

Part 1

Business Unit Strategy under SHIFT 2023 Transportation & Construction Systems Business Unit

**Managing Executive Officer, General Manager,
Transportation & Construction Systems Business Unit, Norihiko Nonaka**

Contents

01

Overview of Business Unit

P.2

02

Growth Strategy and Profit Plan of Business Unit and SBUs

P.6

03

Initiatives of SBUs Toward Growth

P.11

01

Overview of Business Unit

Businesses in Transportation and Construction Systems

- **Lease, Ship and Aerospace field:** engage in leasing and financing, commercial aviation and engine leasing, ship, and aerospace businesses
- **Automotive field:** provide functions across the entire value chains through businesses in manufacturing, distribution, and financial services of automobiles and motorcycles
- **Construction systems field:** contribute to infrastructure and mine development through construction equipment distribution and rental business

Lease, Ship & Aerospace Business Division



Construction & Mining Systems Division

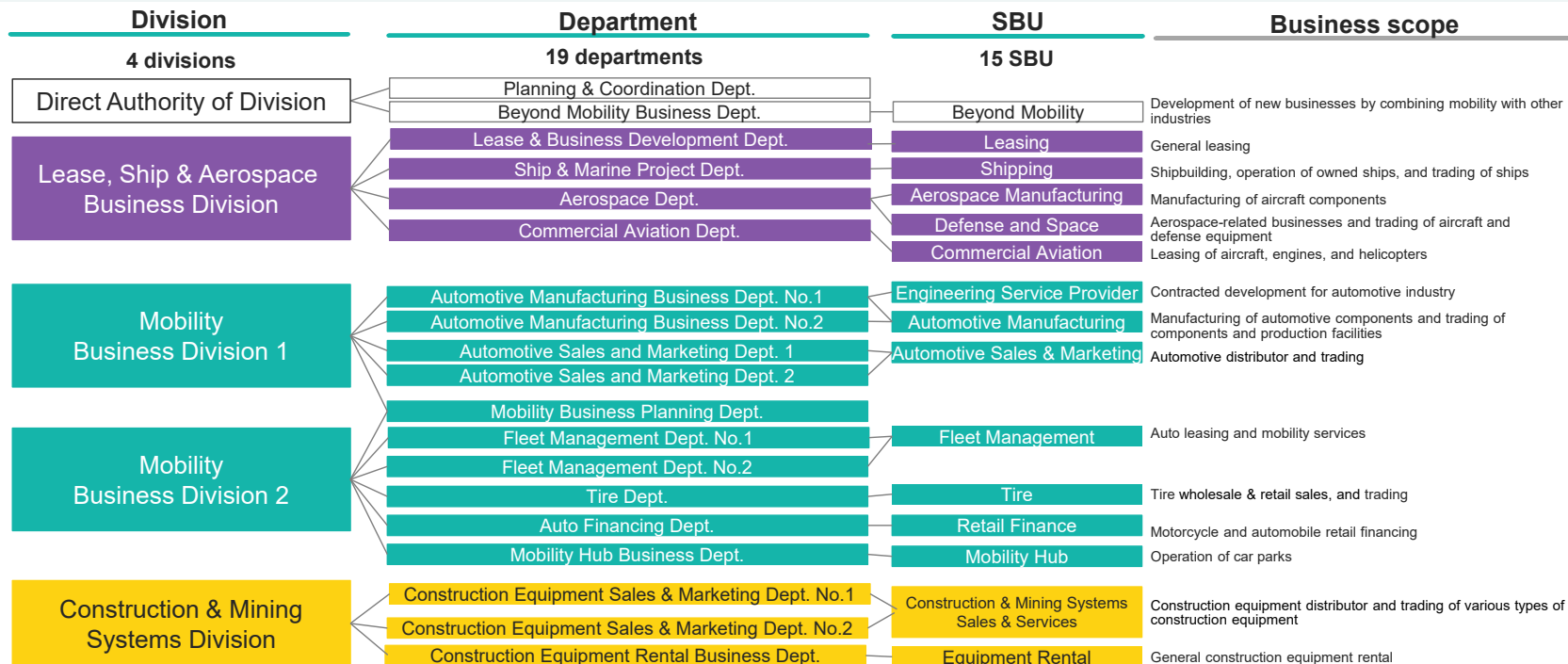


Mobility Business Division 1 & 2



