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Notice Regarding Long-term Management Plan and New Medium-term Management Plan

ShinMaywa Industries, Ltd. (President & CEO: Tatsuyuki Isogawa) has formulated a new Medium-term management plan that will run until FY2023.

This Medium-term management plan corresponds to Phase 1 of a Long-term management plan, **Sustainable Growth with Vision 2030** (“SG-Vision 2030”), which is to embody the Long-term vision we are working towards.

These materials report the targets and directions of SG-Vision 2030 and outline the new Medium-term management plan.

1. Long-term Management Plan [SG-Vision 2030]

(1) Background to starting formulation of the Long-term management plan

- To continue to grow sustainably, we must both present our future aspirations (Long-term vision) for the Group that are based on our Management philosophy and transform to Long-term-oriented management.
- To achieve our Long-term vision, we thought we needed a management plan based on a long-term perspective that could use backcasting to fill in the gaps between our vision and our reality and manifest the desired shape of our Group as shown in the vision.

(2) Long-term vision of the ShinMaywa Group

The Long-term vision shown below lays out what we are aiming to be by 2030, and how to get there

**To respond to global society needs,
we will be a true value co-creation company
that advances urban, transportation
and environmental infrastructures.**

- Ideas incorporated in the Long-term vision
 - Technological innovation allows us to offer optimal solutions for global social issues through making urban, transportation and environmental infrastructures more advanced.
 - Along with bringing together the entire strength of the ShinMaywa Group, we can also actively utilize our alliances in order to become a true value co-creation company that creates new values speedily.

(3) Directional indicators for SG-Vision 2030

-1. Basic policy

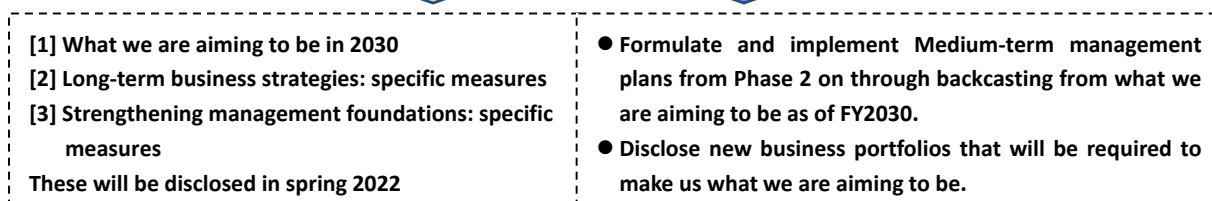
The vision will be implemented with the following two management themes in parallel, improving corporate value by sustainably creating social value and economic value.

- 1) Long-term business strategies: Lay out what we are aiming to be by 2030, and formulate and implement business solutions to achieve this.
- 2) Strengthening management foundations: Support the promotion of Long-term business strategies through implementing sustainability management and contribute to the SDGs.

-2. Promotion plan

The SG-Vision 2030 period (FY2021 to FY2030) will be divided into three, with Medium-term management plan for each period formulated and promoted, thus aiming to achieve the Long-term vision and reach the various management indices.

Long-term management plan	Sustainable Growth with Vision 2030 [SG-Vision 2030]		
Medium-term management plan	FY2021-FY2023 [SG-2023]*	FY2024 on	up to FY2030
	Phase 1: Transformation “Transformation to Long-term oriented management”	Phase 2: Enlargement	Phase 3: Advancement



* Abbreviation of the new Medium-term management plan

-3. Approaches to basic policies













1) Long-term business strategies

- Create new businesses in the areas of “urban,” “transportation,” and “environment” that utilize our strengths and resources, and contribute to both achieving sustainable growth and the SDGs.

2) Strengthening management foundations

- Implementing sustainability management:
By promoting the Sustainability management policy formulated with a focus on ESG management, we shall work to contribute to the SDGs and solving the seven key issues (materialities) that support the creation of value even as we continue to support progress in the Long-term business strategies discussed in the previous section.

Seven key issues (materialities) that support the creation of value

Environment	Preventing global warming			
	Contributing to a recycling society			
Society	Promoting diversity and inclusion			
	Establishing workplaces that are easy to work in			
	Contributing to local communities			
Governance	Enhancing corporate governance systems			
	Establishing and strengthening risk management systems			

● Promotion of DX (digital transformation):

To accelerate the creation of new business models and business reform, we will strengthen our IT infrastructure by incorporating security enhancements that respond to threats such as cyber-terrorism and networks that are aware of external collaborations.

