

Excellent Products and Services

Creating a more vibrant world through reliable technologies that support manufacturing.

Editorial Policy

The Sumitomo Heavy Industries Group (SHI Group) published an Integrated Report for FY2017 in lieu of the Annual Report that it had published since the 1970s. Integrated Report 2022 contains reports on financial information as well as the SHI Group's unique strengths and the sources of its medium- to long-term growth with the aim of deepening understanding among a wide range of stakeholders, including shareholders and investors.

Please refer to our website for detailed information and figures related to financial data (including Securities Reports) and non-financial data (such as sustainability data).

Scope of Report

This report covers Sumitomo Heavy Industries, Ltd., 146 consolidated subsidiaries (39 in Japan, 107 overseas) and 4 equity- method affiliates (1 in Japan, 3 overseas). Context changes are duly noted in the text.

Timeline

This report covers FY2021 (April 1, 2021 to March 31, 2022). Coverage of overseas subsidiaries is from January 1, 2021 to December 31, 2021 with the exception of two companies. Some content makes references to dates outside of this time period.

Reference Guidelines

- "International Integrated Reporting Framework," International Integrated Reporting Council (IIRC)
- "WICI Intangibles Reporting Framework Version 1.0,"
- World Intellectual Capital Initiative GRI Standards
- "Guidance for Collaborative Value Creation," METI of Japan



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Positioning of Integrated Report 2022



Cautionary Note Concerning Forward-Looking Statements

This report includes forward-looking statements regarding the future performance of Sumitomo Heavy Industries, Ltd. These forward-looking statements are based on information currently available to the Company and determined subjectively. All information contained herein is subject to changes in actual business performance.



Our Website

Please refer to our website for detailed information and figures related to financial data (including Securities Reports and timely disclosure information) and non-financial data (Sustainability data, etc.).

Investor Relations

https://www.shi.co.jp/english/ir



Sustainability

https://www.shi.co.jp/english/csr



To Our Stakeholders



1. Alutana --

Tetsuya Okamura Representative Director, Chairman of the Board

Shinji Shimomura Representative Director, President and CEO

The Sumitomo Heavy Industries Group aims to achieve sustainable growth by contributing to the resolution of social issues and embraces the challenge of transformation. The Sumitomo Heavy Industries (SHI) Group has evolved along with the development of society and industry since it was established in 1888 as a machinery production and repair shop for the Besshi Copper Mine, the founding business of the Sumitomo Group. We are committed to fulfilling our corporate mission in accordance with the Sumitomo Business Philosophy, which serves as the common philosophy of all companies under the Group. The Sumitomo Business Philosophy is also highly compatible with today's environment where social skills are emphasized, and it forms the basis of management for the SHI Group.

Based on its Corporate Mission Statement, which focuses on benefiting society through the provision of excellent products and services, the Group has been

THE SUMITOMO BUSINESS PHILOSOPHY

Business Philosophy

Article 1

Sumitomo shall achieve strong and prosperity by placing prime importance on integrity and sound management in the conduct of its business.

Article 2

Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently.

[Commentary]

- 1. Sumitomo shall achieve prosperity based on a solid foundation
- by placing prime importance on trust and reliability.
- We need to watch changes and aggressively pursue business expansion using our management resources but should not behave hastily for an easy profit in any case.

providing a variety of products and services that meet the demands of the times. We will continue to cater to the needs of our customers and provide products and services that address existing social issues. This will help the Group to achieve sustainable development and create enhanced corporate value, thereby meeting the expectations of our shareholders, employees, and local communities.

In Integrated Report 2022, we discuss our thoughts, business strategies, and corporate social responsibilities as we seek to fulfill our corporate mission. We also explain current business conditions and our future outlook.

We hope the report will help deepen your understanding of the SHI Group.

CORPORATE PHILOSOPHY

Corporate Mission Statement

We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world.

With integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders.

Our Values

Customer First

We exceed customer expectations by providing sophisticated efficient products and services, giving the utmost consideration to their needs and requirements.

Embrace Changes

We will continue to drive and embrace changes without accepting the status quo.

Commitment to Technology and Innovation We are passionate about contributing to society by further developing our unique, in-house technologies.

Respect People

We will nurture an organizational climate that fosters mutual respect, tolerance and learning for growth.

Growth History

"Medium Term Management Plan 2016"

- aggressively invested in growth-oriented, high-margin businesses.
- 2015, the second year of the plan.
- ity with a view to becoming a highly profitable corporate entity, and further improve our operational quality.