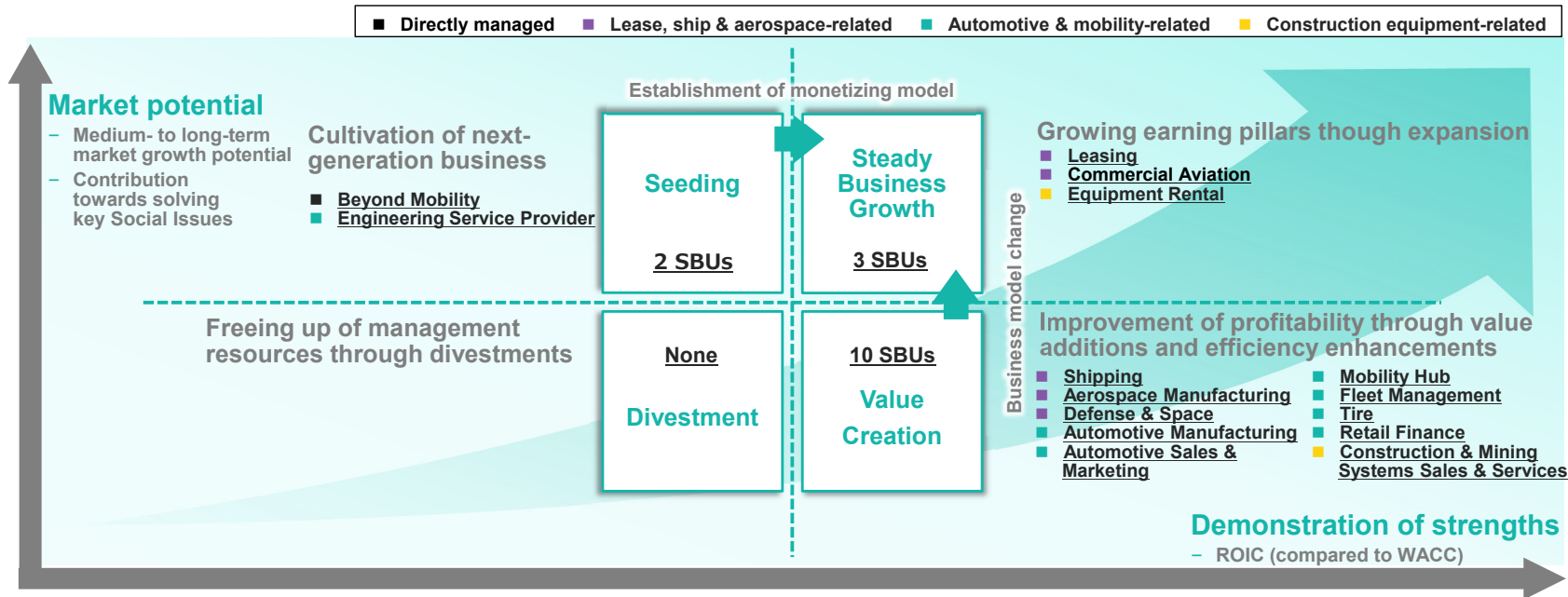
Execution of Business Unit Strategy Centered on SBUs

- Strategic Business Units (SBUs), which group businesses into strategic units, execute and promote strategies with clear roles and positioning.



SBU Portfolio

- **Steady Business Growth:** For leasing, commercial aviation and equipment rental SBUs, build up high-quality assets, expand products and regions to expand earning capacity.
- **Value Creation:** Focus on increasing profitability through expanding products and services, strengthening functions, and improving asset efficiency.
- **Seeding:** Develop new businesses that would become pillars in the next generation with a view to changes in the business environment and industry structure.



02

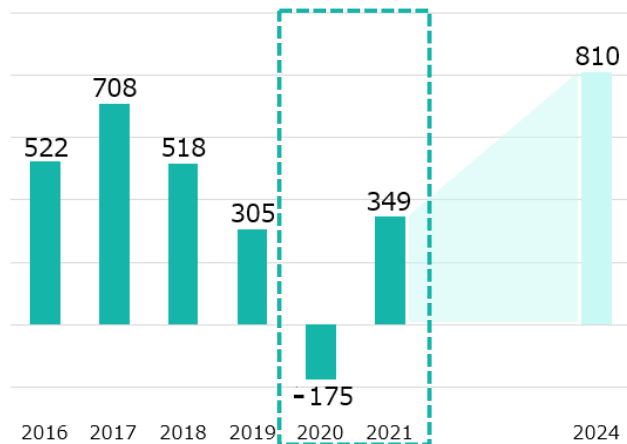
Growth Strategy and Profit Plan of Business Unit and SBUs

Summary of the First Fiscal Year of SHIFT 2023

- In FY2021, through the execution of the strategy by each SBU, profits recovered to the level before COVID-19 even after reflecting the impact of the Russian-Ukrainian situation.

