



# Medium-Term Management Policy

June 2, 2021

**SAKAI HEAVY INDUSTRIES, LTD.**

Excuse me. Allow me to begin. I am President Ichiro Sakai. Thank you for joining this briefing on our medium-term management plan.

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Today, I will brief you on the topics in sections 1 to 4, including our business activities and medium-term growth strategy. In sections 5 to 7, I will explain our new capital policies and ESG.

## Background for creation of our medium-term management policy

As a company listed in the First Section of the Tokyo Stock Exchange, we have striven to maximize our corporate value, primarily by expanding our businesses.

We are aware that listed companies are now being required to make a commitment to maximize corporate value and achieve sustainable growth based on an advanced governance structure, as seen by developments such as the revision of the Corporate Governance Code and changes to the market categories of the Tokyo Stock Exchange.

We view this transformation regarding listed companies as a major opportunity for a "second listing." We have created a medium-term management policy in order to enhance dialogue with the capital markets, and clearly express our commitment to meeting the expectations of our investors and shareholders.

We will continue to carry out growth strategies through our business activities, while at the same time striving to maximize our corporate value through the decisive execution of our capital policies.

Thank you for your understanding regarding our management, and for your continued cooperation and support.

June 2, 2021

Ichiro Sakai  
President and Representing Director  
SAKAI HEAVY INDUSTRIES, LTD.

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In developing this medium-term management plan, we decided on two policies to respond to the changes to the Corporate Governance Code and the reclassification of TOPIX market categories. One was to aim for a "second listing" in the financial markets. The other was to free ourselves from our past focus on P/L and instead operate our company with a focus on business growth and capital policies to improve corporate value. Through dialogues with shareholders, investors, and the market, and by shifting our managerial focus to capital policy, we are striving to improve corporate value.

# 01 Corporate Profile

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Next, company overview.



## Corporate Philosophy

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

## Our Business

### Overview

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

Research and development, design, manufacturing, sales, service, and technical guidance for the construction machinery necessary for road construction and various types of compaction work

Our end users are paving and civil-engineering contractors.

Our commercial distribution is by direct sales, sales and service distributors, and construction-equipment rentals.

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Our corporate philosophy is to contribute to society and develop land globally through construction machinery. Our business contributes to roads, important social capital that have existed since the dawn of civilization. We are a manufacturer of road construction equipment in Japan, Asia, and North America. Our strategic areas are Japan, ASEAN, and North America. We focus our business resources on road equipment, a small niche market that accounts for 3% of the total global construction equipment market. That is our business. We also do R&D, design, production, sales, services, and tech support for the equipment needed in road maintenance and compaction. Our business model is not just equipment, but rather products and services. For products, we make highly reliable construction equipment. For services, we provide technical skills for compaction by combining materials, tools, and construction equipment. Selling these as a set is a specialty of our business. Our end users are asphalt pavers and public works general contractors. We do both direct sales and sales through dealers. We also sell our equipment to rental companies, who will then rent them to the end user.

## History



(As of March 31, 2021)

### Status of the Consolidated Group

1918	The Company is founded by Kinnosuke Sakai, with the aim of manufacturing and repairing parts for automobiles, internal combustion engines, and steam locomotives.
1929	With the increasing scale of civil engineering works in Japan, the Company starts producing road rollers. Continued capital investment, driven by increasing demand leads to a dramatic growth in business.
1935	Initiated export of road rollers, etc. to Thailand.
1964	Listed on the Second Section of the Tokyo Stock Exchange.
1981	Listed on the First Section of the Tokyo Stock Exchange.

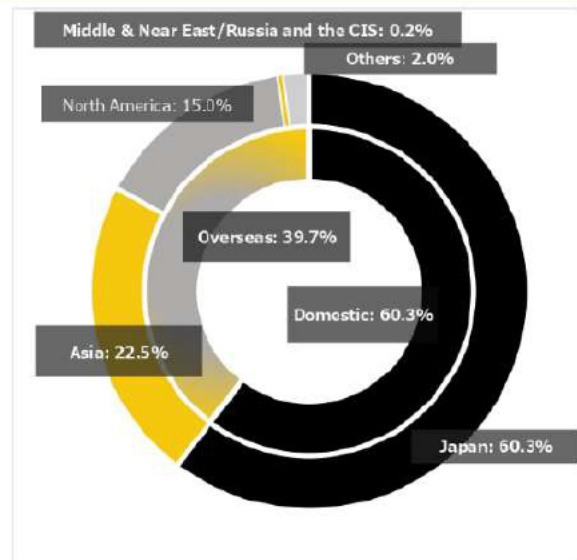
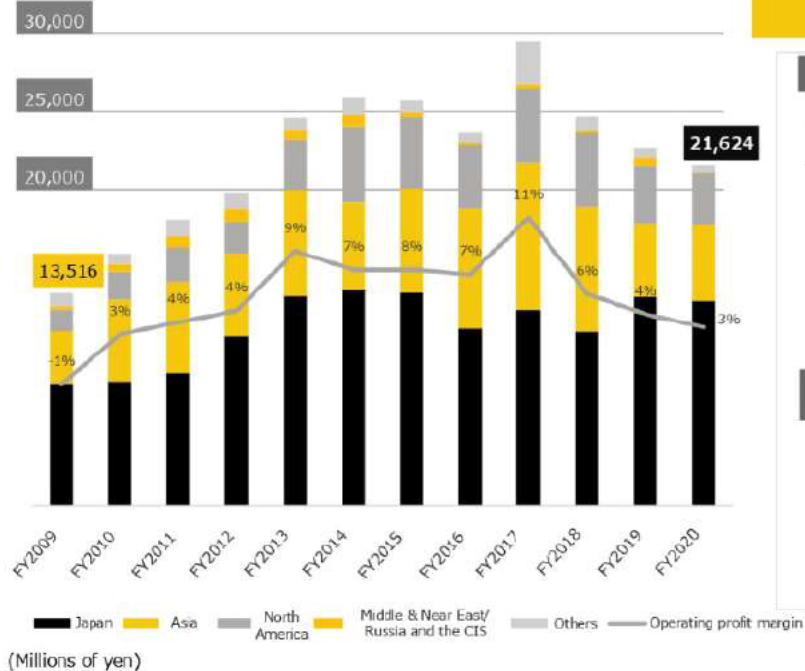
<b>Consolidated</b> (602 employees)	Japan (4 companies) / Overseas (5 companies)
<b>Japan</b> (338 employees)	SAKAI HEAVY INDUSTRIES, LTD. (the Company) SAKAI KIKOH CORPORATION TOKYO FUJI CO., LTD. COMODO CO., LTD.
<b>United States</b> (48 employees)	SAKAI AMERICA, INC.
<b>Indonesia</b> (162 employees)	P.T. SAKAI INDONESIA P.T. SAKAI ROAD MACHINERY INDONESIA P.T. SAKAI SALES AND SERVICES ASIA
<b>China</b> (54 employees)	SAKAI HEAVY INDUSTRIES (SHANGHAI), LTD.

