

Consolidated Financial Results for the Nine Months Ended December 31, 2021

SAKAI HEAVY INDUSTRIES, LTD.

Stock code: 6358
URL <https://www.sakainet.co.jp/en>

February 10, 2022

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Reference material: "Creating economic and social value through our business activities"
(ESG briefing held January 26, 2022)

1. Summary of Consolidated Financial Results

for the Nine Months Ended December 31, 2021

Summary of Consolidated Financial Results

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2021	19,793	28.7	1,165	189.0	1,206	286.2	836	-
Nine months ended December 31, 2020	15,374	(13.1)	403	(59.9)	312	(65.8)	(285)	-

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2021	197.01		-	
Nine months ended December 31, 2020	(66.33)		-	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2021	37,843	22,340	58.9
As of March 31, 2021	35,101	22,038	62.7

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen		Yen		Yen
Year ended March 31, 2021	-	30.00	-	50.00	80.00
Year ending March 31, 2022	-	60.00	-	-	-
Year ending March 31, 2022 (Forecast)	-	-	-	90.00	150.00

3. Forecast of consolidated financial results for the year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	26,000	20.2	1,200	71.1	1,250	89.6	850	-	200.23

Highlights of Consolidated Business Performance

1. Summary of Consolidated Business Performance for the Nine Months Ended December 31, 2021

(1) Consolidated net sales: ¥19,793 million, up 28.7% YoY

- Against the backdrop of global economic recovery amid the COVID-19 pandemic, full-fledged recovery in demand was underway in both domestic and overseas markets.
- Overseas sales rose 49.6% YoY to ¥8,709 million.
- Overseas sales ratio went up 6.1 points YoY to 44.0%.

(2) Operating profit: ¥1,165 million, up 2.9 times YoY

(3) Sales in Japan: ¥11,083 million, up 16.0% YoY

Sales were strong, fueled by steady execution of public works projects based on measures to accelerate national land resilience.

(4) Sales in North America: ¥3,220 million, up 62.9% YoY

Demand for construction equipment was trending toward recovery in line with robust investment in construction.

(5) Sales in Asia: ¥4,871 million, up 37.7% YoY

In addition to the robust Indochinese market such as Vietnam and Thailand, demand was recovering in the previously stagnant Indonesian market.

2. Adapting to a Changing Business Environment

(1) Shifting to business management with a focus on a sound capital policy

Formulating the medium-term management policy with the goals of achieving net sales of ¥30 billion, an ROE of 8%, a dividend payout ratio of 50%, a DOE of 4%, and buying back treasury shares flexibly.

(2) Becoming more agile in dealing with volatile demand

Reduced inventory by 10.7% YoY to ¥7,326 million.

Highlights of Consolidated Business Performance

3. Mid- to long-term Growth Strategy

(1) Make more significant inroads into the Asian market:

Step up marketing and sales efforts centering on the Indonesian market. Grow Indonesian domestic sales to 2.8 times the current level.

(2) Expand the scope of overseas business:

Enter the road-maintenance equipment segment. Secure ODA business for African countries.

(3) Pursue business opportunities in North America:

Increase our market share through stepped-up niche marketing. Increase the number of service and maintenance agents.

(4) Start developing next-generation businesses:

Focus on developing emergency brakes, compaction management systems, and autonomous vibratory rollers.

4. Outlook for Business Environment

(1) Japan

Demand for construction machinery is projected to remain strong, buoyed by the Japanese government's ¥15-trillion initiative to accelerate national land resilience over the next five years to prevent and mitigate natural disasters.

(2) Overseas

The U.S. is planning infrastructure investment totaling US\$1.2 trillion, and ASEAN and emerging countries have also launched economic stimulus measures by expanding infrastructure investment. Despite the uncertainty brought about by the COVID-19 pandemic, global demand for construction machinery is trending toward recovery.

(3) Business risks

Systematic inflation and disruptions in the global supply chain are continuing as side effects of the measures to combat accelerated global warming and the U.S.-China conflict. And rising manufacturing costs and procurement issues related to manufacturing components are emerging as new business challenges.

We will move rapidly to adjust our profit structure through a review of sales prices and increased logistics and manufacturing efficiency.

(4) Social requirements

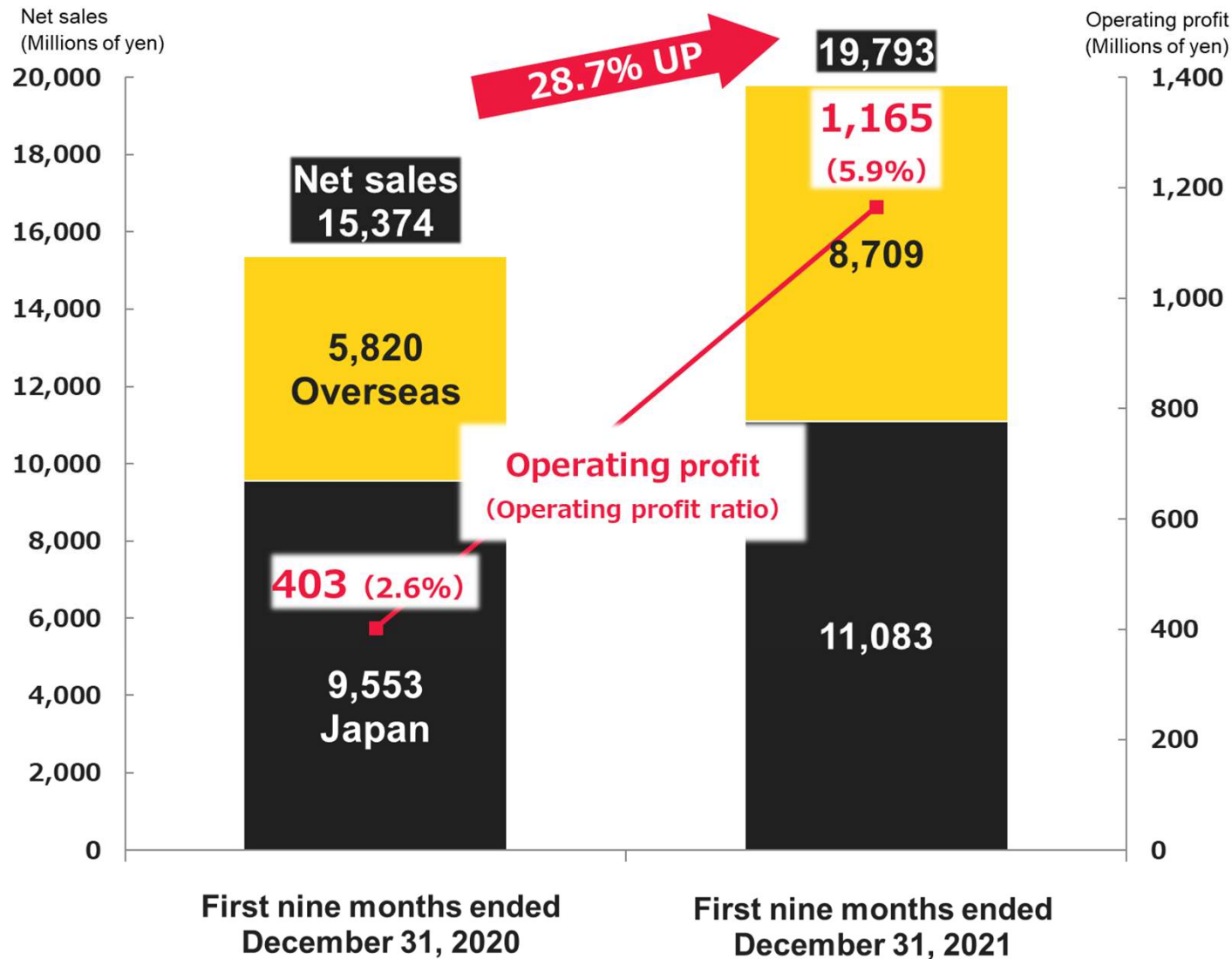
With a focus on a sound capital policy, we are transforming the business model by undergoing DX and implementing ESG and decarbonization initiatives through activities in the core area of business—and commercializing them—to respond to social requirements for adopting digital solutions and green business practices.

Consolidated Business Performance

(Millions of yen)

	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	
			Amount	%
Net sales	15,374	19,793	4,419	28.7%
Japan	9,553	11,083	1,530	16.0%
Overseas	5,820	8,709	2,888	49.6%
Operating profit	403	1,165	762	189.0%
<i>Operating profit ratio</i>	(2.6%)	(5.9%)		
Ordinary profit (loss)	312	1,206	894	286.2%
Profit (loss) attributable to owners of parent	▲ 285	836	1,121	—
Cost-of-sales ratio	(74.8%)	(75.1%)		

Consolidated Business Performance (graph)



Sales by Region in which customers are located

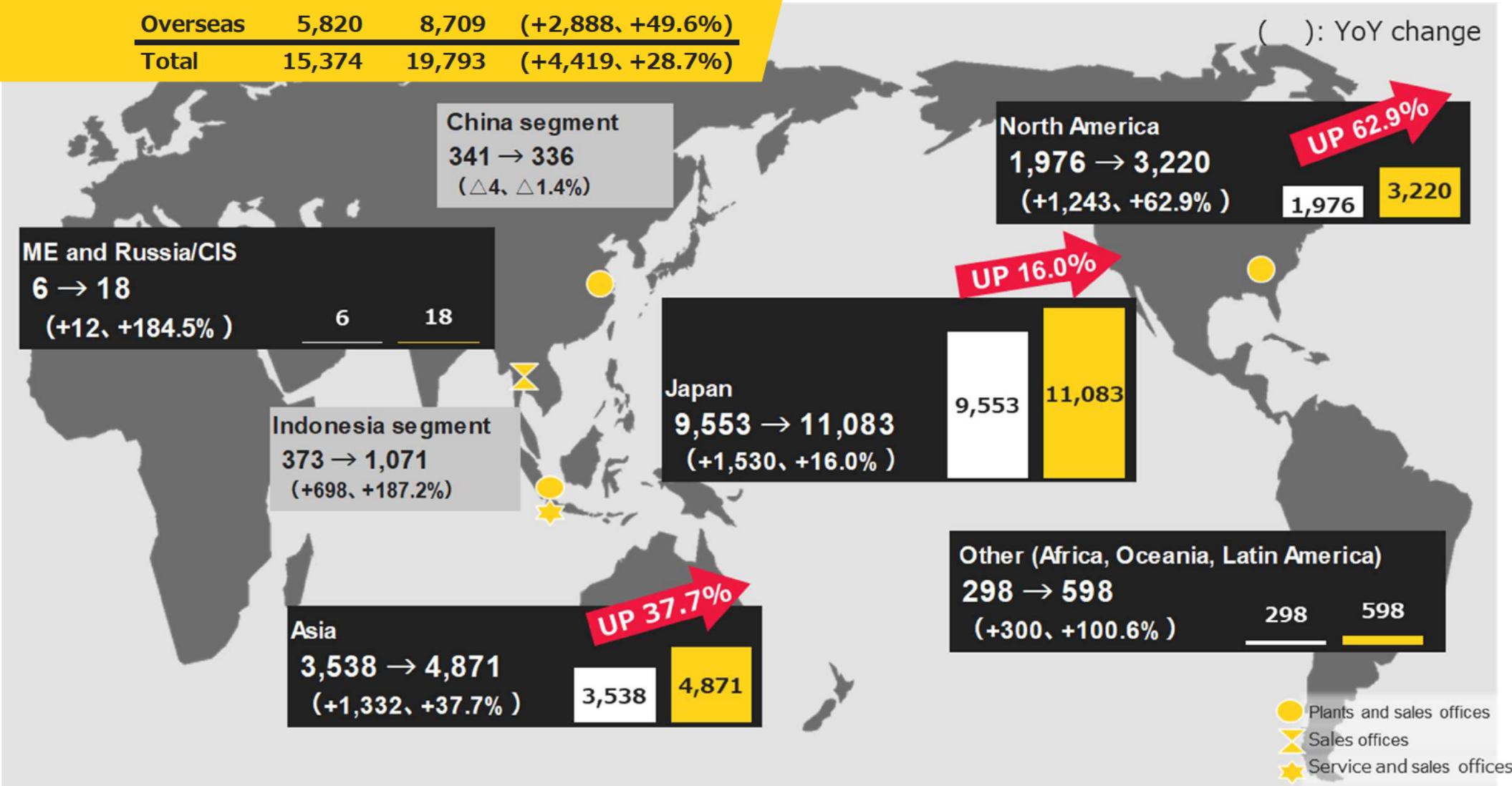
(Millions of yen)