Targets and Results			
Targets and Results	Target	FY2016 Results	
Net Sales	¥700.0 billion	¥674.3 billion	
Operating Profit	¥52.5 billion	¥48.4 billion	
ROIC	7.0 % or more	7.3%	

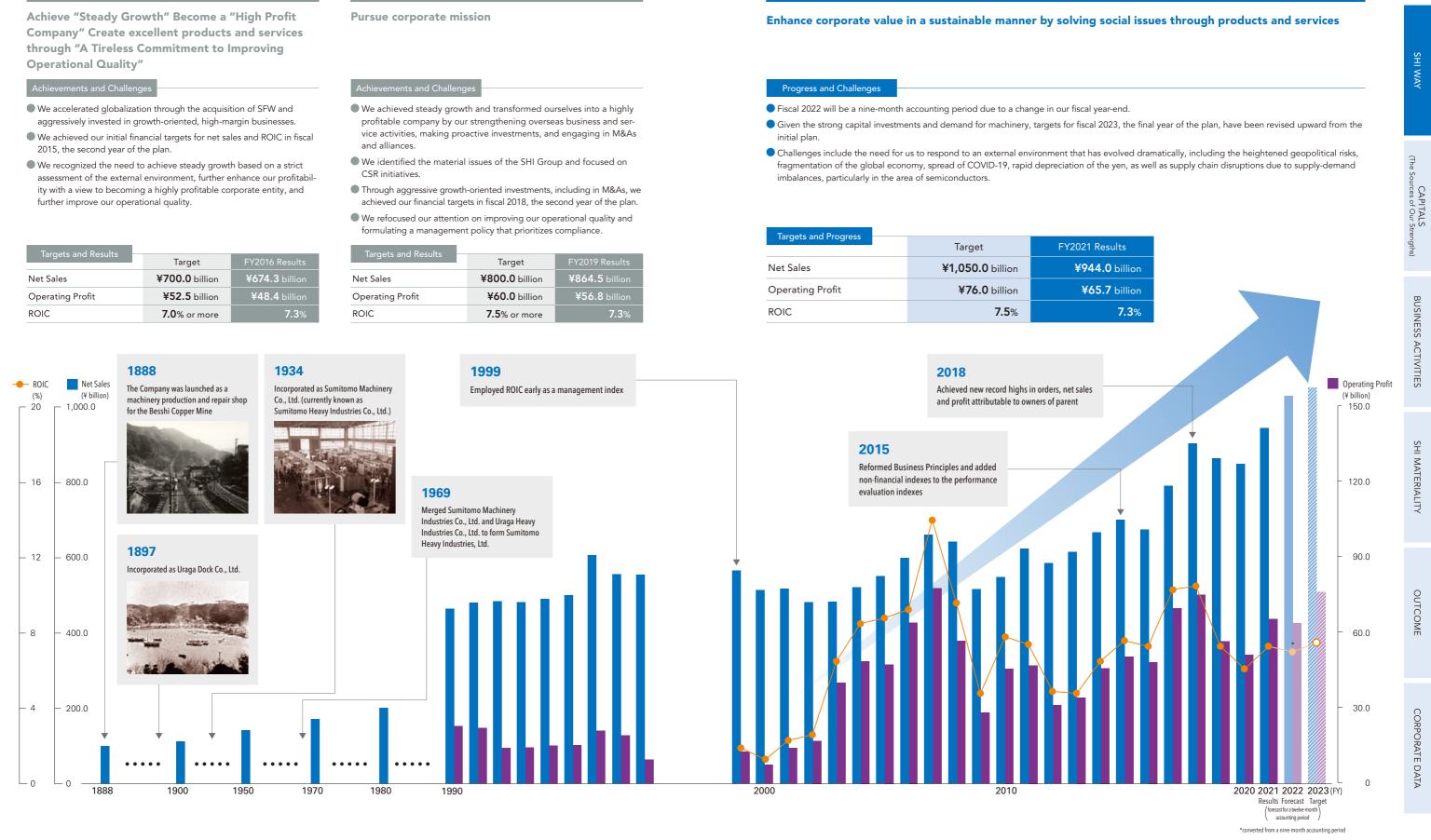
"Medium Term Management Plan 2019"

- profitable company by our strengthening overseas business and service activities, making proactive investments, and engaging in M&As and alliances.
- CSR initiatives
- achieved our financial targets in fiscal 2018, the second year of the plan.

Terrete and Desults		
Targets and Results	Target	FY2019 Results
Net Sales	¥800.0 billion	¥864.5 billion
Operating Profit	¥60.0 billion	¥56.8 billion
ROIC	7.5% or more	7.3%

"Medium Term Management Plan 2023"

Targets and Progress		
largets and rogress	Target	FY20
Net Sales	¥1,050.0 billion	¥
Operating Profit	¥76.0 billion	
ROIC	7.5%	



Our Strengths

Since its establishment in 1888, the SHI Group has worked to tackle the problems faced by customers and society by providing products and services as a manufacturing company. The strengths of our Group lie in our superior technological, management, and organizational capabilities that we have built up over the course of our extensive history. We will continue to draw on these strengths as sources of greater competitiveness and strive to achieve further growth in the future.