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This is our history. Founded in 1918, this year is our 103rd anniversary. We manufactured and sold engines and steam locomotives for forestry like the one seen here. Eleven years later, in 1929, we developed the first road roller in Japan. For the 92 years after that, we have specialized in road rollers. We were listed on the stock exchange in 1964 and have remained there for 57 years. Our group companies are on the right. We have 600 employees. We operate overseas sales and manufacturing hubs in Japan, the US, Indonesia, and China.

Since the global financial crisis, net sales have trended upward over the medium to long term

Sales by region for FY2020



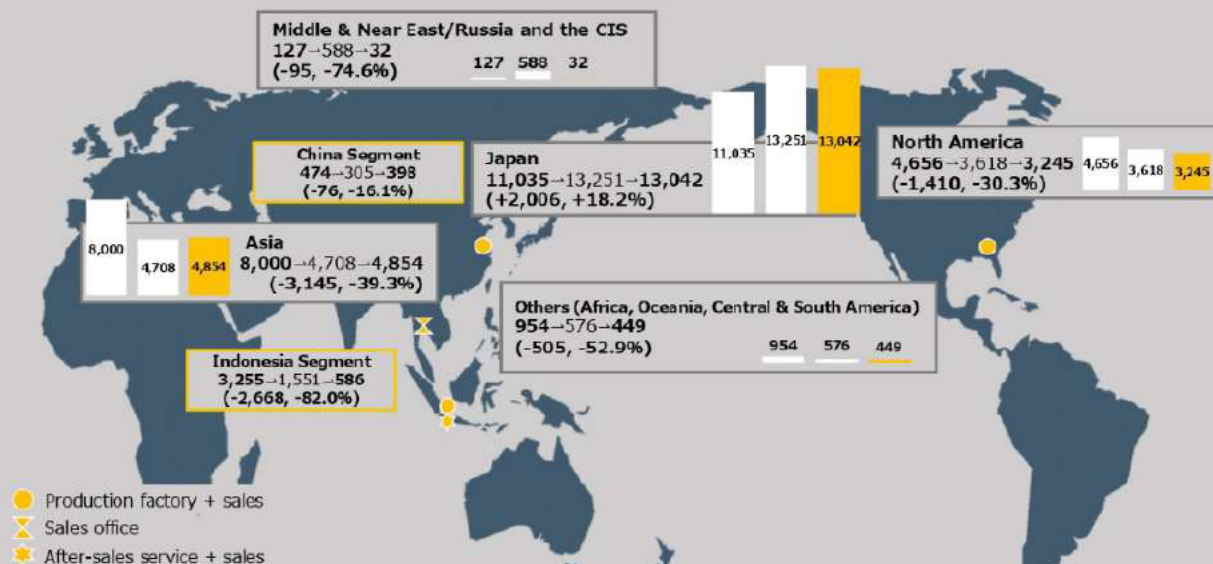
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This bar graph on the left is our sales by region for the past 12 years. The black is Japan. The yellow is Asia. The gray is US sales. The gray line overlay indicates profit margin. This is after the financial crisis. Before that, we had 20 billion yen. That dropped to 13.5 billion after the crisis, so around a third lower. This starts from there. We have recovered to pre-crisis levels. We rose for four years and recovered in the 5th. Our average pre-COVID sales were around 25 billion yen. Half, or 12.5 billion, was domestic. The other half was from overseas. Operating profit maintained a level around 8%. Results have fallen for two years now due to COVID. Think of demand recovering accounting for the rise to 20 billion. The other five billion was the result of successful growth strategies after the financial crisis.

## Status of Global Business Development

(Millions of yen)	FY2018	FY2019	FY2020	Compared to two years ago	
<b>Domestic</b>	<b>11,035</b>	13,251	<b>13,042</b>	<b>(2,006)</b>	<b>(18.2%)</b>
<b>Overseas</b>	<b>13,739</b>	9,492	<b>8,582</b>	<b>(-5,157)</b>	<b>(-37.5%)</b>
<b>Total</b>	<b>24,775</b>	22,744	<b>21,624</b>	<b>(-3,150)</b>	<b>(-12.7%)</b>

( ) Compared to two years ago



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This is the status of our global business. While focused on Japan, our company has production and sales hubs in Indonesia, North America, and China. We operate our business worldwide. Please look at the top chart. Due to COVID, in the past two years, overseas sales have fallen significantly by 5.1 billion yen. As the world recovers from the COVID-19 pandemic, we expect sales to recover. Please look at the graph below. In the Asian hubs, sales fell around 3.1 billion, from 8 to 4.8 billion yen. On the right, North America sales fell from 4.6 to 3.2 billion, a decrease of 1.4 billion yen. North America and Asia are on track for a recovery, so we expect to capture demand from this recovery.





**Tandem Roller (left)/Combined Roller (right)**

Used in mid-sized and smaller urban paving works.



**Road Planer**

Used for road repair works.

Cuts damaged existing road surface to a width of 2 m and a depth of 15 cm.



**Vibratory Roller for large-scale paving**

Used for asphalt paving work, primarily on expressways.

High demand for large-scale paving work, primarily in the United States and China



**Vibratory Single Drum Roller for large-scale earthworks**

Used for road foundation work and large-scale civil engineering work, such as land development and dams.

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These are pictures of our road equipment. The three on the left are rollers. We have a full range of types. Small 1-ton construction rollers, and large 20-ton rollers, which are used in large civil engineering projects, like highways. Our company can provide any type of roller. On the upper right, is a 30-ton road planer used for road maintenance and repair. We provide road planers to shave and cut up roads. The other item is used on the roadbed. It works with a road stabilizer, which revitalizes the roadbed. Our company has all the specialty machines for road work.



