sumitomo Construction Machinery Co., Ltd.)

12/15/2021



Sumitomo Heavy Industries, Ltd.

Sumitomo Construction Machinery Co., Ltd.
President and CEO Yasunobu Kazumi

INDEX

01

Business Overview

02

Medium-Term Management Plan 2023 (MTMP23)

03

Topics

01

Business Overview

01 Business Overview — Product Portfolio and Production System

Product portfolio

The LEGEST 20-ton standard model, our flagship model, has won the Energy Conservation Grand Prize and the Good Design Award, becoming the first product in the industry to receive both these awards!



A broad product portfolio meeting various customer needs

Standard models (small size to large size)



Minimum swing radius models



Customized models



Asphalt pavers



Production system

Our production system, which enables global supply of same-quality products



Japan (Chiba-city, Chiba) since 1975



China (Tangshan, Heibei Province) since 2009



Indonesia (Karawang, West Jawa) since 2011

Sales network

Our sales network delivering our products to customers across the world



SUMIJU SCE(Xiamen)
CONSTRUCTION
MACHINERY CO.,LTD.
(Xiamen, Fujian Province)



SCMSEA (Thailand)
Co., Ltd.
(Bangkok)



PT. SUMITOMO
Construction Machinery
Southeast Asia
(Jakarta)

Sumitomo
Construction
Machinery Sales
Co., Ltd.
(Tokyo)

CASE
CONSTRUCTION

Global supply through
CNHi N.V.'s sales network

SUMITOMO
Sumitomo's construction machinery

Link-Belt
EXCAVATORS

LBX Company LLC (Kentucky)



LBX DO BRASIL (São Paulo)





02

Medium-Term Management Plan 2023

02 MTMP2023 – Megatrends/Social Issues and Customer Issues

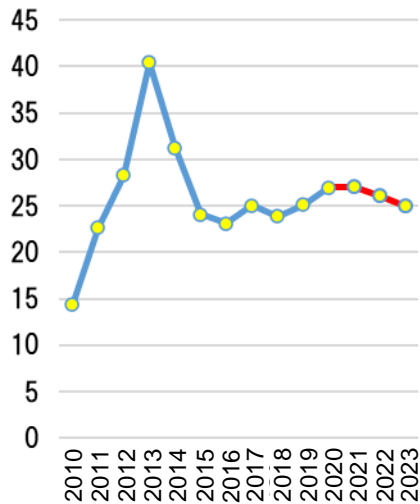
It is our corporate responsibility to provide solutions through our business activities to the wide variety of social and customer issues that are mounting as these megatrends accelerate, and change is becoming the norm.

Megatrends that deserve special attention	Social issues	Customer (the construction industry) issues	Our product portfolio
<u>Progress of urbanization</u> <ul style="list-style-type: none"> - Population movement and migration to cities - Limitations of urban infrastructure 	Improvement and enhancement of infrastructure	Improvement in labor productivity <ul style="list-style-type: none"> - The productivity of the construction industry: below all-industry average (work requiring experience and skills) 	Hydraulic excavators (for digging, piling, cutting and crushing) 
<u>Changes in the demographic profile</u> <ul style="list-style-type: none"> - Continued aging of the population due to declining birthrates/labor shortage - A shift in the balance of economic power between developed and developing countries 	Improvement in labor productivity	Improvement of safety <ul style="list-style-type: none"> - 15% of fatal and injury accidents involve construction machinery. (the second most common factor being tumbles and falls, which account for 25%) 	
<u>Climate change and resource shortage</u> <ul style="list-style-type: none"> - Rising temperatures and rising sea levels - Shortage of water, minerals, fossil fuels and other resources 	Response to global warming Energy conservation and improvement of energy efficiency	Resolution of the issue of labor shortage <ul style="list-style-type: none"> - Continued decrease in the younger working population (30% or more of the working population are 55 years old or older.) 	Asphalt pavers (for paving) 
<u>Technological advances</u> <ul style="list-style-type: none"> - Advances of IoT and digital technologies - Business model and process transformation 	Application and utilization of ICT		