Profit for the year: Results (FY2016-FY2021) and FY2024 plan

Unit: billions of yen



*1 One-off profits/losses
FY2020: approx. -¥43.0 bil.
FY2021: approx. -¥37.0 bil.

*2 Profits/losses for each fiscal year is calculated based on the organization as of April 1, 2022

Main progress in FY2021

Steady Business Growth

- (Leasing) Expansion of business in real estate and environmental fields and acceleration of overseas expansion
- (Commercial Aviation) Capturing demand from COVID-19 recovery, and promoting efforts for inorganic growth (one-off losses related to the Russian-Ukrainian situation)
- (Equipment Rental) Strong construction demand in North America, and completion of PMI for Aver Asia

Value Creation

- (Shipping) Covering with trading and owned ship business under the situation of increasing shipbuilding costs
- (Automotive Sales & Marketing) Securing unites in supply and reducing costs under the environment of reduced production by automotive manufacturers

(Tire) Steady implementation of business transformation at TBC

- (Fleet Management) Strengthening of earnings base centered on cost reduction
- (Construction & Mining Systems Sales & Services) Incorporation of construction and mining demand

Full Potential Plan (FPP)

Reference: FY2020-FY2023 FPP

- ✓ Turnaround :7 companies
- ✓ Divestment :11 companies
- ✓ Turnaround and Divestment : **Total of 58 companies**

Efforts of Tire SBU (Business Transformation at TBC)

Business transformation by new management team

1 Revamp of management structure and reform of corporate culture

- **Building of new management structure (from April 2021)**
Both shareholders sent top management (CEO/CAO) for the first time and promoted structural reforms



■ Promoting of corporate culture reforms

- Imbued companywide perspective and taking of ownership
- Dissolved organizational silos (strengthened cross-sectoral efforts)



2 Improvement of earning power with a focus on wholesale business

- **Improvement of earning power in wholesale business**
 - Improved operation quality of secondary wholesale business merged with Michelin
 - Quickly passed on cost increases—such as rising maritime freight charges—to market prices



■ Companywide optimization of logistics

Promoted supply chain reforms across departments centered on wholesale business



3 Streamlining of management structure and higher efficiency through companywide optimization

- **Strengthening of resilience to downward pressure through thorough expense management**
Pushed down break-even point by further reducing fixed costs

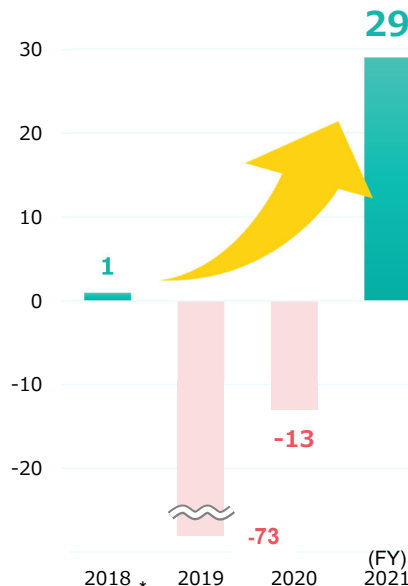


- **Inventory management with companywide optimization**
Shared inventory between departments by adopting common systems



Equity in earnings from TBC

40 (Hundred million yen)

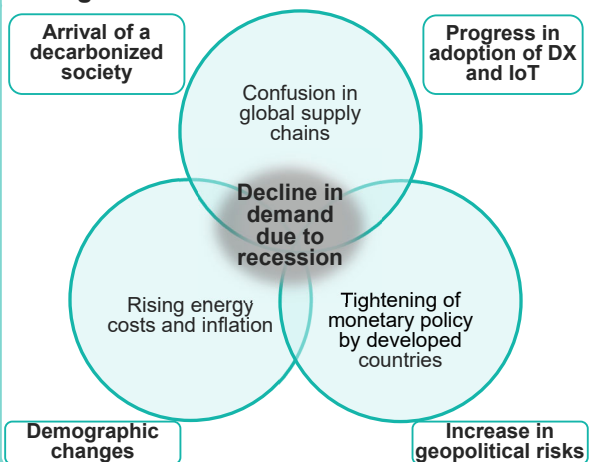


* 50-50 joint venture with Michelin in FY2018

Recognition of Changes in the Business Environment

- Amid increasing uncertainty about the global economic outlook, we promote growth strategies anticipating changes in the business environment and industry structure while increasing resilience against economic downturns.