**Expertise** in products and services  
**Trust** backed by experience in engineering

Mechanical vibration technologies

and

Vibration isolating technologies

Deploying a global niche strategy through  
selection and concentration

Please see following video for details:

"SAKAI Is:"

<https://www.youtube.com/watch?v=dkEx1muYo6E>

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Our strengths as a company. What are our strengths? Our technical strengths lie in compaction technology. This refers to technology that compacts asphalt and earth. Rollers determine the ultimate quality of roads. They are unique construction equipment. Most construction equipment moves earth or handles materials. In other words, most machines simply move objects. Our machines determine the ultimate road quality. There are relatively few construction equipment companies who do this. The success of the road roller determines the durability and lifespan of the road. It also determines the quality of the evenness, smoothness, and comfort. One example would be the lifespan of the asphalt. Research shows increasing compaction density by 1% gives a road a 10% longer lifespan. If the standard road density is 92%, by this 1% increase, a road designed for a 10-year lifespan will have an 11-year lifespan. If you can lift this 92% to 95%, the lifespan for that same road will extend to 13 years. The social economic benefit is large. But improving that last 1% to 2% is difficult. Technology makes all the difference. Let's move on. "Knowledge of Products and Services." Our company not only makes equipment, we also oversee overall construction and have strengths in engineering. We are compacting earth. But there are many different types. There is clay, there is lime. There is muddy earth. Asphalt varies across the globe. It is diverse. There are also many conditions. Rainy conditions or a desert. Places with little water. The equipment you use varies based on the scale of the project. We have the knowledge to propose the optimal compaction method for each. There is also a trust backed by experienced engineering. Road work depends a lot on the quality of the compaction under the road itself. This cannot be seen after the road is built. No one can see it. This quality will only be seen a few years after if warping or cracks appear in it. This is a difficult aspect. By using equipment to increase density and evenness we can put off these sorts of warping or cracks. This can extend the lifespan of roads. This can only be seen after

several years. Since the machines do this work, our customers want to use familiar machines from a trusted brand. This strong desire has led to our brand becoming what it is. Third is "Mechanical Vibration and Vibration Isolation Technology." As I said, to increase density we increase the force of the compaction. We can apply force from the machine through strong vibrations. However, machines are very susceptible to vibration. They may break if the vibration is too strong. It also worsens the environment for the operator. If we can isolate vibration, the machine won't break. This also improves comfort. It also creates machines that can operate for more years. This is crucial in manufacturing. This technology is surprisingly difficult, but it is our strength. Instead of just focusing on growing our company bigger and bigger, we will concentrate our resources on these expert fields. Spreading this across the world is part of our global strategy of selection and concentration. This is a slightly difficult topic, but our employees recently made a video about compaction and the meaning of our company. Let's watch.

## 02 The Company's Business Environment

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Thank you.

I think you got an image from the video. I would like to move on to the next section. What is happening in global business?

COVID-19 and global warming have triggered a  
**massive transformation of global society**

**Restrictions on activities on a global scale**  
have given digital technologies penetration in society

**Decarbonization policies at a global level**  
determined and a major transition to an era of green growth

**A more fluid geopolitical situation and supply-chain disruptions**

As a company that emphasizes the development of technology, we view the current era of structural transformation, with accelerating DX, decarbonization, and energy efficiency, as a once-in-a-generation **chance** for business growth.

From simple competition in physical goods, **to competition in terms of the environment, quality, and productivity** of construction equipment work as a whole, over the medium to long term

Due to COVID-19 and natural disasters, global society and the economy are changing drastically. Even in our construction industry, moves towards digitalization, decarbonization, and ICT-based labor-saving have progressed. COVID-19 and global issues represent new and changing rules for competition. We consider these a business opportunity. We can extend the life of roads or reduce CO2. We can perform construction in mock factories. Primarily, saving labor is a point where our company can differentiate itself by our expertise. There is a lot of clamor about price competition with China or India, but we feel that by addressing these new global issues, we can further enhance our business.

## Solid Market Position

We are maintaining a **high market share**, backed by long years of trust and technology forged by the stringent quality requirements in Japan.

A five-year national resilience budget of 15 trillion yen is expected to create **stable market conditions**.

In addition to the horizontal rollout of automatic emergency brake system equipped models, our policy is to develop **high value-added businesses through next-generation technology**

such as a rolling compaction management system for ICT construction and autonomous vibratory rollers.



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Our market conditions. First is the domestic market. There are 1.2 million kilometers of road in Japan. Over our 100-year history, our equipment has been used on almost all of them. We have that history and experience. As a result, we have a 70% share of the large roller market and a 60% share of the midsize market. We have established a very firm position in Japan. Recently, a 5-year 15 trillion yen infrastructure budget has been set. Government construction investment fell to around 16 trillion yen due to the global financial crisis. But it has stabilized at around 25 trillion yen the past few years. This is expected to continue for another five years. Third. The domestic market scope is in a mature state. Units won't rise much. In response, we are selling automatic safety brakes, ICT compaction management systems, self-driving vehicles, and other products with new added value. Our strategy is to aim for growth by increasing the added value of machines in Japan.



## Further developing our business, fueled by the post-Covid policies in each country

### United States

Post-Covid economic policies are providing a tailwind, including a \$1.7 trillion jobs plan and a \$300 billion-scale medium-term road improvement plan, which represents a 34% increase over the previous plan.

We aim to expand our businesses by capitalizing on a recovery in demand (recovery to the 9,000 range, from the current 6,000 range) and a larger market share (acquisition of an 8% share, from the current 5%).

### Southeast Asia

The Vietnamese, Thai, and Cambodian markets have already recovered from the Covid shock.

Indonesia, Malaysia, and the Philippines have also announced policies of aggressive infrastructure investment budgets.