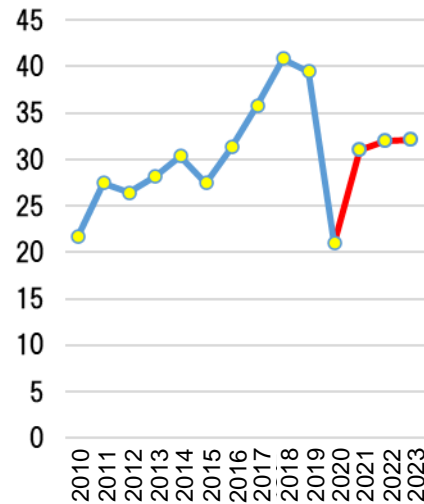
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MTMP23 – Assumptions for the Market Environment

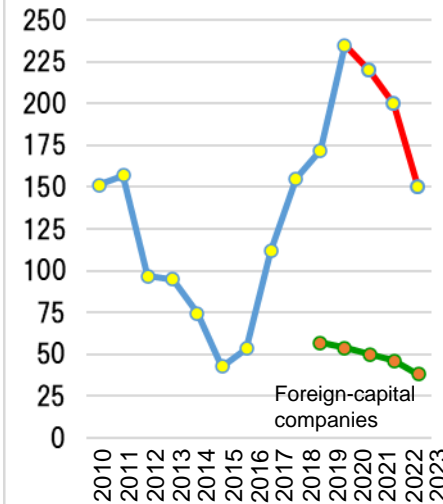
Japan



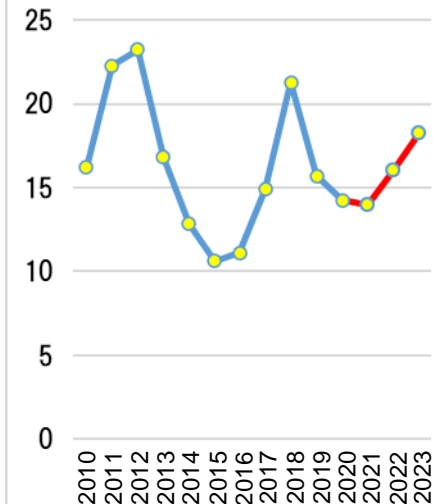
North America



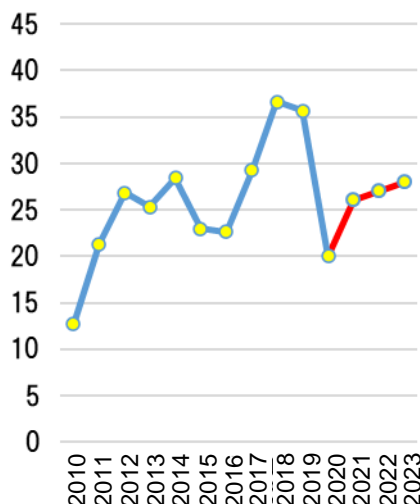
China



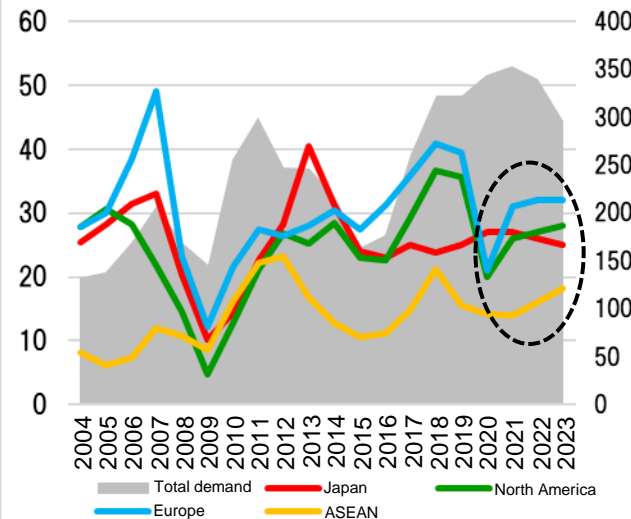
ASEAN



Europe



All areas (excluding China and general)



Japan	Staying at around 25,000 units over the past few years; expected to remain at the same level during the Medium-Term Management Plan 2023 period
North America	On the path to recovery but expected not to return to where it was before the COVID-19 pandemic
China	Dramatically recovering as the COVID-19 pandemic seems subsiding, but peaked in 2020
ASEAN	Expected to continue to be affected by the COVID-19 pandemic At its lowest in 2020 and on the path to recovery

* Unit: thousands of units

02 MTMP23 – Basic Policy

We will launch products that contribute to resolving social issues and customer issues, and will, by resolving social issues and customer issues, aim to improve stakeholders' expectations and trust in our company, and achieve sustained growth and consolidation of our business.