Changes in the business environment



Recognition of the business environment at each SBU

■ Lease, Ship & Aerospace Business Division

(Leasing) Saturated and competitive in domestic market; while growing in environmental, real estate, and overseas fields

(Aircraft) Expect recovery and growth in travel demand even though there is still the impact from COVID-19 and the Russian-Ukrainian situation

■ Mobility Business Division 1 and 2

(Automotive Manufacturing) Decrease in production of automotive manufacturers due to confusion in supply chains; rising material, energy, and other costs

(Automotive Distribution) Supply shortages due to confusion in supply chains; growth in markets of emerging countries

(Fleet Management) Market for urban corporate fleet is matured; individuals, non-urban areas, and overseas markets are growing

(Retail Finance) Increase in mobility needs in emerging countries; diversification of financing demands

■ Construction & Mining Systems Division

(Equipment Sales) Inventory shortages due to supply chain confusion; concerns over cooling construction investments due to inflation and rising interest rates

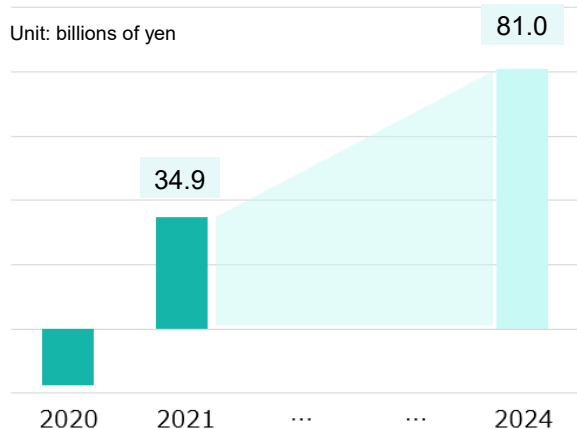
(Equipment Rental) Concerns over cooling construction investments due to inflation and rising interest rates; increase in proportion of rentals in future recovery phase

Strategies and Actions to Achieve FY2024 Plan

- Aim to achieve a profit of 81 billion yen in FY2024 by strengthening the business platforms, expanding products and services, and entering peripheral businesses.

Plan for profit in FY2024

Unit: billions of yen



Strategies and actions of each SBU

■ Lease, Ship & Aerospace Business Division

(Leasing) Accumulate high-quality assets in the environmental, real estate, and overseas fields

(Aircraft) Complete PMI at Goshawk Management (Ireland) Limited; diversify products and services

■ Mobility Business Division 1 and 2

(Automotive Manufacturing) Increase value of existing businesses by reorganizing sites and improving management culture

(Automotive Distribution) Ensure the volume of supply; expand value chain functions in response to customer needs

(Fleet Management) Collaborate and cooperate with partners in strategic fields (logistics, individuals, data, decarbonization)

(Retail Finance) Improve efficiency by using digital technology in credit and payment collection operations; diversify products

■ Construction & Mining Systems Division

(Equipment Sales) Strengthen resilience by expanding after-sales services; diversify earnings by expanding products and services

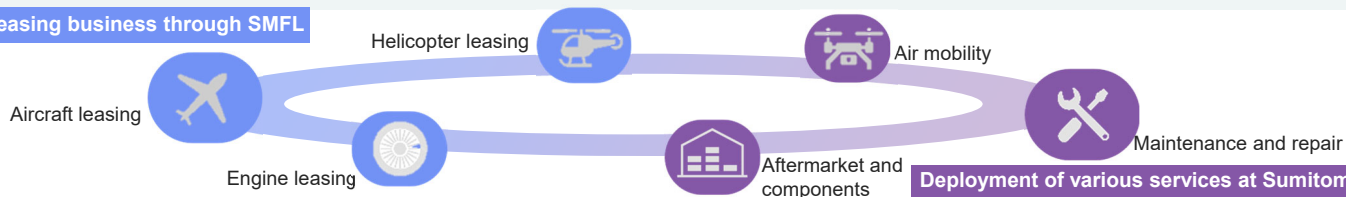
(Equipment Rental) Maintain and acquire high-quality assets; expand business by developing peripheral services