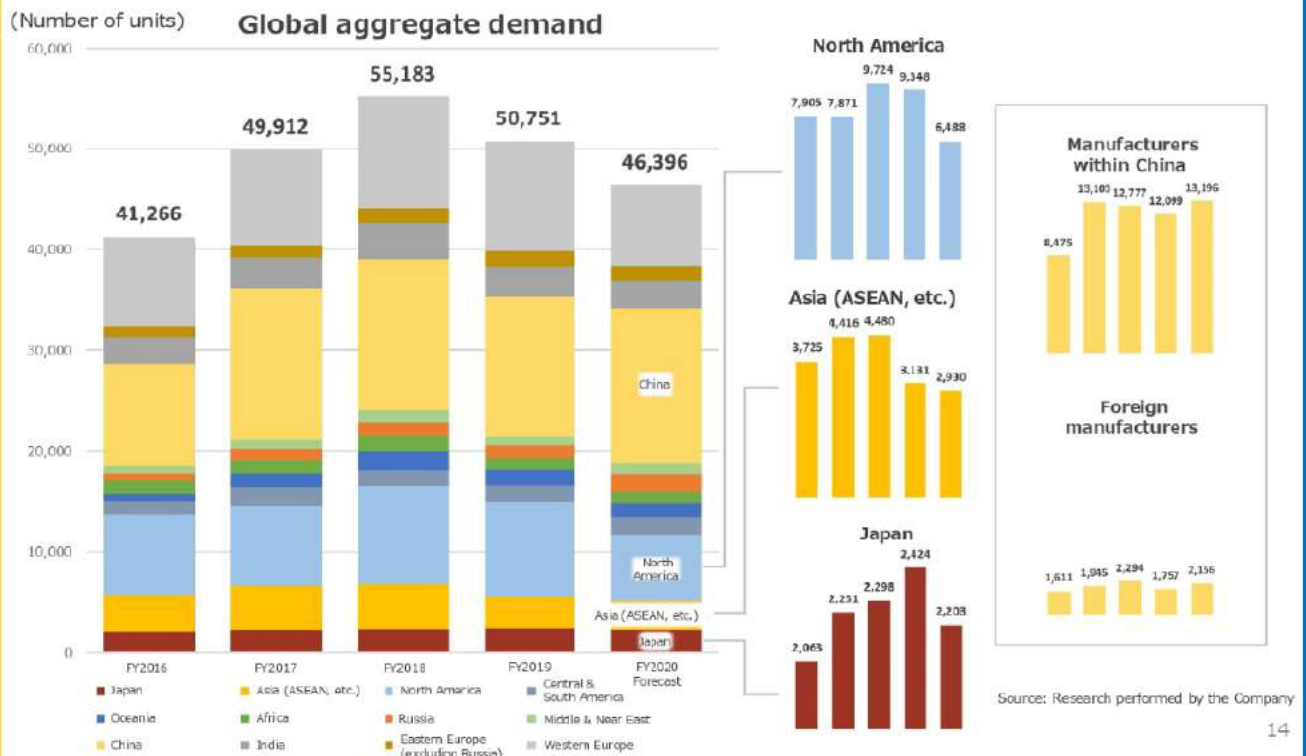
We are aiming for a 40% market share (from the current 30%) in Indonesia, by strengthening our manufacturing and sales/service capabilities as a key ASEAN location, and leveraging our 50-year history in Indonesia.

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Regarding the overseas market, each country has spent a lot to respond to the post-COVID economy. Pre-COVID the focus was on a policy of monetary easing, but now most plans across the globe have switched to stimulus. As a result, infrastructure spending on roads, our area, and green investments are rising significantly. We are beginning to get nice tailwinds in this post-COVID economy. In the US, President Biden has proposed a 1.7-trillion-dollar jobs plan. In roads, the US operates a five-year infrastructure plan. The last one ended, so debate began on a new one. In the federal budget, this would be a 34% increase of 300 billion dollars. It is being debated in the Senate currently. Demand can be expected to recover in the US. Demand fell from 9,000 to 6,000 units due to COVID, but this appears to be recovering. We will look to increase market share from 5% to 8%. We are currently strengthening sales strategies. Our second major market is southeast Asia. Vietnam, Thailand, and Cambodia have recovered from COVID and sales are above pre-COVID levels. Indonesia, Malaysia, and the Philippines were slow to adopt measures and struggled to recover from COVID. These countries have already announced increases to their infrastructure budgets and sales are on the rise as recovery is in full swing. In particular, we have concentrated on the business hub of ASEAN in Indonesia. We are strengthening manufacturing and sales services and capabilities. By doing so, and making use of our 50 years in Indonesia, we can increase our current 30% market share to 40%. Half of the southeast Asia market is Indonesia, so once it recovers it will stimulate the entire region.

## Global roller demand statistics for FY2016 to FY2020



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The bar graph on the left shows the total global demand for road rollers. The small graphs on the right show our major markets of Japan, Asia, and North America. China is also included here. In China, local manufacturers dominate the market share over foreign companies. In the left graph, the dark red is Japan the dark yellow is Asia and the blue is North America. Three years ago, global demand was 55,183 units. Last year this fell 16%. The total global demand was 46,396 units. Our company's demand market for Japan, Asia, and North America was 16,500 units two years ago. It was 11,620 units last year. This is a drop of around 30%. That is the status of our major markets. The recovery of this 30% in demand is one potential way of achieving a recovery. In our major markets, we have acquired around 30% of the total demand of 50,000 or so units.

## 03 Our Corporate Vision

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## 01 Vision

### A global niche corporation that is world top-class

in road construction equipment

Over the next five years, we will aim for **net sales at the ¥30 billion level**, and **long-term growth** into a **company with ¥50 billion in sales**.

## 02 Maintain listing in the Prime Market

Break away from traditional stability-oriented management, and transition to qualitatively and quantitatively

### global standard corporate management

Increase

**corporate value**

**shareholder value**

Maintain and improve our brand value and creditworthiness.

Hire talented human resources.

Enable flexible procurement of financing through the stock market.

#### Business Challenges and Objectives

Our current challenge is **expanding our market share**, especially **in overseas markets**.

While all of the major global players in the industry other than us are conglomerates, we will expand our market share by leveraging the experience, trust, and advanced day-to-day technology development results we have built as an independent enterprise in the road construction equipment industry.

#### Growth Strategy

Create added value by growing our overseas market share, expanding overseas business domains, and developing next-generation businesses.

#### Capital Strategy Objectives

Execute a disciplined financial strategy based on ROE.