	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	
			Amount	%
Japan	9,553	11,083	1,530	16.0%
Overseas	5,820	8,709	2,888	49.6%
North America	1,976	3,220	1,243	62.9%
Asia	3,538	4,871	1,332	37.7%
ME and Russia/CIS	6	18	12	184.5%
Other regions	298	598	300	100.6%
Total	15,374	19,793	4,419	28.7%

Sales by Region (map)

(Millions of yen)

	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change
Japan	9,553	11,083	(+1,530, +16.0%)
Overseas	5,820	8,709	(+2,888, +49.6%)
Total	15,374	19,793	(+4,419, +28.7%)



Segment Information by Region in which our manufacturing facilities and sales offices are located

(Millions of yen)

Japan	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	
			Amount	%
Sales to external customers	12,682	15,165	2,482	19.6%
Intercompany sales	558	1,607	1,048	187.9%
Total net sales	13,241	16,772	3,531	26.7%
Operating profit	499	914	415	83.2%

(Millions of yen)

North America	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	
			Amount	%
Sales to external customers	1,976	3,220	1,243	62.9%
Intercompany sales	22	29	6	30.0%
Total net sales	1,999	3,249	1,250	62.5%
Operating profit	▲ 68	129	197	— %

(Millions of yen)

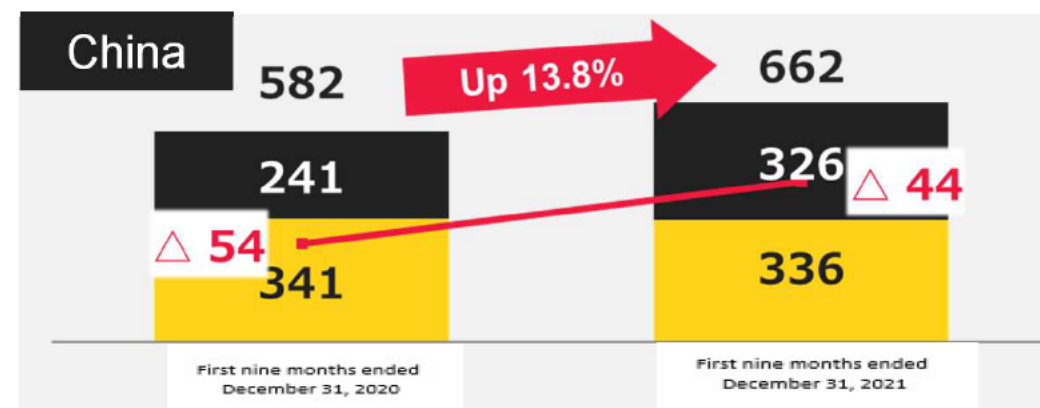
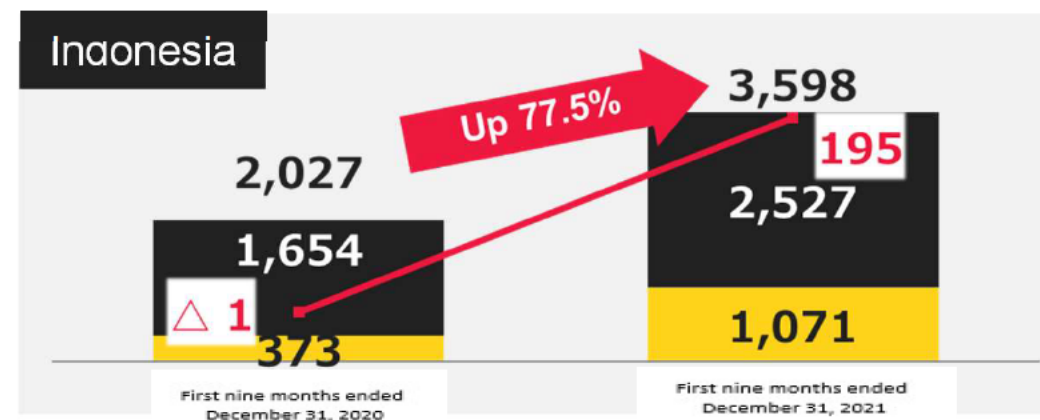
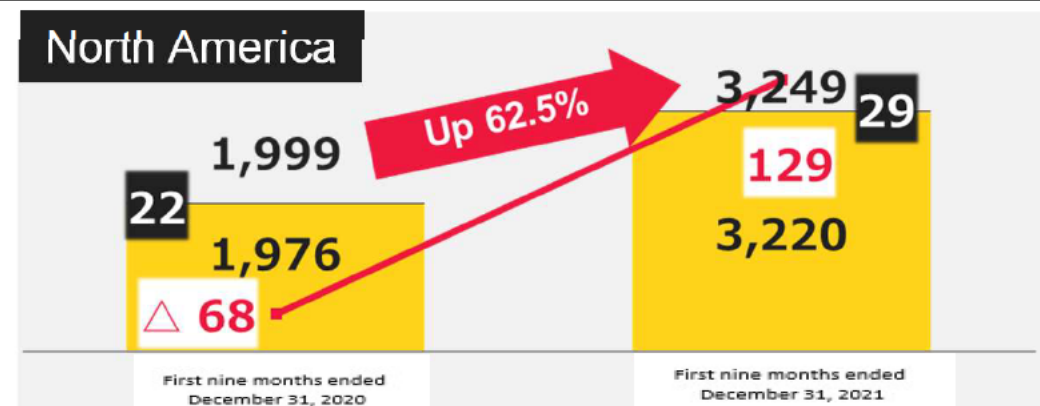
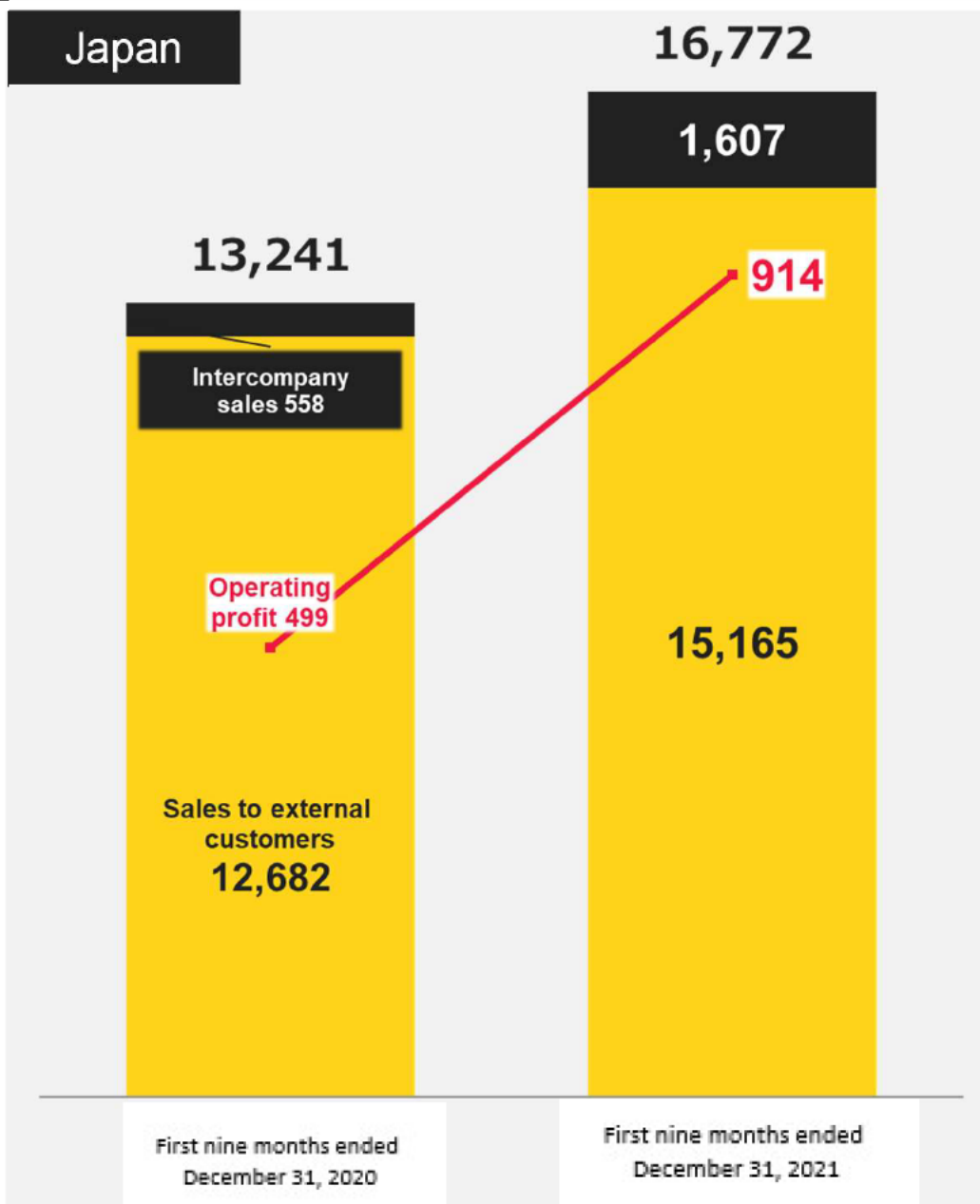
Indonesia	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	
			Amount	%
Sales to external customers	373	1,071	698	187.2%
Intercompany sales	1,654	2,527	873	52.8%
Total net sales	2,027	3,598	1,571	77.5%
Operating profit	▲ 1	195	197	— %

(Millions of yen)

China	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	
			Amount	%
Sales to external customers	341	336	▲ 4	▲ 1.4%
Intercompany sales	241	326	85	35.3%
Total net sales	582	662	80	13.8%
Operating profit	▲ 54	▲ 44	10	— %

Segment Information by Region (graph)

(Millions of yen)