Basic Concept

We will “strive to improve customers' expectations and trust in us and strengthen our revenue base to achieve growth,” positioning this plan period as three years to prepare for our next stage of growth.

Basic Policy

Based on the recognition that resolving customer issues leads to resolving social issues, we will:

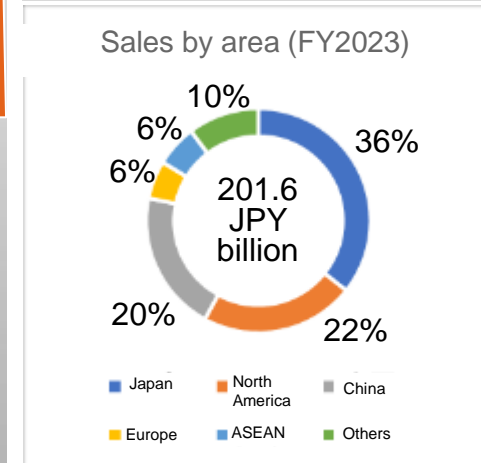
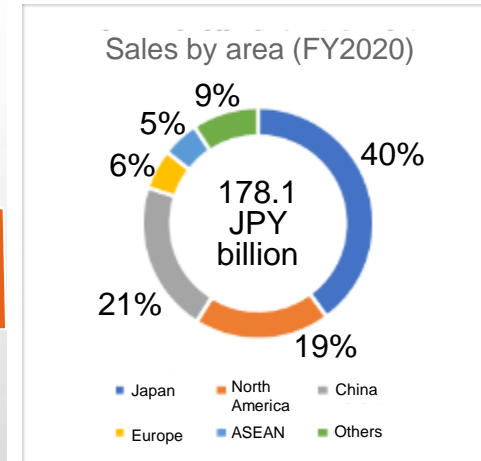
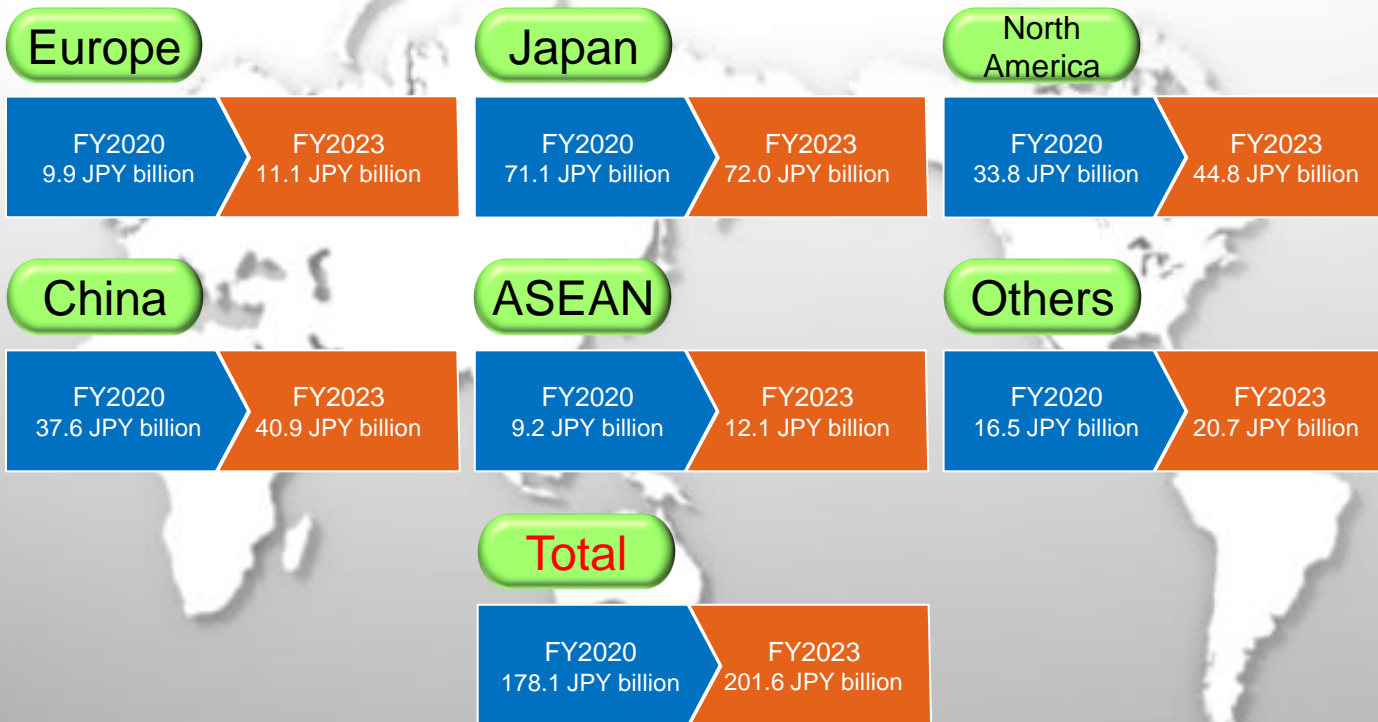
- strive to improve customers' expectations and trust by providing products and services that contribute to resolving customer issues
(strengthening technological competence and carrying out a fundamental review of our system to advance development)
- contribute to maximizing customer LTV by strengthening the service business
- strengthen our revenue base by advancing structural reform
- contribute to achieving a decarbonized society by implementing initiatives toward carbon neutrality