Procure the necessary financing to invest in growth, while maintaining an awareness of ROIC.

Dividend policy based on awareness of the dividend on equity ratio (DOE)

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This is our vision for the company. As is written in number one, we aim to be a top-level global niche manufacturer for road construction equipment. In the medium-term, we aim for 30 billion yen in sales in five years. We are making efforts to this end. In the long term, we want to grow the company to achieve 50 billion yen. One major topic for us is overseas expansion. We aim to expand our market share and business area overseas. We have focused on selling rollers until now. We will sell road stabilizers and road planers for repairs. By expanding our business area in this way, we believe we can expand our scale. Our next-gen business is added value products. We will grow our company through these. These are our three pillars. Our competitors include major conglomerates such as Caterpillar and Volvo. Among them, we are a unique company since we have 100 years of operating as an independent company. The roller businesses of these other conglomerates have seen two or three different stepfathers, so to speak. Passing down their technology has been difficult. Since we have remained independent, we pass it down properly. Since this area requires a high level of expertise, size does not mean strength. We are winning in many areas. In Japan, major machinery companies did produce rollers once, but they have retreated. Compaction technology is extremely difficult. A smaller company specializing in this has an advantage. I am sure of this. Moving to the right side. For capital strategy, we responded to changes to the Corporate Governance Code and the TOPIX recategorization. We made the decision to transition to global standard management. We are doing this. For KPI, we will use ROE for business and ROIC for investments. We set a policy to use DOE for shareholder returns.



## Medium to Long-Term Objectives

Achieve net sales of ¥30 billion and an ROE of 8%, while **maintaining** a stable dividend payout ratio of 50% (DOE of 4%)

KPI	FY2020 Results	FY2023 Targets	FY2025 Targets
Net sales	¥21.6 billion	¥26.5 billion	¥30.0 billion
Operating profit	¥0.7 billion	¥2.0 billion	¥3.1 billion
ROE	0.0 %	5.5%	8.0%
Dividend policy	If ROE falls below 3%, the dividend payout ratio will be 100%. If ROE is between 3% and 6%, the DOE will be 3%. If ROE is above 6%, the dividend payout ratio will be 50%.		
Share buybacks	Consider flexible share buybacks with an upper limit of ¥0.5 to ¥2 billion.		

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This is the KPI I spoke of before. 30 billion yen in sales, 8% ROE, and a 50% payout ratio are our five year medium-term targets. For our dividend policy, we target a minimum of 3% DOE for shareholder returns. If DOE falls below this, we will operate on a 100% payout ratio. We may conduct 0.5 to 2 billion yen in share buybacks in the medium-term. We plan to deliberate on this.



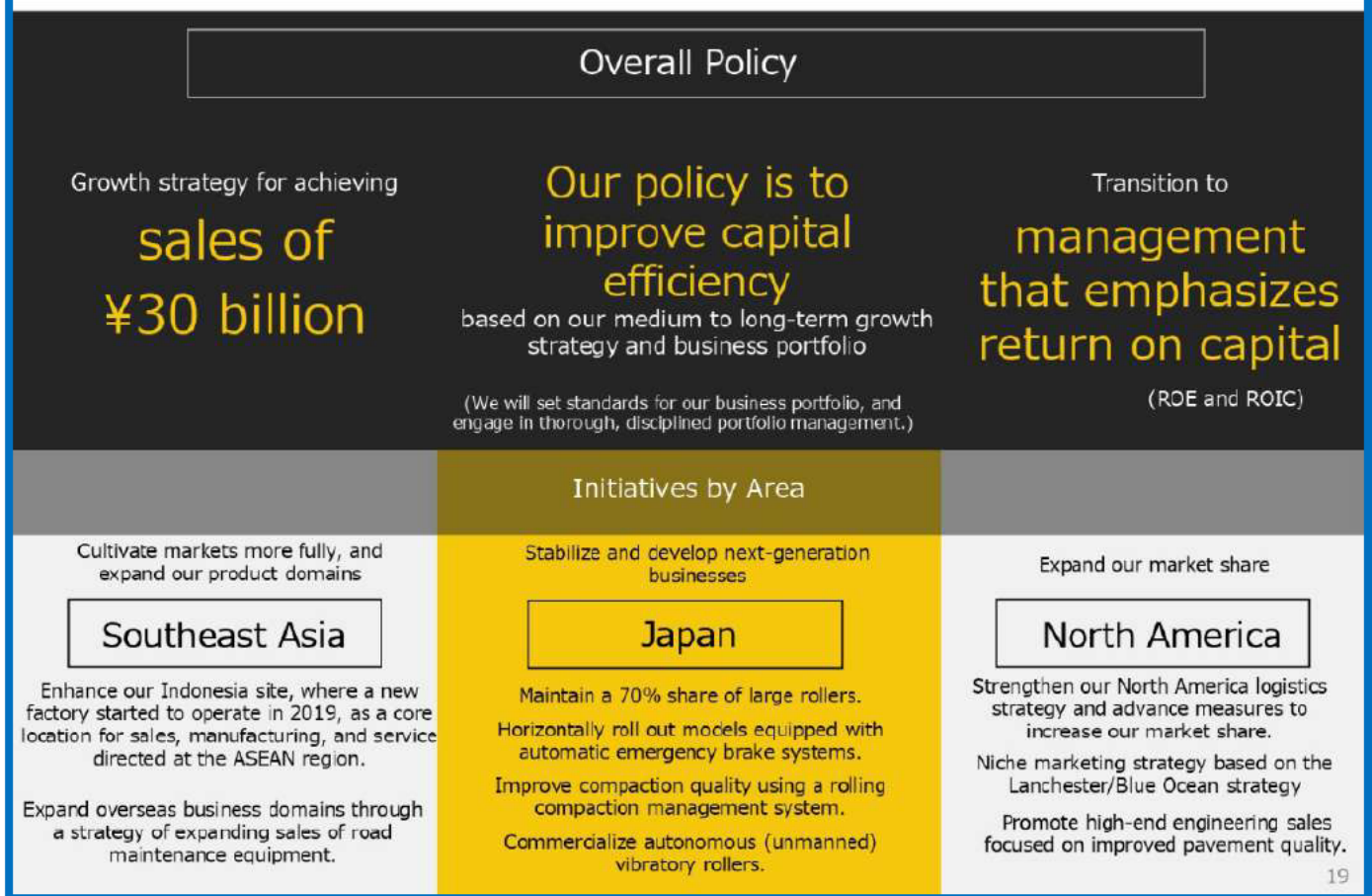
## 04 Business Strategies for Achieving Objectives

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Business strategies.