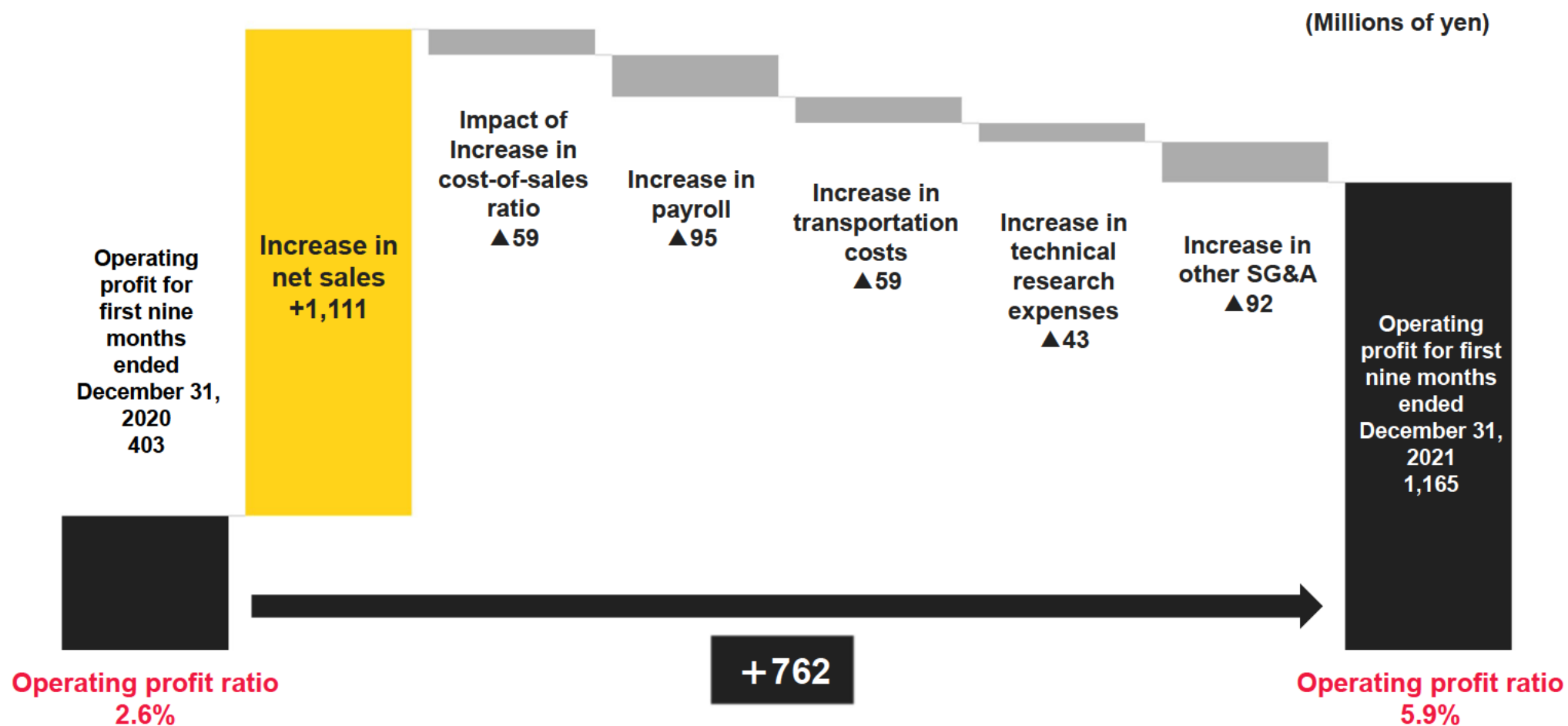
Breakdown of YoY Changes in Operating Profit

- Gross Profit increased by ¥1,111 million, in line with YoY increase in sales of ¥4,419 million.
- SG&A Expenses increased by ¥289 million as we came out of restricted operational conditions and resumed business activities.
- As a result, Operating Profit rose 2.9 times YoY to ¥1,165 million.

(Millions of yen)

	First nine months ended December 31, 2020	First nine months ended December 31, 2021	YoY change	Impact on operating profit	Note
Net sales	15,374	19,793	4,419	+1,111	4,419 x (1 - 74.8%)
Cost-of-sales ratio	74.8%	75.1%	0.30%	▲ 59	19,793 x 0.30%
Gross profit	3,866	4,918	1,052		
SG&A expenses	3,463	3,753	289	▲ 289	Payroll: up 95; Transportation costs: Up 59; Technical research expenses: up 43; Other SG&A: up 92
Operating profit	403	1,165		+762	

Breakdown of YoY Changes in Operating Profit (graph)

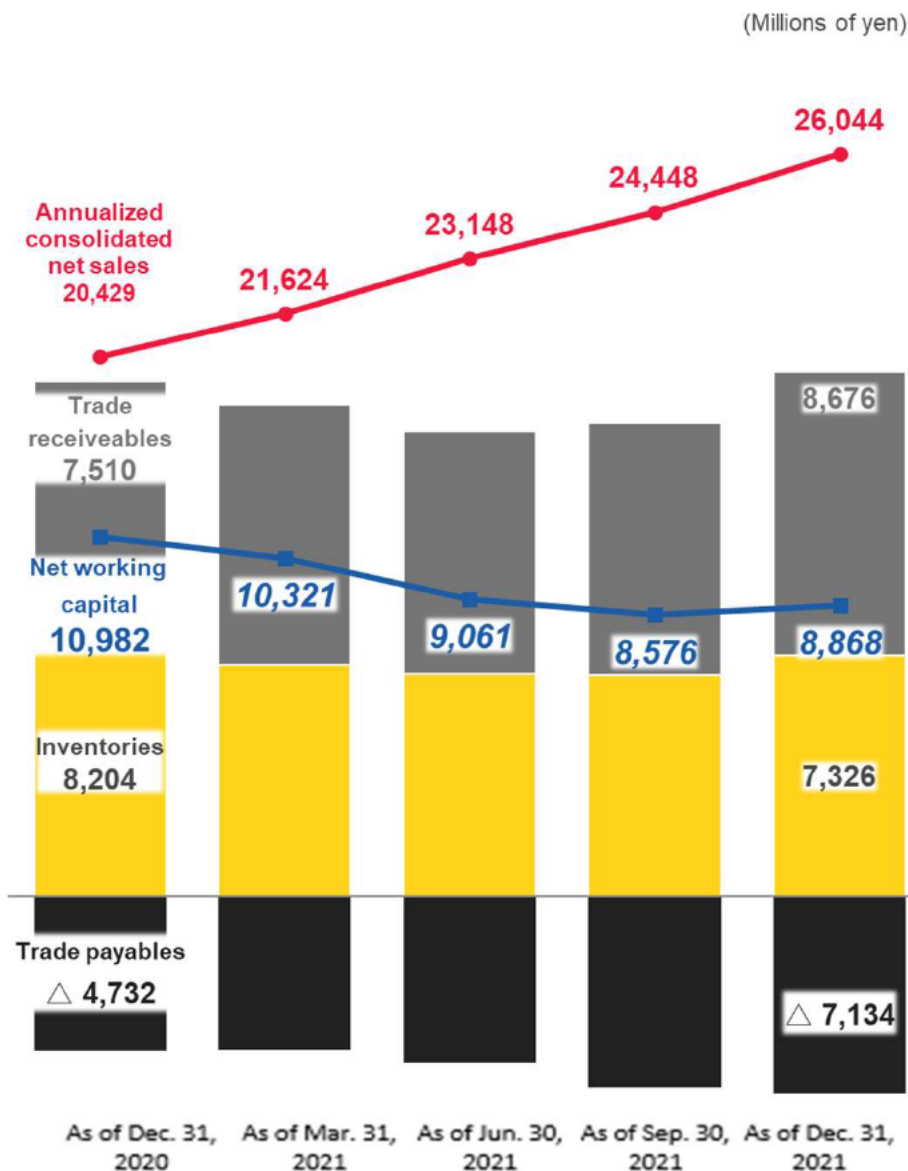


Net Working Capital (Trade receivables + Inventories – Trade payables)

- We managed to decrease working capital appropriated for business operations by ¥2,114 million YoY to ¥8,868 million.
- Inventory was decreased by ¥878 million YoY to ¥7,326 million.
- Inventory/Sales turnover was improved by 1.1 times YoY to 3.6 times for the year.

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021	YoY change	
			Amount	%
Annualized consolidated net sales	20,429	26,044	5,615	27.5%
Trade receivables	7,510	8,676	1,166	15.5%
Inventories	8,204	7,326	▲ 878	▲ 10.7%
Trade payables	▲ 4,732	▲ 7,134	▲ 2,402	50.8%
Net working capital	10,982	8,868	▲ 2,114	▲ 19.2%



Consolidated Business Forecast

- **Sales Forecast for the Full Year:** Amid the continued trend of global recovery of demand for construction machinery, we anticipate robust sales to continue into the fourth quarter. Therefore, the previously announced forecast of ¥25,000 million has been revised upwardly to ¥26,000 million.
- **Profit Forecast for the Full Year:** Although most of the increased costs resulting from soaring components and transportation costs are expected to be recorded as cost of sales in the fourth quarter, the forecast has been revised upwardly in line with higher sales.

(Millions of yen)

	Full year				
	Fiscal year ended March 31, 2021 (results)	Fiscal year ending March 31, 2022 (previous forecast)	Fiscal year ending March 31, 2022 (amended forecast)	YoY change	
				Amount	%
Net sales	21,624	25,000	26,000	4,375	20.2%
Operating profit	701	900	1,200	498	71.1%
Ordinary profit	659	800	1,250	590	89.6%
Profit (loss) attributable to owners of parent	4	520	850	845	—
Earnings per share (yen)	¥0.93	¥120.57	¥200.23	—	—

2. Progress in Key Initiatives Outlined in the Medium-Term Management Policy

KPIs Established in the Medium-Term Management Policy

- Results on all KPIs in the third quarter were on track to outstrip Medium-Term Plan levels.
- We continue to enhance the profit structure through a review of sales prices and increased logistics and manufacturing efficiency to address the new business challenges: systematic inflation and issues in procuring manufacturing components.

(Millions of yen)

	First nine months ended December 31, 2020 (results)	First nine months ended December 31, 2021 (results)	Forecast for fiscal year ending March 31, 2022	Target for fiscal year ending March 31, 2024	Target for fiscal year ending March 31, 2026
Net sales	15,374	19,793	26,000	26,500	30,000
Operating profit	403	1,165	1,200	2,000	3,100
Annualized return on equity (ROE) ¹	▲ 1.8%	5.0%	3.8%	5.5%	8.0%
Share buybacks (through March 31, 2026)	—	340	340 ²	500 ~ 2,000 ³	

1. The annualized ROEs were calculated based on the year-to-date results of the corresponding fiscal year.

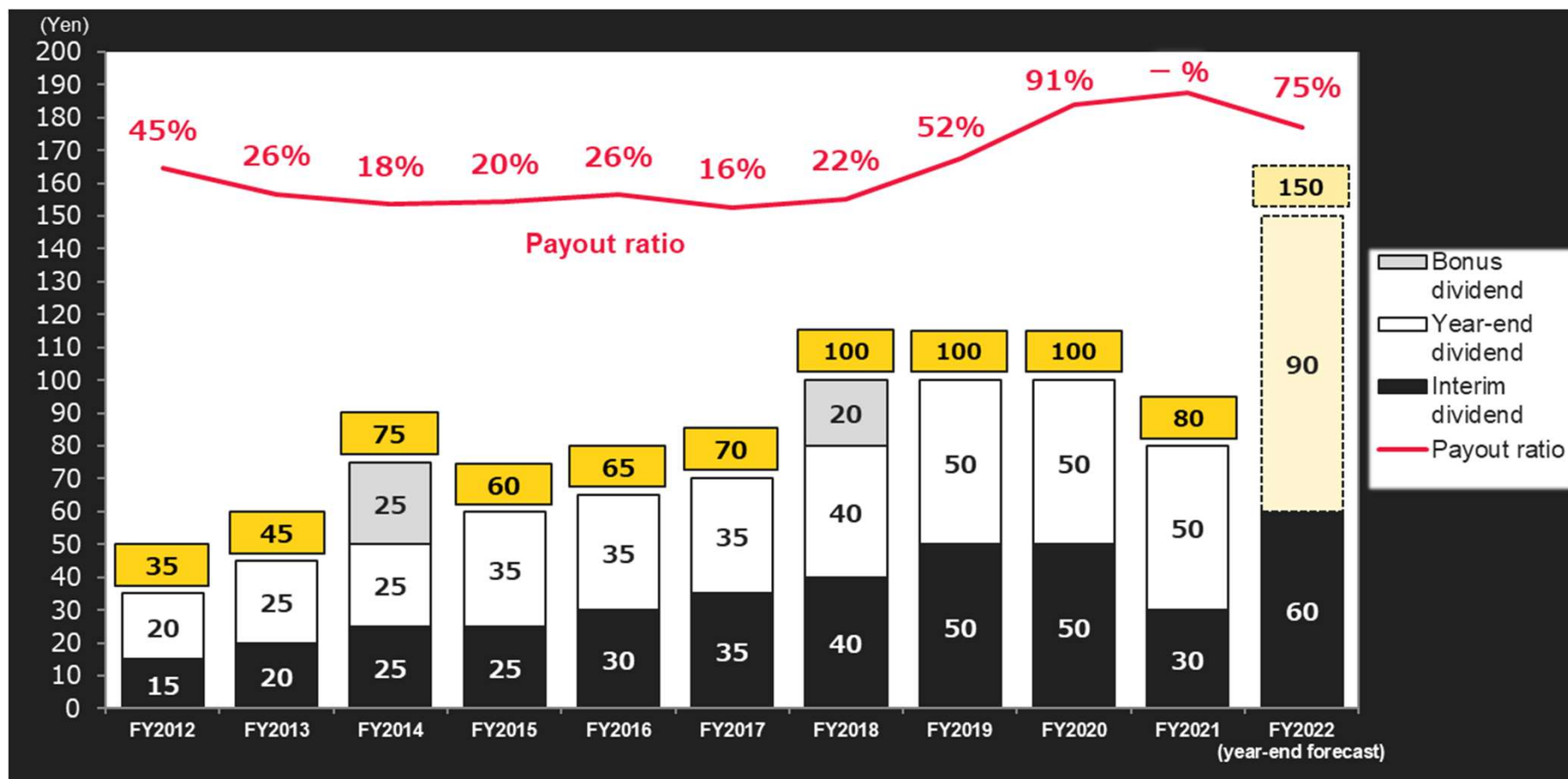
2. The amount of share buybacks projected for the fiscal year ending March 31, 2022, represents the amount of buybacks conducted for the year-to-date as of February 10, 2022.