-4. Transformation to ROIC (return on invested capital) management

Purposes: 1) Sustainable growth with an emphasis on asset efficiency.

2) Pursue an optimal capital structure with an awareness of capital costs.

Target: Achieve ROIC above WACC (weighted average cost of capital) and make improvements.

Measures: Implement portfolio management using ROIC (in-house indices) for each division to make judgments.

- Strengthen investment through comparisons with WACC and revise business content.

- Implement ROIC improvements that match business characteristics.

-5. Management indices and target standards for FY2030

Management indices	Target standards
Net sales	400 billion yen or more
Overseas sales	100 billion yen or more
ROE	12% or more
ROIC	10% or more

-6. What we are aiming to be by achieving our targets

- Contribute to advancing global social infrastructure ⇒ Improve both profitability and corporate favorability
- Solve/improve key ESG issues ⇒ Create environmental/social values, contribute to SDGs
- Optimize capital formation based on sustainable growth ⇒ High returns to shareholders and other stakeholders
- Foster diverse personnel and establish a workplace environment that makes it rewarding to work ⇒ Improve employee engagement

2. New Medium-term Management Plan [SG-2023] ([SG-Vision 2030] Phase 1: Transformation) Outline

(1) Looking back on the previous Medium-term management plan “Change for Growing, 2020” (CFG2020).

- Achieved ROE target (8%) one year ahead of schedule in FY2019 due to review of capital structure and profit increases in line with sales expansion.

- However, no indicators for FY2020 were achieved due to the COVID-19 pandemic.

- Carried out M&A with seven companies during this period (FY2020 Amount contributed to consolidated net sales: 6.2 billion yen)

- Profitability changes with CFG2020

Unit: Billion yen	FY2018 Actual	FY2019 Actual	FY2020 Initial target (A)	FY2020 Actual (B)	Difference (B - A)
Net sales	217.2	227.2	230.0	209.2	-20.8
Operating income	10.7	12.8	14.0	10.4	-3.6
ROE	6.8%	8.9%	8.0%	6.4%	Not achieved

- Initial targets and actual performance by segment, and results and issues

Unit: Billion yen

	Net sales		Operating income		Results/Issues
	Initial targets	Actual	Initial targets	Actual	
Aircraft	41.0	25.9	3.2	-0.8	- Established mass production system for commercial aircraft (Boeing 787, 777X; Bombardier G7500). - Profitability of commercial aircraft business worsened significantly due to COVID-19 pandemic.
Special Purpose Truck	86.5	94.7	5.0	6.7	- Developed high valued-added products using AI and IoT. - Thai local subsidiary increased market share of functional parts and production capacity.
Industrial Machinery & Environmental Systems	43.5	37.1	3.7	2.9	Fluid: Invested in new products using AI, IoT technologies. Started operation of new plant in Thailand. Mechatronics: M&A including overseas subsidiaries. For automobiles: trade friction, COVID-19 causes drops. Environmental Systems: Expanded profits through increased stock business demand.
Parking Systems	44.0	35.2	3.2	3.2	Mechanical Car Parking Systems: Gained top share in large-scale systems including elevator-type systems. Aircraft Passenger Boarding Bridges: Invested in new products with AI technologies, liaised with/obtained overseas bases.
Others	15.0	16.0	1.3	1.4	- Construction and real estate businesses are strong.
Adjustments	—	—	-2.4	-3.0	
Total	230.0	209.2	14.0	10.4	Aircraft segment severely affected by COVID-19 pandemic. →Target revised downwards as of July 2020.

(2) [SG-2023] Basic Policy

-1. This is positioned as the first step towards the Long-term vision presented in 1(2), and consists of the following four policies.