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This is our business strategy. Our overall blueprint is a growth strategy to achieve 30 billion sales and initiatives toward new capital policies. I spoke of the overseas growth strategy of support and area. In Japan, the focus is added value. We evaluate capital policies based on profitability, efficiency, and shareholder returns.

Streamline our business strategy and R&D, aiming for **improved capital efficiency (ROIC)** over the medium to long term

Our policy is to continue active investment in DX/next-generation businesses, to meet today's needs (while also conducting joint development for lunar exploration with JAXA).

Improve our growth strategy and development productivity through a medium to long-term development roadmap (Module development/CAE)

Policy of maintaining a ratio of R&D to net sales of 3-4%

Rolling compaction management system

Compaction Meister (with CCV)

Remotely links work managers with worksites, allowing compaction quality to be confirmed and managed (e.g., number of rolling compactions) in real time.



**Quality**

**Safety**

Automatic emergency brake system

Performs an emergency stop of operating equipment if a person or obstacle is in the equipment's movement path. Promoting horizontal roll out of equipped models.

TZ704G (since Oct. 2018) R2-4G (since Oct. 2019)

TW/SW 354G  
TW/SW 504G  
(since Sep. 2020)



**Productivity**

Autonomous vibratory roller

Autonomous driving standard equipment development project  
Through unmanned construction, we aim to create safe worksites, improve productivity through efficient compaction operations, and stabilize and improve quality, independent of operator skill.



\* The "Smart Compaction Triangle" is a term we coined to express the constant challenge of improving compaction quality, safety, and productivity using next-generation technologies.

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R&D initiatives. We are creating new businesses that use new technology. In Japan, we are creating new added value. I spoke about this earlier. Regarding development, we are creating a roadmap that places product development in the center of our growth strategy. In order to enhance our development capabilities, we are striving to boost productivity. We develop on a module and unit base and combine them using computer aided engineering, CAE. We test their durability and mobility. We simulate how machines break down when subjected to certain vibrations. We are inserting such simulations so they can be run on computers. This can greatly shrink lead times. We aim to invest 3-4% of sales in development. Last year it was 770 million yen, or 3.5% of sales. We aim to continuously increase this sum.

## 05 Capital Strategies for Achieving Objectives

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Capital strategy.

Return profits to shareholders at level that supports our objective of an **8% ROE**.

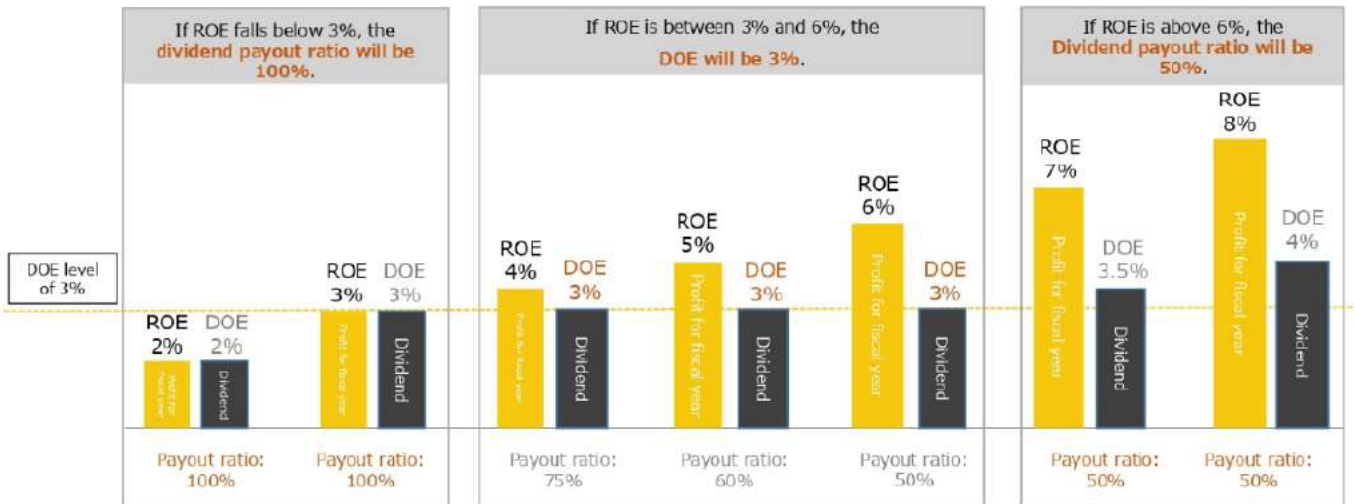
Medium-term targets are an **8% ROE and 50% dividend payout ratio**.



Focusing on market trends for stock price, consider flexible share buybacks with an upper limit of ¥0.5 to ¥2 billion by FY2025.