3. The cumulative amount of buybacks projected through March 31, 2026.

Dividends per Share

Since the announcement of the Medium-Term Management Policy on June 2, 2021, we have set a dividend policy as follows, with a target of 8% ROE.

- When ROE falls below 3%, a payout ratio of 100% will apply.
- When ROE is between 3% and 6%, a DOE of 3% will apply.
- When ROE exceeds 6%, a payout ratio of 50% will apply.



Note: We made a ten-for-one share consolidation effective October 1, 2017.

Dividend payouts for the periods prior to the share consolidation are adjusted to be in line with the post-consolidation payouts.

Progress in the Medium-Term Management Policy

(1) Share buybacks

Completed the first round of share buybacks with a ceiling of 130,000 shares for ¥500 million:
June 17 to July 15: Bought back 130,000 shares for ¥340.4 million

(2) Promotion of medium-term dividend policy

Announced a dividend forecast for the fiscal year ending March 31, 2022:
¥150 per share (up 87.5% YoY)
Payout ratio: 75% (an estimated ROE of 3.8%)

(3) Disclosing financial information in English

- ① Convocation notice of general meeting of shareholders
- ② Medium-Term Management Policy
- ③ Annual Report
- ④ Quarterly earnings announcements
- ⑤ Economic and social value created through our business activities (planned)

3. Implementing ESG Initiatives

(Reference: "Creating economic and social value through our business activities," released on January 26, 2022)

SAKAI HEAVY INDUSTRIES ESG Briefing

**Creating economic and social
value through our business
activities**

January 26, 2022

SAKAI HEAVY INDUSTRIES, LTD.

Background of the ESG briefing

We have contributed to the social business of land development globally through our road construction equipment operations. We believe that our raison d'etre and responsibilities are to provide our customers with highly reliable products and services, to constantly reinforce our technologies for developing our road construction business further, and to apply our specialized technologies in related businesses.

The road construction business has become an essential part of the world's infrastructure. We have entered an era, however, where we need to reduce burdens on the earth and the environment. Our objective is to become a truly global company that can play a key role in global land construction, while accommodating demands of the new era through leveraging the tangible and intangible know-how accumulated over our many years of experience, as well as our relentless pursuit of new technologies.

Today, we are holding an environment, social, and governance—or ESG—briefing session. The session is designed to help those involved in the capital markets to understand thoroughly that our business not only contributes to the resolution of a host of social issues but also leads to further enhancement of corporate value by accurately seizing opportunities while managing environmental and social risk.

Ichiro Sakai, President
SAKAI HEAVY INDUSTRIES, LTD.

Contents

Introduction

Background of the ESG briefing



- 1. Business overview and vision**
Overview, medium-term management plan, and corporate value enhancement
- 2. Resolving social issues through business activities and growth strategies**
Value creation process, social issues in the value chain, growth strategies through problem solving
- 3. Building human capital to support sustainable growth**
Recruitment and talent development for global niche strategies
- 4. Climate change initiatives and commercialization strategies**
Opportunity and risk analysis, creation of new added value that helps reduce CO2 emissions produced in the construction process
- 5. Creating a management structure to strengthen corporate governance**
A management structure in which one-third of the Board of Directors is comprised of independent, external directors, complete independence of business execution from oversight, Nomination and Compensation Committee, and skill matrix
- 6. Policy for dealing with current supply chain issues**
Sales price, logistics, procurement policy

1. Business overview and vision

- Status of our compliance with the criteria for maintaining listing in the Prime Market
- Company overview (1)
- Company overview (2)
- Quantitative targets in the medium-term management plan
- Achieving an appropriate stock price level (P/B ratio over 1.0)

Status of our compliance with the criteria for maintaining listing

- While the requirement for retaining Prime Market listing is to maintain market capitalization of ¥10 billion, the company is about 30% short of this criterion. The company have submitted a plan to comply with the criteria for retaining Prime Market listing.
- Though the P/B ratio is currently stagnant at about 0.5, the company aims to achieve a ratio of 1.0 or above by steadily and decisively implementing capital policies and fundamentally reviewing and fortifying our ESG initiatives—while continuing to implement our growth strategy through business activities.

Compliance with listing maintenance requirements

	Number of shareholders (owners)	Number of outstanding shares (units)	Outstanding shares Market capitalization (hundred million yen)	Ratio of shares outstanding (%)	Daily average Trading value (hundred million yen)
Current situation*1 (As of the reference date)	2,924	28,147	63	65	0.3
Current situation*2 (Based on the publication of the compliance plan regarding the requirements for maintaining listing)	3,239	26,731	74	61	0.4
Criteria for maintaining listing	—	20,000	100	35	0.2
Items listed in the plan	—	—	○	—	—

*Calculated based on the distribution of the Company's stock certificates ascertained by the Tokyo Stock Exchange as of the base date.

*The Company's conformity status is calculated based on the share distribution status table as of September 30, 2021, and the Company's stock price as of December 9, 2021 (¥2,795, P/B 0.53).

Corporate philosophy

Contribute to the social business of global land development through road construction equipment business

Business overview

A specialized manufacturer of road construction equipment for the Japanese, Asian, and North American markets

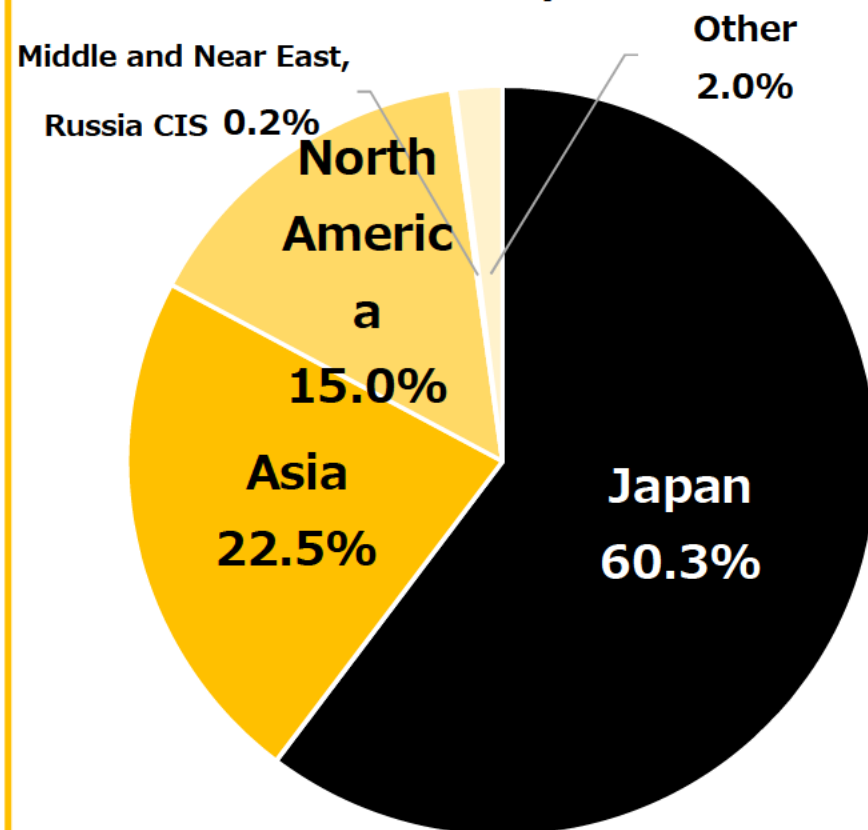
Research and development, design, manufacturing, sales, service, and technical guidance concerning equipment required for road construction and various types of compaction work

Primary clients are paving and civil engineering contractors

Commercial distribution is via direct sales, sales and service through distributors, and construction equipment rental

Global expansion of production bases

Sales ratio by region (Fiscal year ended March 2021)



Consolidated group summary (Fiscal year ended March 2021)

Consolidated No. of employees: 602	Japan (4 companies), overseas (5 companies)
Japan No. of employees: 338	SAKAI HEAVY INDUSTRIES, LTD. SAKAI, LTD. TOKYO FUJI CO., LTD. COMODO CO., LTD.
U.S. No. of employees: 48	SAKAI AMERICA, Inc.
Indonesia No. of employees: 162	PT. SAKAI INDONESIA PT. SAKAI ROAD MACHINERY INDONESIA PT. SAKAI SALES AND SERVICES ASIA
China No. of employees: 54	SAKAI HEAVY INDUSTRIES (SHANGHAI), LTD.

Quantitative targets for March 2026

¥30 billion

Net sales

¥3.1 billion

Operating profit

8.0%

Return on equity (ROE)

Investment activity

Capital investment: ¥2.5 to 3.5 billion

Research and development (R&D): ¥4.0—5.5 billion

Shareholder returns

Dividend payout ratio

ROE less than 3%: Dividend payout ratio of 100%
ROE between 3 and 6%: Dividend on equity (DOE) return of 3%
ROE greater than 6%: Dividend payout ratio of 50%

Share buyback (upper limit) ¥500 million—2.0 billion

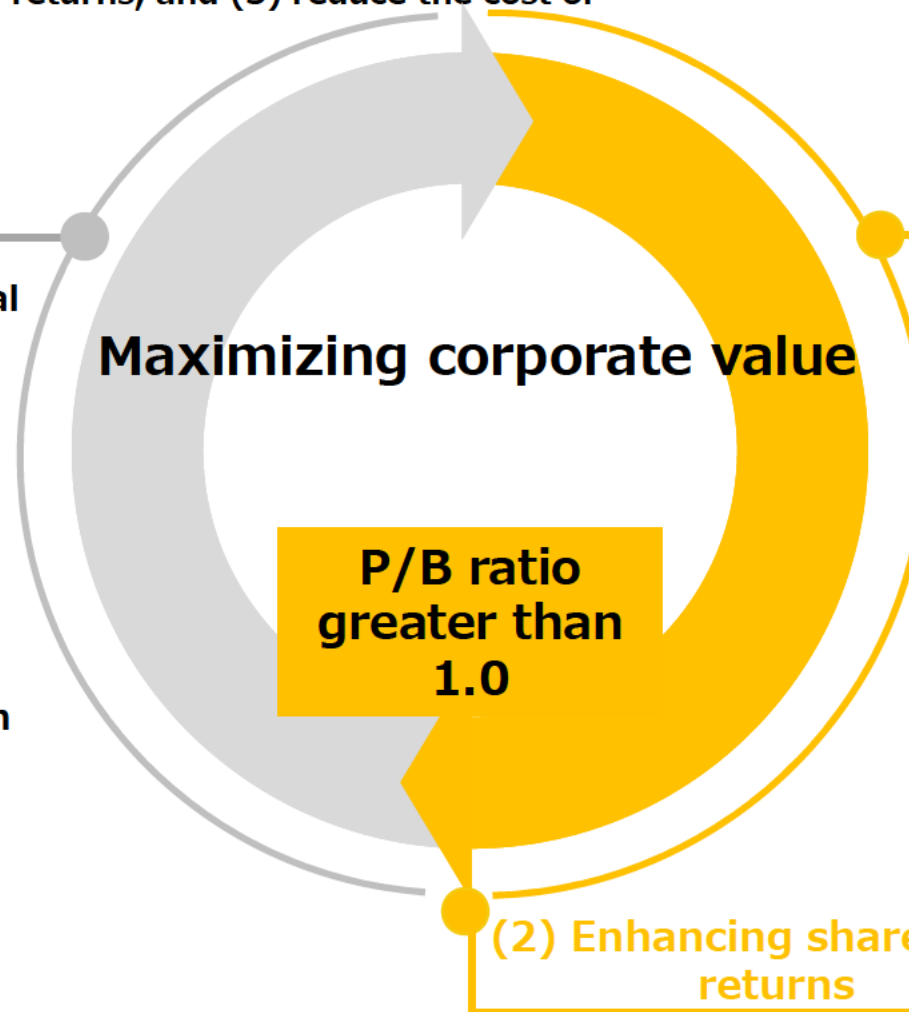
P/B ratio greater than 1.0

Initiatives for sustainable growth / further dialogue and higher quality of disclosure