03

Initiatives of SBUs Toward Growth

Commercial Aviation SBU

Deployment of leasing business through SMFL



Aircraft leasing business

Seize demand of the recovery in global aviation field in with/post-COVID-19 era

Recover and increase earnings by using strengths of aircraft portfolio



Establish highly competitive business foundation through M&A and achieve further growth

Achieve earning base (scale, area, business partner) expansion and synergy through acquisition of Goshawk



Goshawk Aviation



- Rank: 5th
- No. of aircraft: 546
- Assets: \$15.7B

- Rank: 18th
- No. of aircraft: 176
- Assets: \$6.7B

- Rank: **2nd**
- No. of aircraft: **722**
- Assets: **\$22.4B**

Aircraft-related businesses

Develop needs for new mobility services that fit new lifestyles

Helicopter leasing

Expand helicopter leasing focus on emergency medical evacuation, and search and rescue activities



Air mobility

Provide next-generation transportation services that allow less expensive and easier movement in short- and mid-range zones, such as unmanned logistics drones and air taxis



Contribute to realization of circular economy through aircraft aftermarket and component reuse



Contribute to sustainable and stable growth of the aircraft industry through effective resource utilization by reusing aircraft components

Fleet Management SBU

Automotive leasing and peripheral services

Enhance fleet management through the business platform of domestic industry leader Sumitomo Mitsui Auto Service (SMAS) to deploy businesses into growth fields and lead mobility societal innovation in each regions and industries

Existing business base of SMAS



Sumitomo Mitsui Auto Service

1 million fleet owned and managed by SMAS Group (No.1 in Japan)

No. of corporate customers
53,000 companies

Maintenance partners
22,000 sites

Overseas bases
Thailand, Australia, India, Indonesia

Expand existing business (enhance fleet management)



Contracted operations



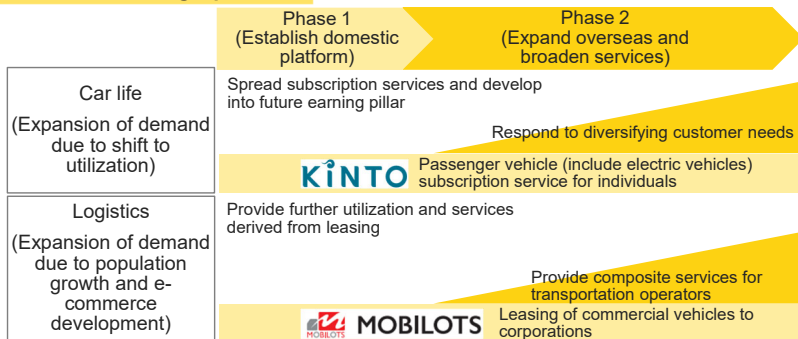
Mobility Passport



Data utilization business



Build and expand new business platform with strategic partners



Equipment Rental SBU

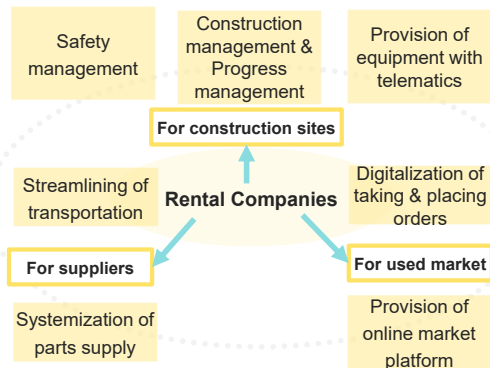
Construction equipment rental business

Contribute to improving safety and productivity in the construction industry through the supply of reliable construction equipment.
Increase earnings in multiple markets at different growth stages by expanding products and services while anticipating changes in market needs

Equipment rental operating companies



Expand peripheral services



Grow business along the two axes of
(1) maintaining and acquiring high-quality assets and
(2) expanding peripheral services,
in view of the industry's steady growth trend and diversifying customer needs