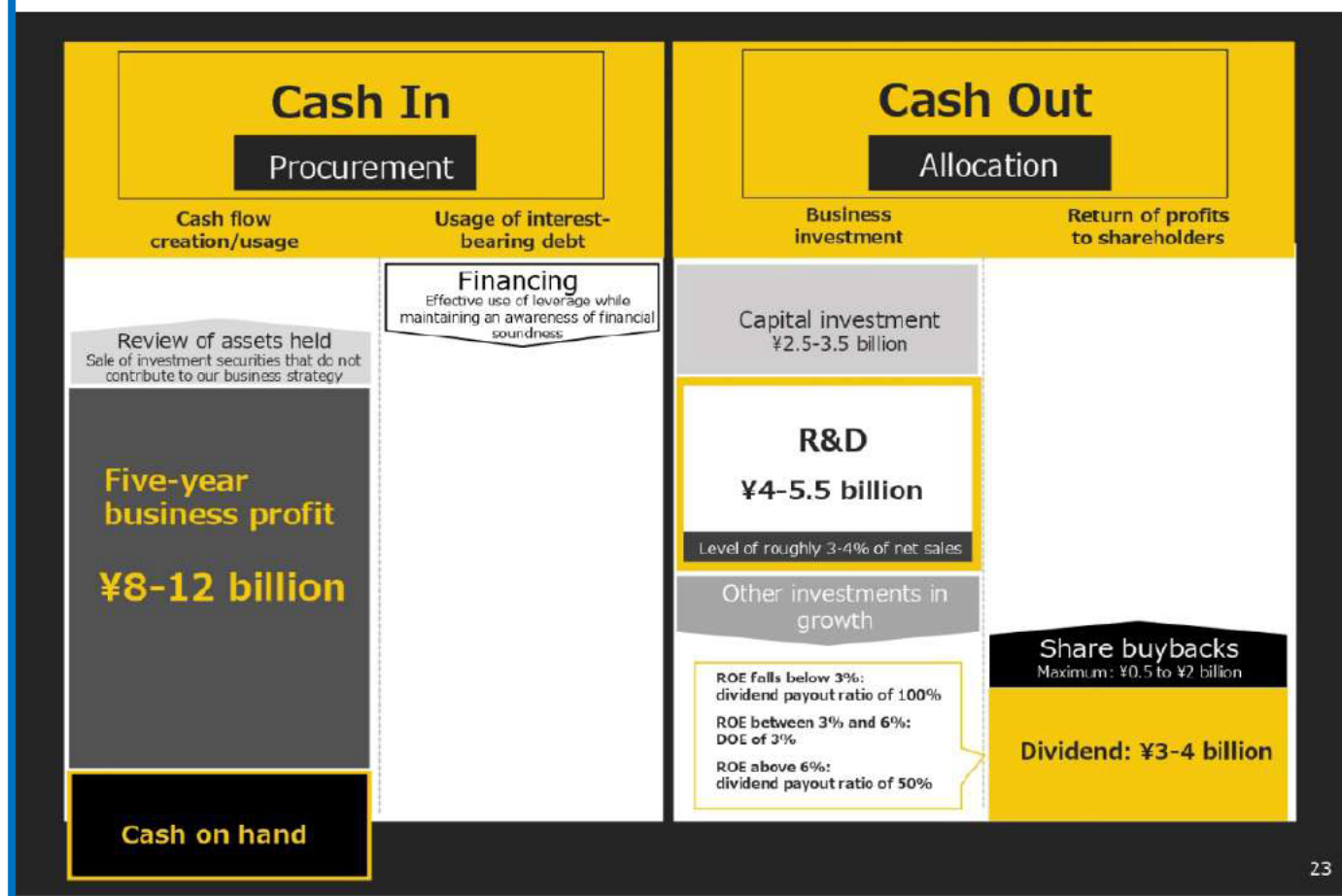
Review investment securities from a business strategy perspective.

Also consider the use of leverage for investment in growth.



As I said earlier, our target is 8% ROE and 50% payout ratio. As a result, shareholder dividends will be 4% DOE. As I mentioned before, we set 3% DOE as our minimum target for shareholder returns. As in the left graph, we will do a 100% payout ratio to achieve 3% DOE. The middle graph shows ROE of 3 to 6%. This graph represents a DOE of 3%. On the right, if ROE exceeds 6%, the payout ratio will be 50% on that. 100% payout ratio until 3% DOE. If over 3% DOE, we cap payout at 50% to build internal reserves. This is our dividend strategy to establish a source for further growth. We are also considering a 0.5 to 2 billion yen share buyback.





This is an image of cash in and outflows. Profit of 8 to 12 billion yen for five years. The average is 10 billion yen, as seen on the left side. For 10 billion yen in profit, buybacks and dividends make up around 5 billion yen. We are returning 5 of the 10 billion to shareholders. On the upper right is CAPEX and R&D. This is around 7.5 billion yen. We have a deficit of around 2.5 billion yen in cash. This 2.5 billion will be allocated from cash on hand or new financing. Despite the 2.5 billion yen deficit, this is healthy since our operating capital grows as our sales grow.

# Improve TSR Increase shareholder value

Improve ROIC & ROE

## Business Strategy



### Top-line growth

Achieve **net sales of ¥30 billion** by steadily executing different business strategies for each area.



### Improve profitability

Using **operating profit as the KPI**, aim to steadily increase profits from our main business. (Minimize increases in the break-even point.)



**Active R&D** initiatives that create high added value

### Investment activities

Maintain **an awareness of ROIC** when investing in new businesses and performing R&D.

For the time being, maintain an R&D expense rate of roughly 3-4%.

## Capital Strategy

### Improve capital efficiency

For our business portfolio, thoroughly manage businesses by creating a medium-term policy.

Review investment securities that do not contribute to our business strategy or businesses.

Actively utilize leverage for investment in growth, while considering the balance between capital efficiency (utilization of loans) and resistance to drastic changes in the environment (equity capital).

### Policy for returning profits to shareholders

### Dividend policy

If ROE falls below 3%, the dividend payout ratio will be 100%.

If ROE is between 3% and 6%, the DOE will be 3%.

If ROE is above 6%, the dividend payout ratio will be 50%.

### Share buybacks

Consider **flexible share buybacks with an upper limit of ¥0.5 to ¥2 billion** by FY2025.

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These are our initiatives to enhance corporate value, TSR, and shareholder value. Our business strategy will focus on topline growth, profitability, and investments. We have always conducted an overseas growth strategy for topline growth. Due to COVID-19, overseas sales have fallen. This has resulted in a weakened profit structure. Ensuring that investing profits leads to higher sales is key to our overseas business recovery. Using our overseas strategy and growing the topline is the best way to improve our profitability. By managing this increase in profitability, we can drive higher sales and profits. This is our basic profitability plan. We invest while looking at ROIC and investment efficiency. We are considering how to best increase this efficiency. In terms of capital strategy, we will operate our business focused on capital profitability and efficiency. As a result, we aim to increase shareholder value and TSR.

## 06 **ESG** Supporting Sustainable Growth

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ESG matters.

R&D and manufacturing initiatives, with an awareness of reducing the environmental impact

from all construction work utilizing our construction equipment and other machinery

## Response to Climate Change

## Resource Utilization

Drastically reduce CO<sub>2</sub> emissions, by reducing energy consumption and converting to virtual factories for all construction work.

Equip worksites with autonomous vibratory rollers, to enable remote work using 5G and unmanned construction using AI.