With the objective of improving the P/B ratio (over 1.0), a market indicator of corporate value, the company will seek to: (1) improve ROE, (2) increase shareholder returns, and (3) reduce the cost of capital

(3) Reducing the cost of capital

- Managing environmental and social risk
- Capital policy with an awareness of optimal capital structure
- Proactive disclosure of ESG-related information



(1) Improving ROE

- Enhancing profitability
- Improving capital efficiency

(2) Enhancing shareholder returns

2. Resolving social issues through business activities and growth strategies

- Initiatives to achieve SDG goals in the company's business activities
- The company's "value creation process"
- Addressing social issues in the value chain
- Resolving issues in advanced and developing nations
- Resolving issues in advanced nations
- Improving construction site safety
- Resolving issues in developing nations
- Measures taken around the world to encourage business expansion
- The Ministry of Land, Infrastructure, Transport and Tourism's measures to encourage business expansion
- Future vision through digital transformation (DX)

Solving social issues and creating social value through the company's business activities



Goal 9 ● Building sustainable and resilient infrastructure
Promoting inclusive and sustainable industrialization, and fostering innovation

Goal 10 ● Reducing inequality within and between countries (official development assistance (ODA))

Goal 11 ● Making cities and human settlements inclusive, safe, resilient and sustainable

Goal 12 ● Ensuring sustainable consumption and production patterns (product life cycle)

Goal 13 ● Taking urgent action to fight climate change and its impacts (countermeasures for natural disaster)

The company's "value creation process"

Based on the company's corporate philosophy, "contributing to the social business of global land development through the road construction equipment business," SAKAI HEAVY INDUSTRIES recognizes the importance of sustainability in seeking to realize a sustainable society.

Social issues

Global-scale social issues

- Progression of global warming
- Mass consumption and depletion of resources
- Development of disaster-resilient infrastructure
- Improving the living environments in developing countries

Customer on-site issues

- Deterioration in safety resulting from labor shortages
- Productivity slowdown resulting from labor shortages
- Life cycle cost reduction

The company's strengths

- Global niche strategy through selection and concentration
- Accumulation of distinct compaction technologies (extending road service life)
- Confidence of customers backed by experience engineering and performance
- Global network and brand strength
- The company's development is driven by the expertise of each individual employee
- R&D and manufacturing to improve overall construction efficiency and reduce environmental impact
- Promoting DX in construction by leveraging driverless operation technology
- Supporting sustainable growth with a sound financial base

Business activities and strategy

Materiality leading to value creation

- Cultivating technology contributing to national land development through road construction
- Developing overseas markets
- Addressing carbon neutrality (Reducing the environmental burden across the construction process)
- Fundamental evolution through DX support (Providing added value, improving the business cycle)
- Improving construction site safety



Materiality of the foundation for business continuity

- Retaining and developing specialized personnel
- Promotion of diversity
- Quality assurance, CSR procurement
- Supply chain management
- Fostering an environment of respect for human rights

Medium-term management policy

The company's vision

- Becoming a world-class niche company specializing in road construction equipment
- Solidifying the foundation toward ¥30 billion in sales over the next five years
- Growing to a ¥50 billion company over the long term

Growth strategy

- Expanding market share overseas
- Expanding business domains overseas
- Creating added value through next-generation business development

Objective

Contributing to the social business of global land development through the company's road construction equipment business

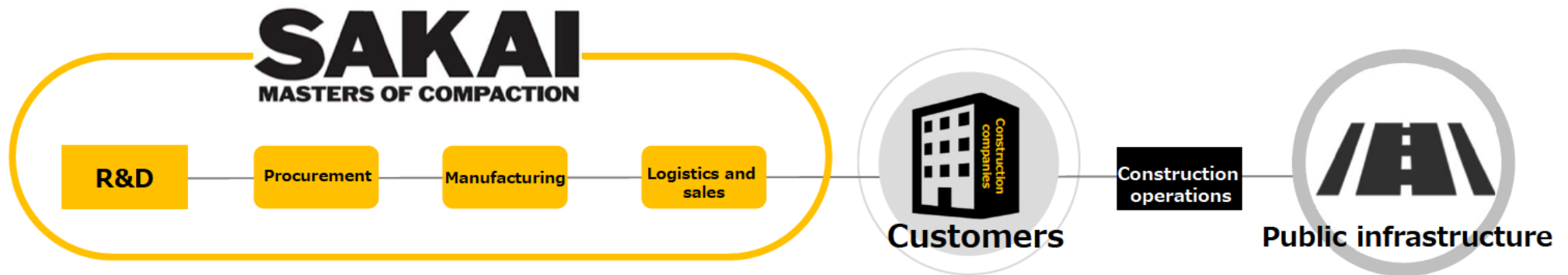
Economic value

Key performance indicators (KPI)	Numerical targets
Net sales	¥30 billion
Operating profit	¥3.1 billion
Return on equity (ROE)	8.0%
Dividend policy	Dividend payout ratio of 50%

Social value

- Providing reliable products and services
- Creating technologies that are beneficial to the development of road projects
- Utilizing specialized technologies in related fields, which the company has cultivated in road construction equipment

Creating social value by addressing social issues in the value chain



Addressing social issues

Issues in construction operations

- Achieving carbon neutrality in construction operations
- Promoting DX in the infrastructure field
- Improving construction site productivity and safety

Public infrastructure issues

- Creating safe and resilient infrastructure
- Extending road service life
- Improving the living environments in developing nations

Resolving social issues and creating social value through our business activities

Creating safe and resilient infrastructure

Extending road service life

Developing infrastructure in undeveloped areas

Creating jobs in developing nations

Advanced nations

- Contributing to advanced road construction technology
- Reducing life cycle costs by extending the service life of roads
- Improving construction operation efficiency and safety

Total cost for design, construction, management, and demolition

Developing nations

- Contributing to road maintenance demand that can withstand the increase in logistics
- Providing reliable products and services
- Transferring road construction technology established in Japan

Actualizing high-quality, efficient road paving mainly in Japan, the U.S., and Europe, where demand for this is increasing.

Resolution

- Creating safe, secure public infrastructure through advanced compaction and flat-road paving
- Saving energy and overcoming labor shortages by applying driverless, efficient autonomous rollers
- Accommodating demand for decarbonization with Electric rollers rollers that help reduce CO2 emissions
- Leveraging DX to enhance safety

Highway paving in the U.S.



Autonomous roller - Test marketing to be completed



Electric roller - Demo vehicle to be completed



Social issues related to construction site safety

Leveraging DX to achieve safe, secure and comfortable construction sites

Leveraging DX technology to promote problem solving

Improving safety

- Promoting rollers equipped with emergency brakes
- Enabling emergency stopping when people or obstacles that are in the direction that the roller is moving are detected



Thorough provision of construction equipment to Nicaragua, where the company has committed to pave 2,000km of road over a five-year period

Resolution

- Transferring construction technology for the stabilizer construction method (roadbed method of road reformation)
- Improving local living standards through stabilized logistics
- Improving vehicle fuel efficiency by 25% through flat-road paving
- Decreasing the number of traffic accidents caused by damage to roads

A letter of appreciation from the government of Nicaragua

Letter of appreciation from Nicaragua



Por este medio tengo a bien dirigirme a Usted, con la finalidad de hacer constar que los Equipos Estabilizadores modelo PM550, donados por el Honorable Pueblo y Gobierno Japonés al Pueblo y Gobierno de Nicaragua, se encuentran trabajando de forma adecuada y eficiente, permitiendo el cumplimiento satisfactorio de Obras de Desarrollo y Mejoramiento de los caminos y carreteras en Nicaragua.

Agradeciendo su atención a la presente, le saludo con muestras de consideración y estima.

Atentamente,



JAPAN GRANT Project (ODA)



Expanding demand for land development

Japan

Acceleration of national land resilience

To make national land more resilient, additional projects equivalent to about 15 trillion yen are needed over the five-year period beginning in 2021

Decarbonation and digitization of construction practices

Achieving carbon neutrality in the infrastructure field as well as promoting DX
(See next page for details)

U.S.

The infrastructure Bill totaling US\$1.2 trillion has been passed

Of the US\$550 billion in new investment, US\$110 billion will be invested in roads and bridges over a five-year period

ASEAN

Expansion of infrastructure investment budget due to recovery in demand

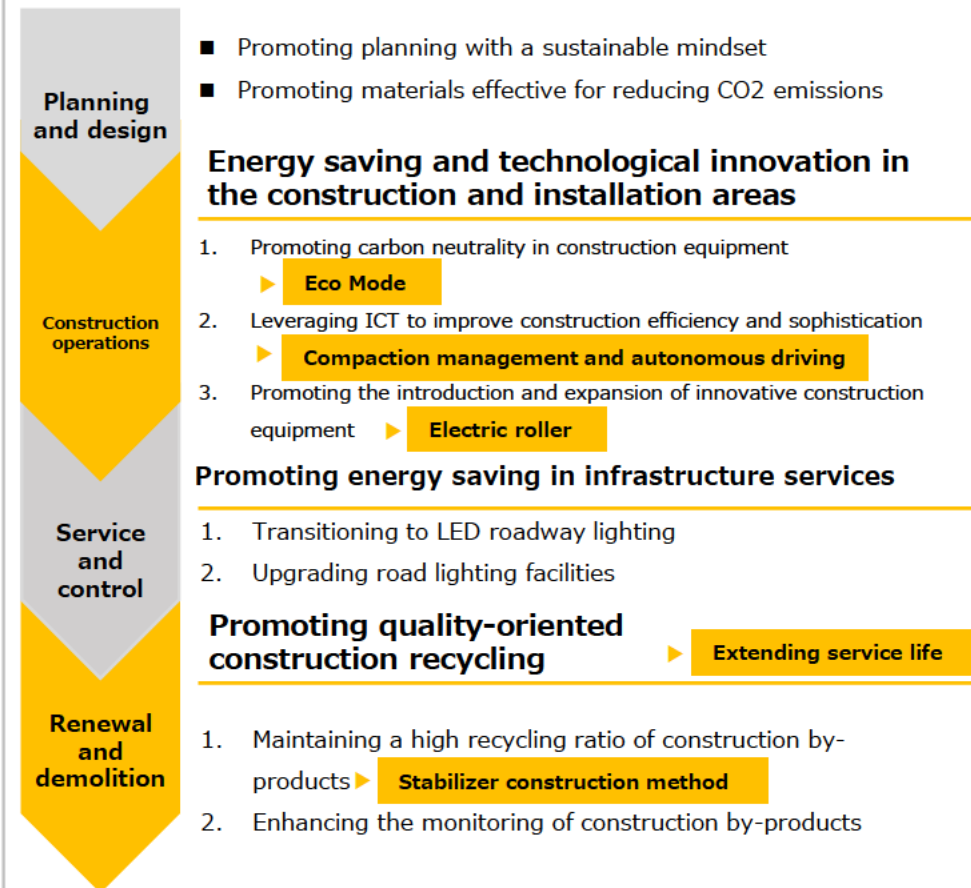
"Infrastructure Systems Overseas Development Strategy 2050"
Increasing overseas orders from Japanese companies to ¥34 trillion in five years