*LTV Life Time Value

02 MTMP23 – Quantitative Targets

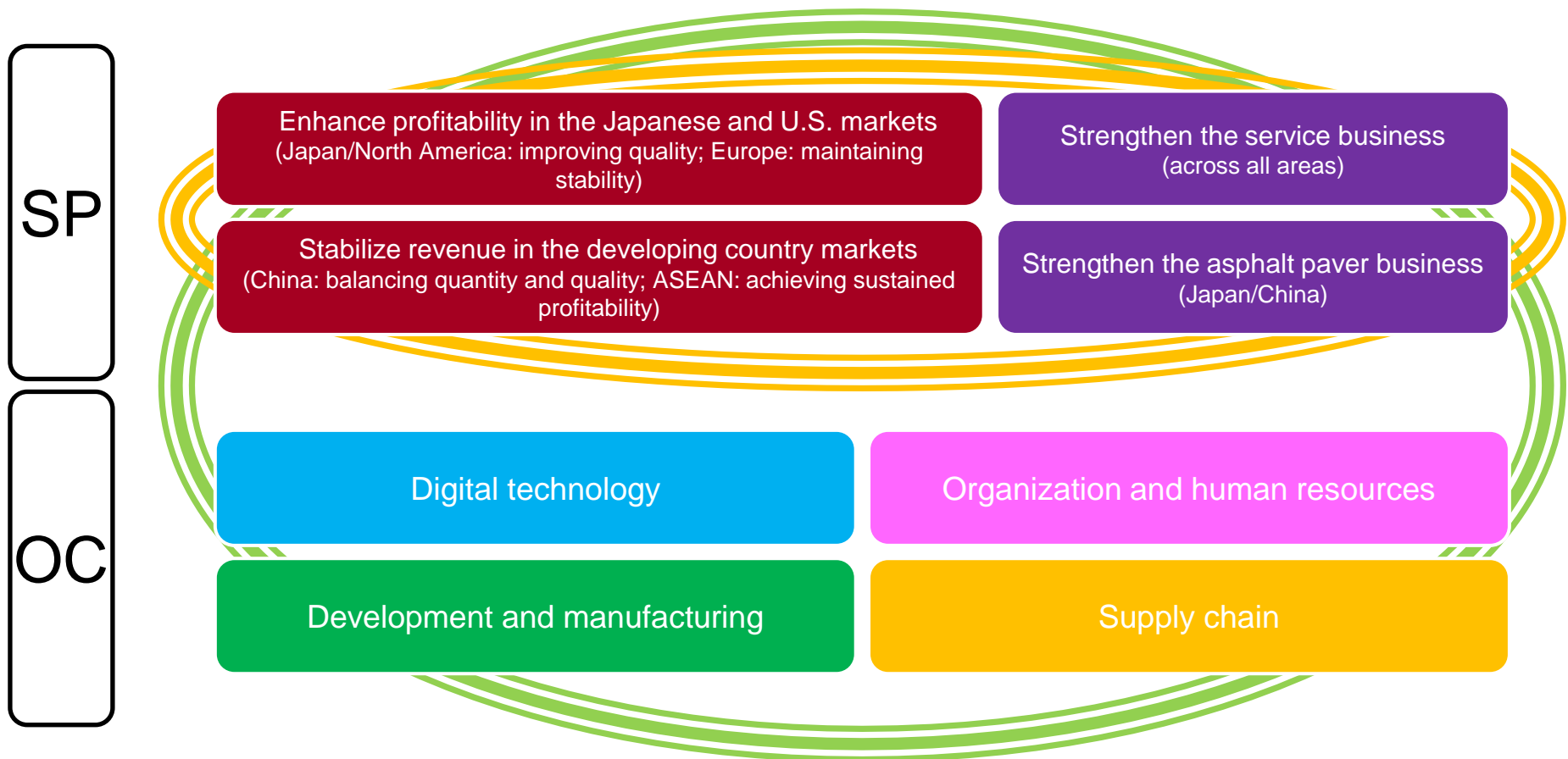
Build a well-balanced portfolio across developed countries and developing countries and aim to achieve sales of 200 JPY billion or more