Greatly reduce construction lead time through an ICT rolling compaction management system and real-time quality inspections.

Reduce the CO<sub>2</sub> emissions of our construction equipment.

Compliant with primary to quaternary regulations on diesel engine exhaust gas.

R&D on electric rollers is ongoing.

Recommend energy efficiency during construction via an ECO mode setting.

The CN team has begun activities to reduce CO<sub>2</sub> emissions from factories.

The products themselves have high circularity.  
(Durability of 20-30 years; the steel structure is easy to repair)

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The environment.

In terms of assumptions, around 15% of equipment emissions is in manufacturing. Around 80% is produced over 10 to 15 years during its operation. Lastly, its disposal accounts for 5%. That is the makeup of CO<sub>2</sub> emissions. As such, reducing operating emissions is the central issue. We will use our expertise to address this. We will also reduce CO<sub>2</sub> in our factories and production. We will convert to electric engines. EVs have zero emissions. Our EV research should produce results in a few years. Our products can be used for 20 to 30 years. Some can even be used up to 50 years. Our equipment is used in developing nations. Over 90% of the frames of our equipment is made of steel. They are very repairable. Very recyclable. These machines have lifecycles that produce nearly zero emissions from disposal.

## Management policy of contributing to the social project of global land development through road construction

Worker Safety	Activities to Contribute to Society	Human Capital Development
<p>Improve safety at construction worksites</p> <p>Prevent accidents involving death or injury at construction worksites through the adoption of "Guardman," an automatic emergency brake system equipped roller.</p>	<p>Develop technologies that contribute to land development in terms of road construction (each density increase of 1% prolongs road life by 10%)</p> <p>Vertical vibratory roller for earthwork, rationalized through thicker compaction (from 30 cm to 60 cm); 4,000 vpm high-frequency vibrating roller which solves the difficulty of compacting the long-lifetime paving material, Superpave used in North America; vibrating tire roller that provides an enhanced ability to achieve compaction density under conditions where rolling is difficult.</p> <p>Provides equipment and transfers construction technologies to emerging countries (Africa, Central America, and Asia) through ODA, enables rural road construction through the use of local materials, and transfers technology for stabilizer construction methods.</p>	<p>Diversity</p> <p>Due to the global expansion of our production sites, half of the Group's personnel are foreign nationals. In addition, our Japanese sites also actively hire foreign nationals each year.</p>

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Next page.

In terms of society, our business contributes to society and business through civil engineering development. This is our main area, so it is important to do it. Through business, we ensure the safety of construction, develop social infrastructure tech, and improve lifestyles in developing nations. For internationalization, we are acquiring diverse human capital. As the bottom column shows, we develop safety emergency brakes as on cars. Around 30% of our main domestic products are built using this standard. This is one added value for the Japan market. In terms of social contribution activities, we develop technology for roads. As I stated before, increasing asphalt density 1% extends the lifespan of a road for one year. Using our machines increases the economic value of this social capital. We are doing our best here. We are doing ODA with the stabilizer machine. We provide ODA in countries in Africa, Central America, and central Asia. The people in these countries learn construction methods and how to mix materials. We are working so that locals can build roads themselves. During the last Tokyo Olympics, a very low percentage of roads in Japan were paved. At that time, the road stabilizer helped pave roads across Japan. It is important to developing nations. As updated old technology, we intend to spread this to developing nations. Half of our employees are non-Japanese. We are a diverse group. This includes not only Caucasians, but also Chinese and Indonesian people. We now have employees from Sri Lanka, Indonesia, and many countries. While English is not our official language, we have a culture of accepting global diversity without any issue.



In addition to being a company with an Audit and Supervisory Committee  
that realizes advanced governance, we carry out the following initiatives

### Items Under Consideration

- Clarification of our basic standards and approach to performance-linked compensation
- Establishment of a compensation committee, comprising a majority of Outside Directors
- Methods for evaluating the effectiveness of the Board of Directors
- Establishing an Officer (Directors & Executive Officers) composition with an awareness of the skill matrix

### Items Already Implemented

- Outside Directors comprise at least 1/3 of the Board of Directors.
- We have built a system that completely separates oversight from business execution, by establishing a Monitoring Board (comprising Directors only) dedicated to oversight, and a Management Board (Directors & Executive Officers) dedicated to business activities.

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Next page. Governance. Last year, we established a ratio of having one-third of the board of directors as outside directors. When we established this, we wanted to make two boards of directors. One was for monitoring. The other was for management. The monitoring board is composed of just outside directors and internal directors on the board. They just monitor. The management board is similar to past Japanese boards. It includes both outside and internal directors and full-time executive officers. The management board makes decisions on business execution as the HQ. Outside directors sit on it to monitor and assess. The monitoring board is smaller so it can debate and monitor everything. Last year, we shaped this format, and it is performing well. We are also considering various responses to the new Corporate Governance Code. One is performance-based compensation. It won't be a simple formula, but we will clarify our basic standards and ideas. We will also establish a remuneration committee comprising mainly outside directors on the monitoring board. We are evaluating the effectiveness of the board, but we are now considering adding outside directors and methods. An officer lineup that considers skill matrix. The monitoring board would need to balance work with monitoring activities. Our management board would require the skills of all directors and executive officers. We are considering using a skills matrix for this. We will set these policies by December in the Corporate Governance Report.

## 07 Policy for Dialogue with Capital Markets

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Lastly, dialogues with the market.

We will carry out the following initiatives, aimed at maintaining our listing in the Prime Market.

**01** **Officer in Charge of IR/SR: Takao Yoshikawa, Executive Officer**  
(has been serving as the Officer in Charge of IR, to the present)

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**02** In addition to our Annual Reports, we will actively translate materials into English, including the notification of the convocation of the General Meeting of Shareholders (simplified version) as well as our financial statements (main portions).

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We are doing this as we look toward a prime market listing. Our executive officer in charge of IR/SR is Takao Yoshikawa. Let me introduce him again. Until now, the only English version of our documents was the Annual Report. Currently, we are working to prepare English versions of shareholder notices. We are also proactively preparing English versions of earnings briefings. That is the end of our management plan briefing.

# SAKAI

## MASTERS OF COMPACTION

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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.

Thank you for your time.