Achieving carbon neutrality in construction operations and application of DX in the infrastructure field

Green growth strategy

Announced in July 2021

Achieving carbon neutrality throughout the infrastructure life cycle



Source: Outline of "The MLIT Green Challenge" for a green society

Promoting DX in the infrastructure field

Announced in February 2021

Leveraging data and digital technology to resolve issues in the infrastructure sector



Source: Digital transformation (DX) in the infrastructure sector

Transforming business models through DX

Providing customers with new added value

Database platform construction

- Developing a database platform for centralized control over operation management, preventive maintenance, and parts / product information
- Creating new added value by leveraging IoT technology and promoting autonomous driving technology

Business cycle acceleration

- Reducing total lead times through the visualization of the locations of information and goods, enabled by DX in sales and manufacturing

New added value provision

- Significantly improving the company's structure and efficiency by directly connecting the company with customers and construction equipment
- Remote support for troubleshooting, preventive maintenance, and operational technical support
- Standardizing the level of construction technology and enhancing productivity by leveraging autonomous driving and IoT technologies

3. Building human capital to support sustainable growth

- Human capital initiatives (1)
- Human capital initiatives (2)
- Human capital initiatives (3)

Fundamental policy

The company believes **securing and strengthening human resources** is one of the most important managerial issues, and each employee is essential to the company's development

Securing human resources

- Actively recruiting specialized road paving personnel
- Actively recruiting foreign national, female, and mid-career employees as our production bases become globalized

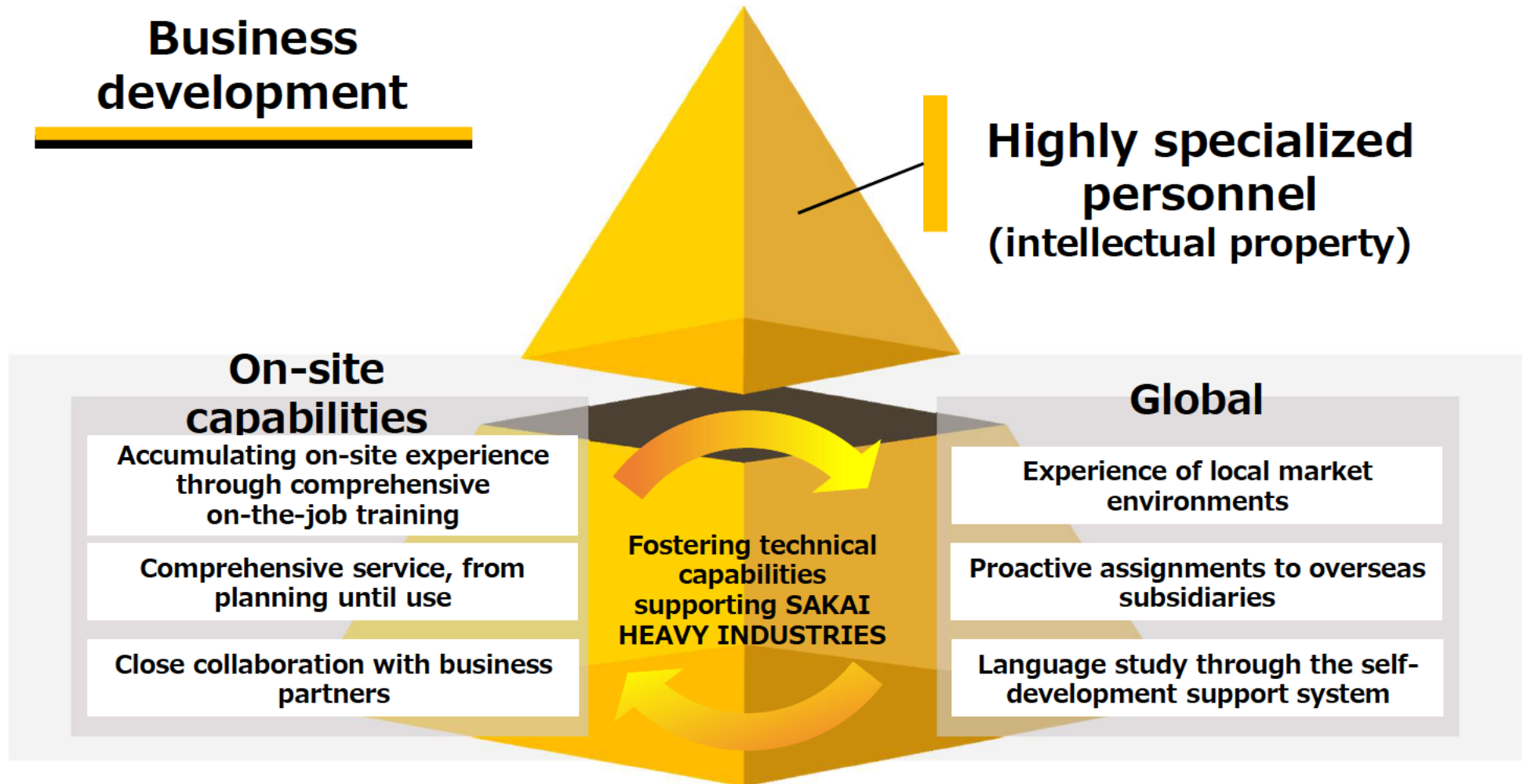
Today, foreign national employees account for about half of the Group's workforce, which contributes to the creation of employment opportunities in developing countries.



Development of highly specialized personnel, which serves as the driving force behind corporate development

Business development

**Highly specialized personnel
(intellectual property)**



A development department that reinforces the company's growth

Shogo Hata

Department: RESEARCH &
DEVELOPMENT (R&D) HQ
Position: General Manager,
PRODUCT DEVELOPMENT DIVISION



Career

- Since graduating from university and joining SAKAI HEAVY INDUSTRIES, I have been consistently engaged in the development of our products. In my fourth year with the company, I worked for one year at the Sapporo Sales Office in machine repair as part of my training in design operation. During two months of practical training at a road paving construction site, I worked day and night covered in dirt with a shovel in my hand, to learn how the products we develop were applied in the field. After that, through comprehensive on-the-job training, I have accumulated experience as a developer after learning from mistakes, as well as through trial and error
- I have been involved in the development of all of our products. Among them, I have primarily overseen our best-selling products (boarding-type vibratory rollers (2.5t-4t)). Currently, I am responsible for overall development work, with a focus on new models of existing products, as well as commercializing products with special specifications that are requested from the market. When I had just turned 30 years old, I was involved in the SW300 development, a relatively small roller among our products, for the U.S. market. This was a major turning point in my career development. I was involved with the SW300 from planning through to development, finally being able to commercialize it through repeated trial and error. The know-how gained through this experience has become the foundation of my developed proficiency.

The strength of the company's development department

- The same development team is involved in the entire process of product planning, testing, mass production, and customer use. Our developers reflect customers' needs in terms of planning and development by visiting construction sites and directly listening to customers. The company's corporate culture of having a cooperative mindset also plays a key role in the foundation of developmental capabilities. The company's developmental capability is supported by a system in which each department works in collaboration to tackle issues, rather than allocating responsibilities.
- From the perspective of human resource development, accumulating experience, not only through training and other educational systems but also through comprehensive on-the-job training, is important. The company provides a variety of opportunities to gain experience, from sales office work to overseas field work.

4. Climate change initiatives and commercialization strategies

- Awareness of climate change
- Risks and opportunities in scenario analysis
- Reducing CO2 emissions in construction operations
- ICT compaction management system
- Reducing CO2 emissions and waste across the construction equipment life cycle
- Reducing in-house CO2 emissions

Our growth opportunities in the fight against climate change are significant, and we have formulated business strategies based on these.

Reducing CO2 emissions in construction operations and across the public infrastructure life cycle creates new added value

Business strategy

Reducing CO2 emissions in construction operations

1. Labor saving in overall construction operations and extending construction product life
2. Energy efficiency and electrification for construction equipment

Reducing CO2 emissions and waste across the construction equipment life cycle

1. Long-life construction equipment that is easy to recycle are key characteristics of SAKAI HEAVY INDUSTRIES' supplied products
2. Creating a recycling-oriented business in the era of the circular economy

Growth opportunities

While climate change presents risks, it also brings economic opportunities.

	Type	Item	Impact on business	Impact on business and finance		Impact Period
				2°C or lower scenario	4°C scenario	
Transition Risk	Policy Regulations	Environmental regulations Carbon tax rollout	More stringent fuel efficiency regulations will limit the use of conventional construction equipment, accelerating market competition for electrification and low-carbon construction equipment. Introduction of a carbon tax will increase the cost of regulatory compliance.	Medium	Small	Medium/long term
	Technology	Decarbonization technology	Investment into R&D for new technologies will be required, and any delays in development will result in lost sales opportunities.	Medium	Small	Short/medium term
	Market	Transition to decarbonization	Energy prices will rise, as will transportation costs. The price of materials such as thick plates and steel will soar, pushing manufacturing costs upward.	Large	Medium	Short/medium term
Physical Risk	Chronic	Changes in weather patterns	Deteriorating working environments will negatively impact employee productivity. Maintaining favorable work environments will result in costs being incurred.	Small	Medium	Long term
	Acute	Abnormal weather events are increasing in severity.	In addition to possible damage to the company's factories, the supply of parts will be delayed if suppliers are also affected by disaster.	Small	Medium	Long term

	Item	Impacts on business	Impacts on business and finance		Duration of impacts
			2°C or lower scenario	4°C scenario	
Opportunity	Abnormal weather events are increasing in severity.	Heavy rain events, frequent typhoons, and rising sea levels will require levees and embankments to be fortified. In addition, restoring infrastructure damaged by natural disasters will increase the demand for construction equipment.	Medium	Large	Long term
	Market shifts	Introducing new technologies, such as electrification for construction equipment and ICT construction, will generate sales opportunities for the company's equipment and services.	Medium	Small	Short / medium term
	Transition to decarbonization	The conversion of construction equipment to electrification and the integration of digital technology into business activities will increase our productivity and efficiency. Lowering operating costs as well as increasing competitiveness.	Large	Medium	Short / medium term
	Changes in customer evaluation	As ESG information disclosure becomes mandatory, and awareness of sustainability increases, the company would be recognized as a provider of high value-added construction equipment.	Medium	Small	Medium / long term

Creating new added value by contributing to CO2 emission reduction at our customers' construction sites

Labor efficiency across the entire construction process / virtual factories

- **Autonomous roller**
Test marketing to be completed
Making driverless, efficient compaction work possible



Reduction of CO2 emissions from construction equipment

- **Electric roller R&D**
Demo vehicle to be completed
Advanced mass production schedule as decarbonization policy is accelerated



Initiatives
for fiscal
year 2022

- **ICT compaction management system**
Real-time surface quality control
Implementation of efficient compaction



Initiatives
through fiscal
year 2021

- **Measures to comply with Tier 1 - Tier 4 diesel engine exhaust gas emission standards have been completed**
- **All major models are equipped with Eco Mode**
Energy-saving recommendations during construction
CO2 emissions reduced by about 30%



Technology to confirm and control compaction quality in real time and from a surface perspective using compaction control value (CCV)

In the past

Point-by-point post-construction quality control

- Time lost in inspection work
- Construction loss due to failure to detect inferior quality parts and over compaction resulting in work needing to be redone