■ Sales by area



02 MTMP23 – Basic Strategy

We will strive to achieve sustained growth of our business and maintain profitability (balancing growth and cost) and in order to achieve these, we will strengthen our organizational capability (OC) to implement strategy and address issues.



*SP Strategic Positioning/OC Organizational Capability

02 MTMP23 – Area, Product and Service Strategy

Japan

■ Increase sales volume

- Implement our segment strategy:
Expand sales of medium-size (20-ton class) models and ICT-enabled models;
Expand sales of customized models (for forestry, metal recycling and industrial waste)

■ Strengthen and expand the service business

- Enhance component supply capability (strengthening the center function, shortening lead time)
- Strengthen maintenance service capability (increasing resources and strengthening skills)



North America

■ Increase sales volume

- Implement our segment strategy:
Expand sales for private house and residential land development in the East and South;
Expand sales for forestry (low trees in the West; tall trees in the Northwest)
- Enhance sales support programs

■ Strengthen customer support capability

■ Strengthen partnerships with distributors and enhance distributor networks



02 MTMP23 – Area, Product and Service Strategy

China

■ Maintain sales volumes

- Achieve solid sales in volume terms in the priority areas of 9 Provinces (in the Yangtze River and Yellow River regions and the South China region) (focusing on medium- to large-size models)
- Launch models that comply with the China IV emission standards (in 2023)

■ Strengthen distributor sales and service capability

- Strengthen support for sales and service activities and enhance distributors' sales capability in the 9 Provinces

ASEAN

■ Expand sales volumes in Indonesia and Thailand

- Implement our segment strategy (natural resource: nickel; forestry: logs/palms; civil engineering and irrigation)
 - > Launch models customized for mining, stone breaking and irrigation

■ Strengthen the service business

- Indonesia : Strengthen component supply capability (particularly in Sumatra):
the expansion of local procurement and improvement of logistics
- Thailand : Enhance the component lineup