- 1) Reap the benefits of ongoing promotion of the measures in the previous Medium-term management plan, CFG2020.
- 2) Formulate and promote Long-term business strategies based on the Long-term vision.
- 3) Strengthening management foundations.
 - (a) Establish the Sustainability Management Policy (as of April 1, 2021) and its implementation, determination of key issues (materialities) management items, setting KPI (targets for both FY2023 and FY2030), and promoting Long-term business strategies to contribute to the SDGs.
 - (b) Develop IT infrastructure for promoting DX and innovate core business.
- 4) Create future value and share results with stakeholders.
 - (a) Transform into a company that sustainably creates future value through practicing ROIC management.
 - (b) Share a certain level of profit with stakeholders (dividends).

-2. (1) Formulation and promotion of Long-term business strategies

Improving profitability of existing businesses	<ul style="list-style-type: none"> - Adding even more value to products and services through ICT/digital technology. - Expanding revenue of domestic businesses through strengthening business tie-ups and M&A.
Accelerating expansion of overseas businesses	<ul style="list-style-type: none"> - Strengthening sales links between segments especially in Southeast Asia. - Expanding orders by strengthening alliances with local businesses and trading companies.
Development of new businesses	<ul style="list-style-type: none"> - Promoting the proposal and development of new business ideas through in-house co-creation. - Creation of a new business model through business tie-ups with IT companies, etc.
Optimizing business portfolios	<ul style="list-style-type: none"> - Business evaluation using business growth potential (including market growth potential) and ROIC. - Ensuring ROIC management through setting hurdle rates.

(2) Main measures for strengthening management foundations

Preventing global warming and contributing to a recycling society	<ul style="list-style-type: none"> - Reducing CO₂ emissions by promoting energy-saving measures and reducing waste. ➡Contribute to a recycling society. - Developing and spreading environmentally-friendly products and services.
Promoting diversity and inclusion	<ul style="list-style-type: none"> - Studying diversification of HR evaluation methods based on personnel portfolios. - Fostering innovative personnel who can discover, solve, and implement social issues on their own.
Enhancing corporate governance systems	<ul style="list-style-type: none"> - Strengthening Board of Directors supervisory function through new monitoring functions.* - Introduction and operation of succession plans. * Sustainability meeting: function to monitor and report on key ESG issues over the entire company.
Constructing an IT foundation for promoting DX	<ul style="list-style-type: none"> - Introducing security against threats such as cyber-terrorism and networks linked to the outside. - Promoting DX through innovations to core businesses.

-3. [SG-2023] Target values (End of FY2023)

Net sales	250 billion yen
Operating income	15 billion yen
Overseas sales	45 billion yen
ROE	10% or more
ROIC	7% or more
Growth investment (capital investments, M&A)	30 to 40 billion yen (total for three years)
Dividend payout ratio / Treasury share buybacks	40 to 50% / Flexibly implemented depending on stock price levels, etc.

*Exchange rate based on 1 USD = 108 JPY

-4. Business performance targets, by segment, and management policies

Unit: Billion yen

	Net sales	Operating income	Management Policies
Aircraft	30.0	0.7	- Development of fixed-wing unmanned aerial vehicle (UAV) "XU-S" and planning of new businesses through alliances. - US-2 (STOL Amphibian) successor development project and PBL (*1) project launch.
Special Purpose Truck	102.0	6.9	- Deepen connection with users through SSC (*2) expansion ➡ Creation of new value. - Expand sales routes for key components of special purpose trucks in the Asia/Oceania region.
Industrial Machinery & Environmental Systems	52.0	4.9	Fluid: Use the sales synergy with TurboMAX to expand business overseas. Mechatronics: Expand share of secondary battery market in Europe/North America for vacuum products. Environmental Systems: Establish brand and expand income for waste water processing business in China
Parking Systems	47.0	3.8	Mechanical Car Parking Systems: Collaboration with G-PARK to expand sales of parking facilities in Southeast Asia. Aircraft passenger boarding bridges: Actively proposals for fully automated installation system (major airports in Southeast Asia, Japan)
Others	19.0	1.4	
Adjustments	-	-2.7	
Total	250.0	15.0	With SG-2023 , we aim to achieve the profit shown on the left, over and above the initial target values set in CFG2020.

*1. PBL (Performance Based Logistics): Where a private company (ShinMaywa) undertakes maintenance and servicing of US-2 supply parts and other items normally carried out by the Self-Defense Forces.

*2. SSC (ShinMaywa Smart Connect): A communication tool for understanding the operational status of special purpose trucks.

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