Real-time surface quality control

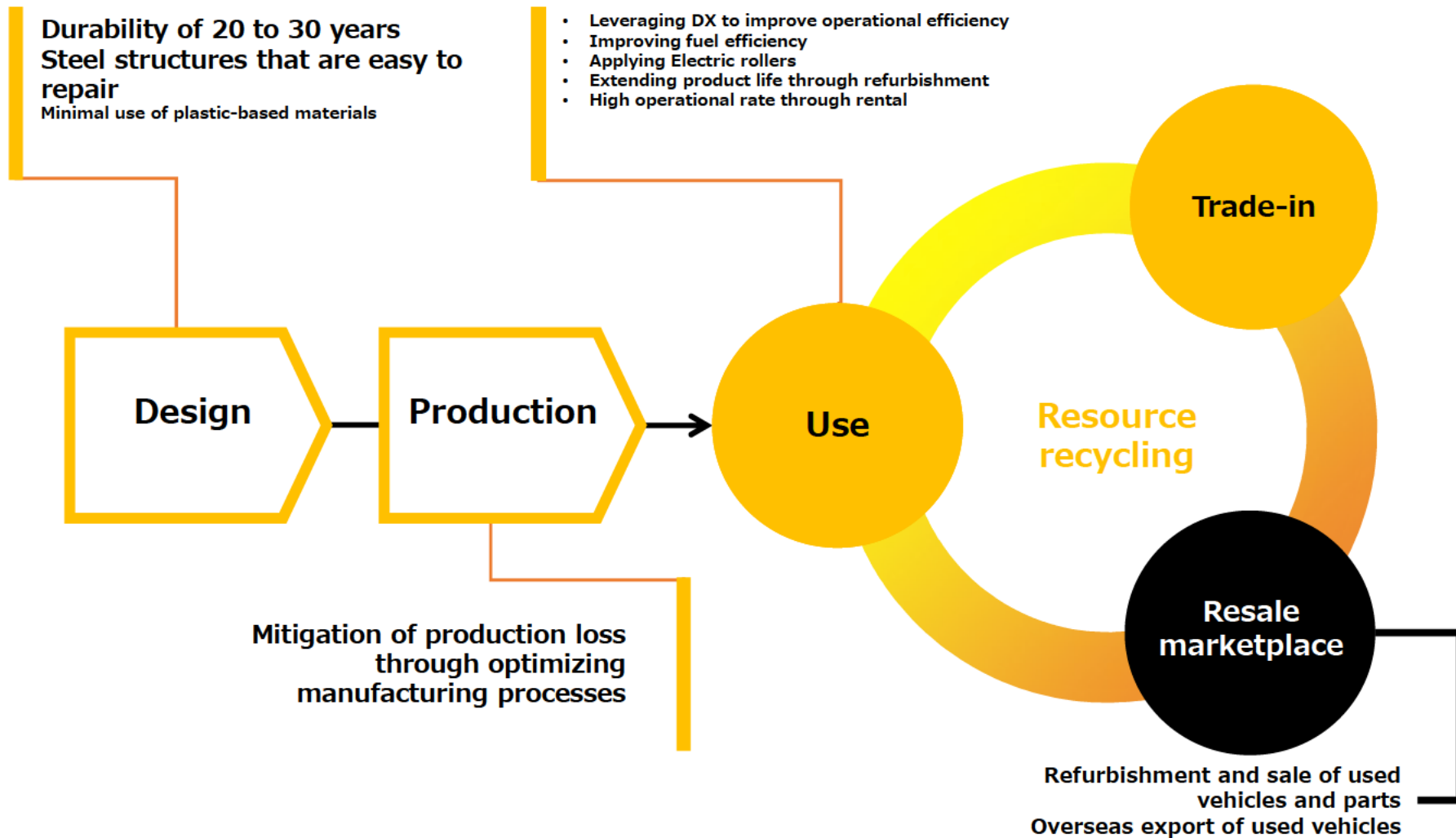
- High quality, reliable, and efficient compaction
- Shortening construction duration
- Extending construction intervals by extending road service life
- Began on-site implementation of the Ministry of Land, Infrastructure, Transport and Tourism's "Acceleration Response Compaction Management for Roadbed Construction"



Contributing to CO2 reduction in construction operations

"High-value added by leveraging ICT" → Result could be passed on to sales price

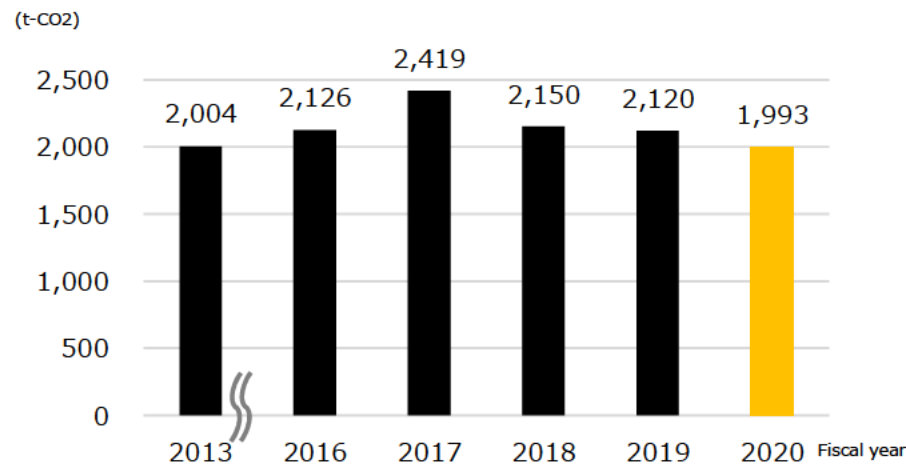
Contributing to establishing a recycling-oriented society by supplying long-life construction equipment that is easily to recycle



Set a target of reducing CO2 emissions by 50%* by FY2030 *Compared to FY2013

Plan for CO2 emission reduction

In FY2020, the total CO2 emissions from domestic production plants was approximately 2,000 metric tons.



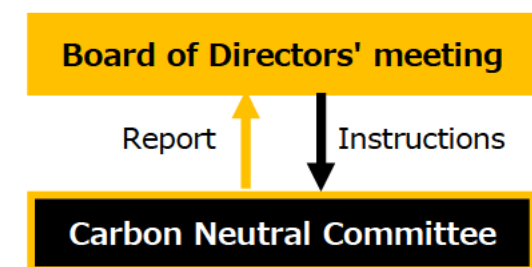
	Scope 1*	Scope 2**
Initiatives for reduction	CO2 reduction at manufacturing sites Conversion of business-use vehicles to electrification 3Rs in business activities	Transition to renewable energy beginning in April 2022
Annual CO2 emissions (t)	1,000	

* Scope 1: Direct CO2 emissions from on-site fuel-burning equipment that Sakai owns and operates, such as gas boilers, vehicles, and air conditioners.

** Scope 2: Indirect CO2 emissions from the use of electricity, heat, refrigeration, and steam that Sakai sources from external providers.

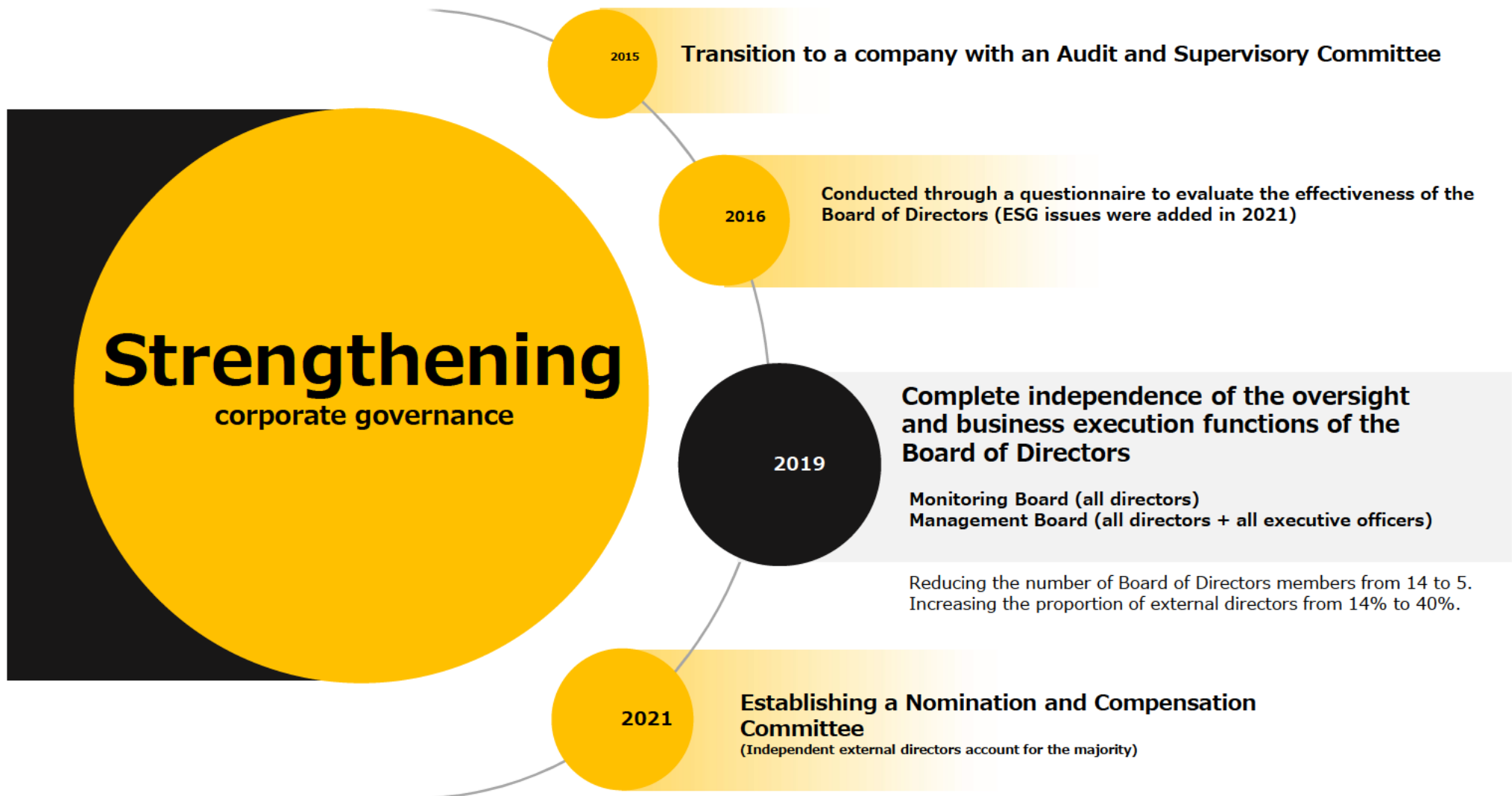
Carbon Neutral Committee

- Formulate business strategies while bearing in mind that addressing climate change is one of the highest priority management issues
- Launched in December 2021 with company-wide representation, led by the Executive Vice President
- Promote discussions on company-wide CO2 reduction measures and public ESG disclosure
- Discussions have launched regarding Scope 3 measurement



5. Creating a management structure to strengthen corporate governance

- Previous initiatives toward creating a management structure to strengthen corporate governance
- Management structure of the Board of Directors
- Composition of the company's Board of Directors and remuneration system
- Skill matrix for our Board of Directors
- Skill matrix for our Executive Officers
- Dialogue with external directors