Europe and OEM Strategy

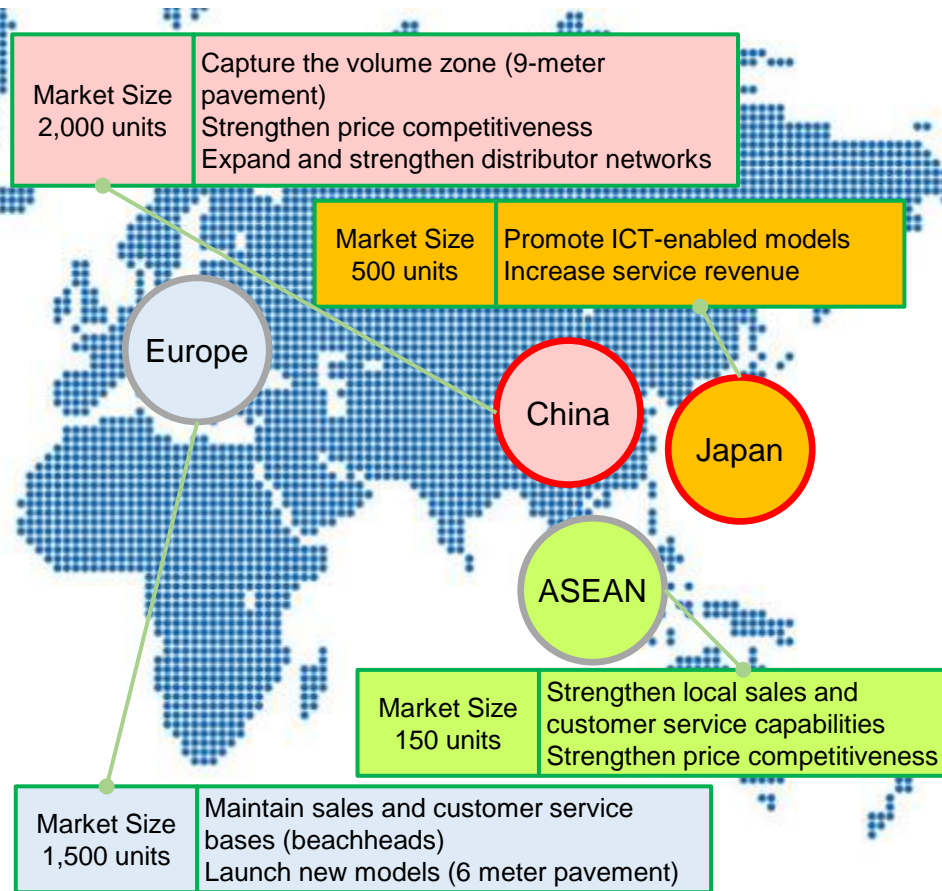
■ Further strengthen the partnership with CNHi

- Sales partnership : Supply models that comply with the Euro 5 emission standards in the European market
- Technology licensing : Equip OEM supply models and the models made in the CNHi India factory with engines produced by CNHi

02 MTMP23 – Asphalt Paver Business: Strategy and Issues

We will implement our area strategy focused on Japan and China as major target markets and work on value chain issues to strengthen the competitiveness of our products (in terms of price, performance and quality) with the aim of maximizing profit in these markets.

Area Strategy and Issues



Value Chain Issues

Development

Promote VE for mass-produced models
Standardize the principle for new model development

- Develop platforms
- Modularize
- Use common components

Secure and allocate resources

Procurement

Supply chain reforms

- Explore new suppliers (at home and abroad)
- Take BCP measures

Promote development purchasing

Front loading

Production

Increase added value within the SHI Group

- Increase productivity by promoting the utilization of overseas factories
- Automation and line improvement

Increase the capability of collaborating with the development team

- Preparation for production

Cost planning

Strengthen cost planning capability in the development stage

- Product planning
- Cost planning > concurrent

* Front loading is a common issue that is shared by hydraulic excavators.

02 MTMP23 – Global Production Strategy

We will increase delivery capability and cost competitiveness by optimizing production in our three factories and also improve efficiency by utilizing digital technologies (IoT) to build a production system that can respond flexibly to changes in the business environment.

Roles and Functions

Chiba Factory (10,000 units)

- Delivering products across the world as our mother factory (hydraulic excavators and asphalt finishers)
- Serving as the supply base for customized models
- Serving as the assembly component supply base for overseas factories

Tangshan Factory (3,500 units)

- Delivering products across China (as well as to overseas markets) (hydraulic excavators and asphalt pavers)
- Serving as the supply base for steel frame construction

Karawang Factory (2,000 units)

- Delivering products across ASEAN and to MEAF
- **Delivering products to North America and Australia** (new accounts)
- Delivering hydraulic excavator steel frame construction to the Chiba Factory

Transfer of the production of components



Transfer of the production of products

Production Strategy

- Implement production innovation initiatives:
Streamline production lines (improving bottleneck processes)
Utilize digital technology (to make processes visible)
- Build optimal production lines:
F/S/T lines
- Transfer the production of components and products to overseas factories:
Asphalt pavers to Tangshan; forestry machines to Karawang