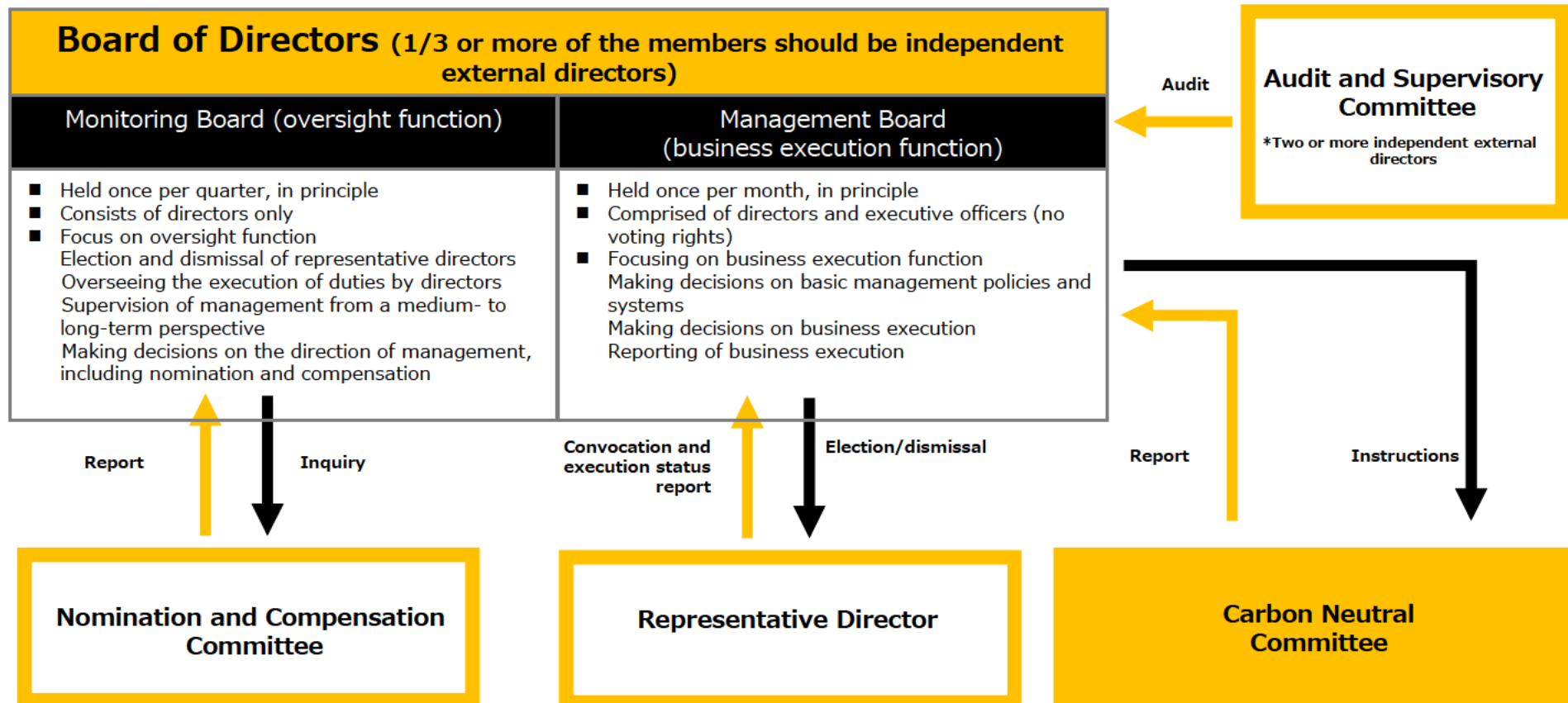


Split the functions of the Board of Directors into two parts:
the Monitoring Board and the Management Board



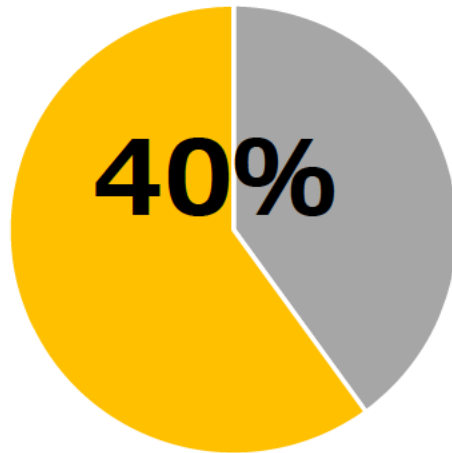
Enhancing external directors' understanding of business execution
Strengthening the oversight function of external directors

Governance structure diagram

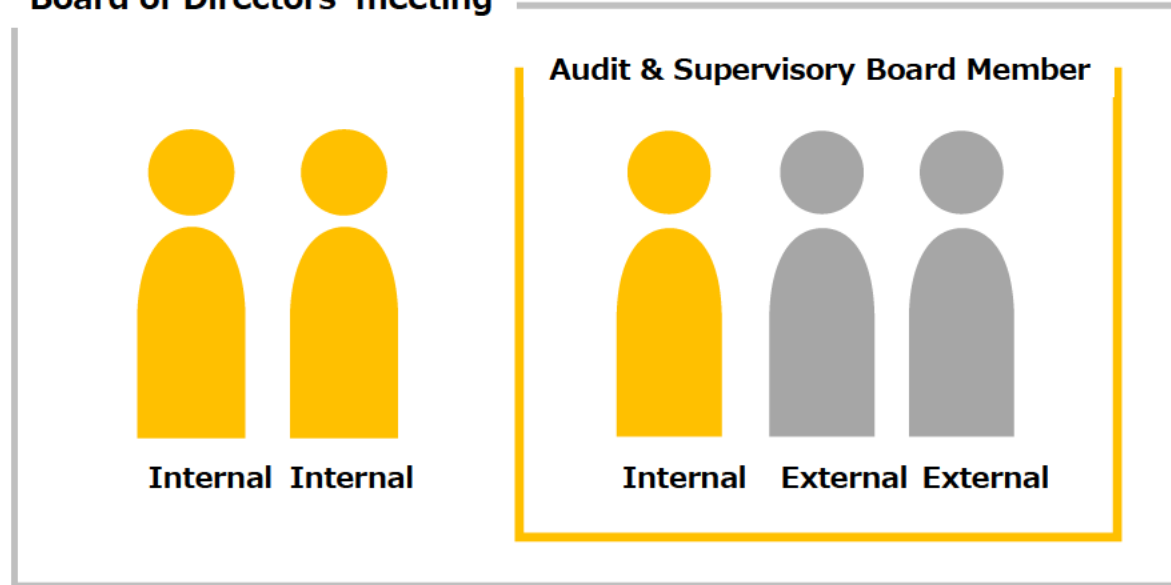


Composition of the company's Board of Directors and remuneration system

Ratio of external directors



Board of Directors' meeting



■ Basic remuneration

■ Year-end remuneration

■ Restricted stock compensation

Directors (excluding
Audit & Supervisory
Board Members)



Directors who are
Audit & Supervisory
Board Members



(including external
directors)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Skill matrix for our Board of Directors

		Position	Name	Management	Road equipment	Global	Capital markets	Management	Manufacturing	Marketing
	Internal	President	Ichiro Sakai	●	●	●	●	●		
	Internal	Director and Executive Vice President	Ryosuke Watanabe		●	●				●
	Internal	Audit and Supervisory Board Member	Kazushi Kiyomiya		●			●	●	
	External	Audit and Supervisory Board Member	Ryuichi Tokunaga		●			●		
	External	Audit and Supervisory Board Member	Makoto Kikkawa	●			●	●		

Skill matrix for our Executive Officers

Position	Name	Management	Road equipment	Global	Capital markets	Management	Manufacturing	Marketing
Senior Managing Executive Officer	Kenichi Mizuuchi		●					●
Managing Executive Officer	Yukinori Tsukimoto		●	●			●	
Managing Executive Officer	Toshihiko Akimoto	●	●	●			●	
Executive Officer	Masahiro Tokita		●	●				●
Executive Officer	Takao Yoshikawa				●	●		
Executive Officer	Yasunori Azumi	●		●		●		
Executive Officer	Fumio Yamanaka	●	●	●			●	
Executive Officer	Hiroshi Baba	●		●		●		



Ryuichi Tokunaga
Ryuichi Tokunaga

Career summary, and position and responsibility in the Company (Significant concurrent positions outside the Company)

Mar. 1971: Joined The Japan Society Of Industrial Machinery Manufacturers
Apr. 1987: General Manager of Construction Machinery Department
Apr. 1990: Transferred to Japan Construction Equipment Manufacturers Association (incorporated association), General Manager of Operations Department
Apr. 2003: Secretary General
Dec. 2005: Managing Director
Oct. 2011: Associate Director of Japan Construction Equipment Manufacturers Association (general incorporated association)(transferred from incorporated association in Sept.2011)
June 2012: Audit & Supervisory Board Member (part-time) of the Company
June 2015: Outside Director and Audit and Supervisory Committee Member (current position)

Reasons for nomination as candidate for outside Director and outline of expected roles

Ryuichi Tokunaga has abundant knowledge about the global construction machinery industry based on his many years of experience at the Japan Construction Equipment Manufacturers Association, and the Company proposes his election as an outside Director so that his wide-ranging insight, mainly in this field, will be reflected in the Company's auditing. Although he has never been directly involved in corporate management, the Company judges he will appropriately fulfill his duties as an outside Director based on the above reasons.

The role that the candidate believe he / she should play as a board of director

1. Advise and oversight for rebuilding a mindset as a global niche company
2. Analyzing industry-wide trends in construction equipment, while verifying and advising the Company's approach to the industry
3. Identifying issues related to overseas expansion and providing advice on how to address them



Makoto Kikkawa
Makoto Kikkawa

Career summary, and position and responsibility in the Company (Significant concurrent positions outside the Company)

Apr. 1970: Joined The Industrial Bank of Japan, Limited
Apr. 1996: General Manager of Nihonbashi Branch
June 1998: Director and General Manager of Administration Department
Nov. 1998: Director and Deputy President of The Long-Term Credit Bank of Japan, Limited
Mar. 2000: Managing Executive Officer of The Industrial Bank of Japan, Limited
Sept. 2000: Managing Executive Officer of Mizuho Holdings, Inc.
Apr. 2002: Senior Managing Executive Officer of Mizuho Bank, Ltd.
Apr. 2003: Administrative Officer of Mizuho Holdings, Inc.
May 2003: Representative Director and Vice President of Sogo Co., Ltd.
June 2003: Representative Director and Vice President of Millennium Retailing, Inc.
Mar. 2007: Advisor of Kyowa Hakko Kogyo Co., Ltd.
Apr. 2007 :Corporate Officer
June 2007: Corporate Officer Representative Director & President of Kyowa Hakko Chemical Co., Ltd.
Apr. 2012: Representative Director, President & Chief Executive Officer of KH Neochem Co.,Ltd.
June 2014: Outside Director of the Company
Sept. 2014: Director and Chairman of KH Neochem Co., Ltd.
June 2015: Outside Director and Audit and Supervisory Committee Member of the Company (current position)

Reasons for nomination as candidate for outside Director and outline of expected roles

Makoto Kikkawa has served as Senior Managing Executive Officer of Mizuho Bank, Ltd., Vice President of Millennium Retailing, Inc. and President of Kyowa Hakko Chemical Co., Ltd.(currently KH Neochem Co., Ltd.), etc., and has abundant experience and a high level of insight. Therefore, the Company believes that he will be able to play a sufficient role in strengthening the supervisory function over the execution of business by the Company's Directors and further improving the transparency of management, etc., and proposes his election as an outside Director.

The role that the candidate believe he / she should play as a board of director

1. Overseeing and advising from a capital market perspective
 - Evaluating governance from a market perspective to ensure proper execution of management strategies
 - Verifying and advising regarding whether the direction of management strategies and investment decisions are aligned
 - Evaluating the performance of executive officers

6. Policy for dealing with current supply chain issues

- Supply chain management policy

Policy for dealing with current supply chain issues



Setting sales prices

1. Passing on structural cost increases to sales prices
2. Enhancing sales pricing capabilities through value-added competition



Improving logistical efficiency

1. Improving container loading efficiency
2. Improving logistical efficiency
3. Promoting supply chain re-evaluation while considering transportation costs and lead times



Strengthening procurement systems

1. Formulating production, sales, and inventory plans based on an accurate understanding of the volume of parts available for procurement, and the sharing of manufacturing and sales information
2. Monitoring the entire supply chain with an eye toward geopolitical risks, transportation costs / lead times, as well as human rights related risks

SAKAI

MASTERS OF COMPACTION

Contact us

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Performance forecasts and other forward-looking statements in this document are based on information available at the time of this writing, as well as certain assumptions deemed reasonable. Actual performance and other results may differ depending on a variety of factors.