- Implement production innovation initiatives:
Streamline production lines
Utilize digital technology (to make processes visible)
- Increase cost competitiveness by decreasing the assembly ratio:
Increase in-house production (for asphalt pavers and others)
Increase the rate of local procurement (in view of logistics cost and import tariffs)

- Phase 1 factory: Produce small- to medium-size models (mass production)
- Phase 2 factory: Produce large-size models and forestry machines (customized)
- Implement production innovation initiatives:
Streamline production lines
Utilization of digital technology is an issue for the future.

* Figures in parentheses represent production capacity in unit terms.

02 MTMP23 – ICT Strategy

We plan to launch an advanced new ICT-enabled model (8th model) in 2023 to contribute to resolving social issues and customer issues (safety and productivity).

Further improvement of safety

Collision mitigation system with a warning function to prevent collision with people

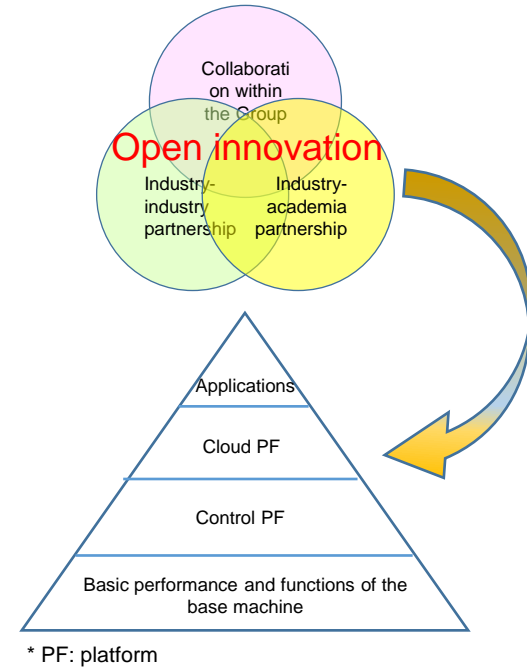


Further improvement of work efficiency

ICT-enabled construction machinery (machine-controlled models)



Further improve safety and work efficiency by building on the basic performance and functions of the main unit of our machines, which represent our strengths, while also leveraging open innovation, envisioning “useful,” “safe” and “profitable” machine-controlled models (enhancing automatic boom control, bucket angle control and excavating power control)



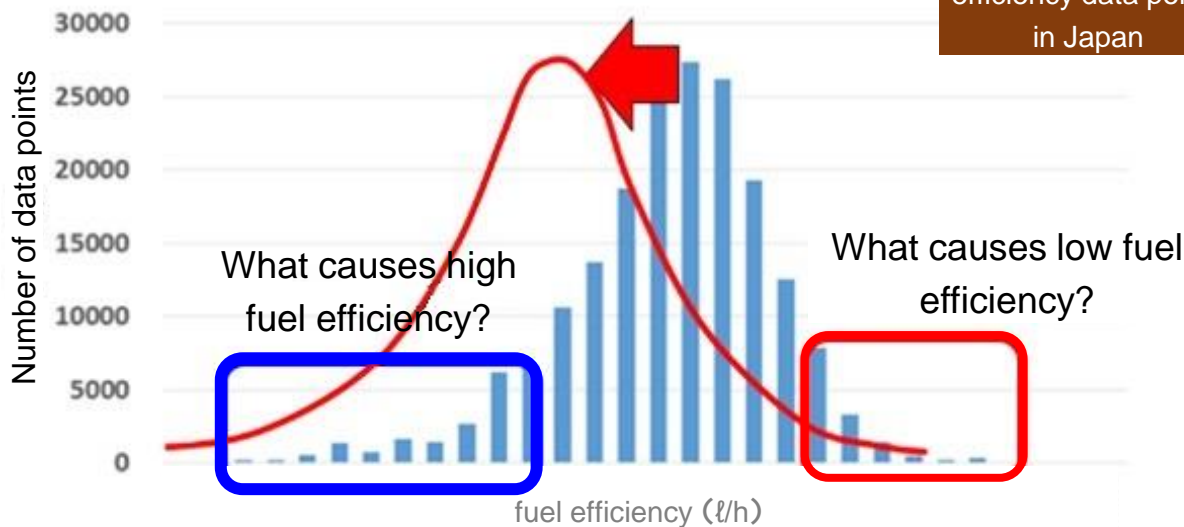
Provide before-use training at our ICT training center, on request, for customers planning to start using ICT-enabled models.
Customize the training program based on customer needs, because the place and environment where the machine will be used may differ for each customer. Provide thorough service

02

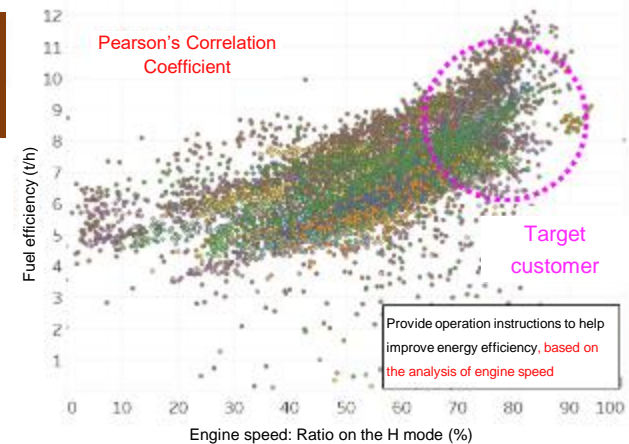
MTMP23 – Information Utilization Strategy

We will reduce life-cycle cost for customers by utilizing machine operation data.

Dispersion of fuel efficiency data



Distribution of fuel efficiency data points in Japan



Analyze the use of machines from various angles, based on machine operation data
Provide appropriate operation instructions for each customer to help reduce fuel cost, which is a major component of life-cycle cost for customers



02 MTMP23 – CSR/the SDGs

As a member of the SHI Group, we will contribute to achieving a sustainable society by resolving social and customer issues through our business.



Contribute to resolving social issues through resource recycling (forest resources etc.) and construction work for restoration from flood damage, irrigation, etc.

Creating shared value (CSV)

Business activities (G)

Provide top-class products and services

Continuously improve operation quality



Human resources

Environmental activities (E)

Advance environmental risk management

Contribute to a low carbon society

Achieve a circular economy

Social activities (S)

Contribute to local communities

Protect biodiversity

Provide support for recovery from disasters etc.

Responsibility

Contribution

Relationship between our CSR focus areas and the SDGs

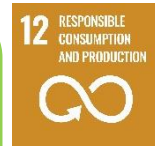
- Contribute to the development of social, urban and other infrastructure
- Contribute to local communities
- Contribute to maintaining and improving the natural environment

- Develop and promote the spread of advanced ICT-enable construction machines
- Pursue product safety
- Increase product quality and improve efficiency



Resolve social issues

Resolve customer issues



Mitigate environmental impact

Cultivate our corporate culture



- Further improve energy-saving performance and other environmental performance of our products
- Reduce environmental impacts of our services
- Reduce CO2 emissions in the production process
- Utilize renewable energy

- Promote and develop diverse human resources
- Advance work style reform under the new normal
- Promote human resource mobility
- Enhance cross-functional collaboration capability

We will strive to resolve social issues and customer issues through our business. In order to increase the organizational and individual capabilities necessary to resolve social and customer issues, we will promote and develop diverse human resources and create workplaces where employees can work vigorously. In addition, we will strive to enhance our capability to implement cross-functional collaboration, which is essential to tackling social and customer issues.

03

Topics

03 Progress on the Investment in Karawang Phase 2 Factory (Indonesia)

We have invested a total of US\$33 million to construct the Karawang Phase 2 factory (for delivery to North America and Australia). The factory is scheduled to start operations in earnest in the spring of 2022. (Some of the facilities have started test operations.)



Through this strategic investment implemented under our global production strategy, we will transfer the production of the forestry machines and some standard models from the Chiba factory to the Karawang factory. This will allow the Chiba factory to improve productivity and profitability and also reduce cost by increasing its mass production scale.



All forward-looking statements regarding the company's future performance are based on information currently available to Sumitomo Heavy Industries and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in business environments.