Excellent technological capabilities and integrated strengths that contribute to the sustainable development of society

Technology development capabilities that support the top-rank position

Super Sustainability Plus products*1

Sustainability Plus products*2



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*1: Score of 90 or higher (based on proprietary evaluation) *2: Score of 80 or higher (based on proprietary evaluation) See page 34 for more detail





to embrace the challenge of transformation

Organizational capabilities that spur innovation

A corporate culture that continues

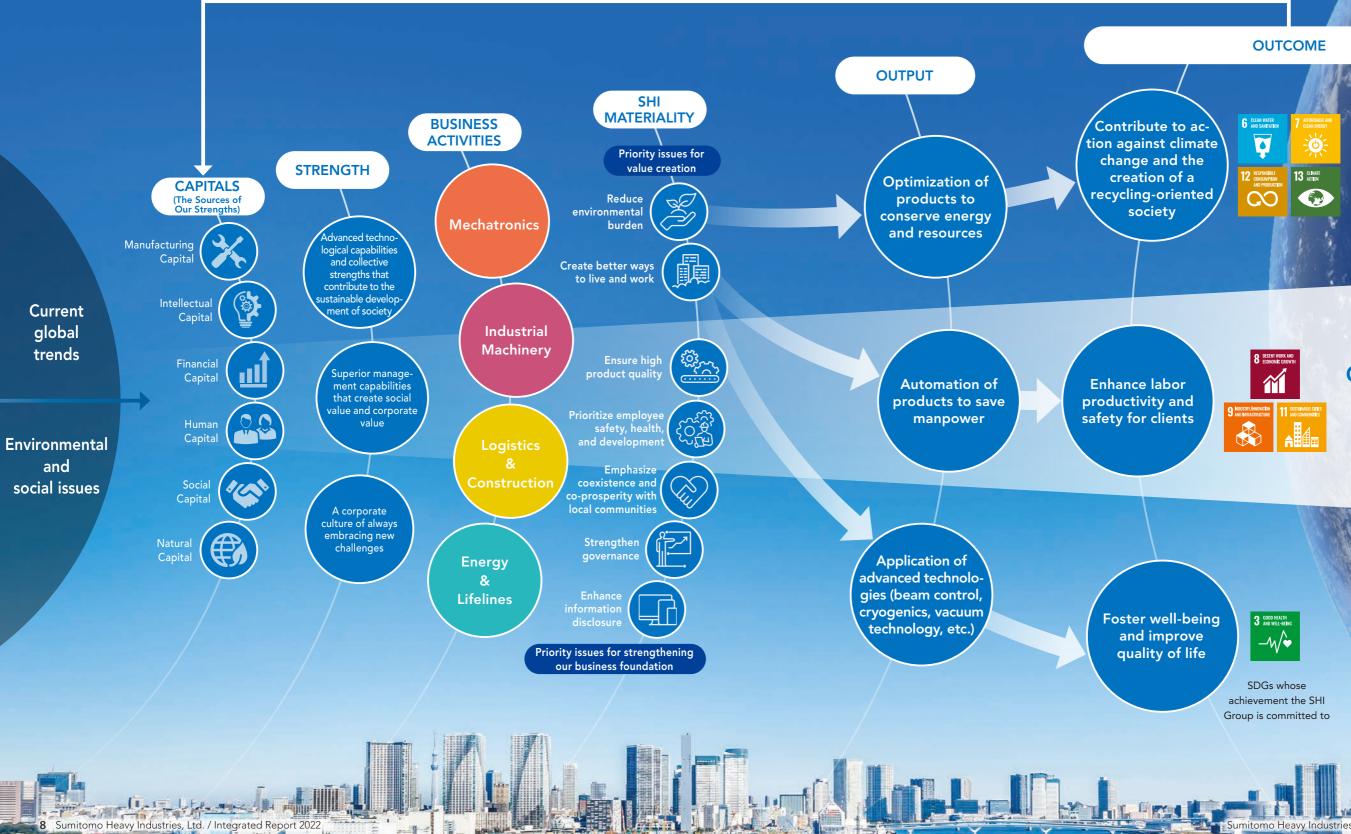
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Value Creation Process

A state of the sta

The SHI Group helps create value for customers and contributes to the sustainable development of society by leveraging its advanced technological capabilities and integrated strengths to provide excellent products and services. The corporate culture of always embracing new challenges that we have cultivated over the years has made this possible. We will continue working to enhance our corporate value by making full use of our superior management capabilities to create social value and corporate value.





Creation of shared value

CORPORATE DATA



The SHI Group's Purpose and Vision

Because the SHI Group offers such a wide range of products, it is difficult to characterize us in one word. Even lumping together all the Group's machinery manufacturers, the types of products we handle and the businesses we target are diverse, including gear reducers for industrial use, plastics machinery used in factories, hydraulic excavators and mobile cranes that are widely used at construction sites, industrial cranes used for material handling in ports, and biomass-fueled power generation facilities. If I had to characterize us, I would say we are a company that excels at controlling the movement of machinery. Going forward, we will continue to hone our skills in these fields, and continue to maintain our basic stance of contributing to our customers and society through products and services made possible by our technological capabilities. In addition, we will continue to pursue the path of monozukuri (excellence in manufacturing).

However, delving a little deeper, I see that in addition to technology for controlling the movement of machinery, other distinctive characteristics of the SHI Group include improving productivity and increasing customer value through the Group's products and our quest for optimizations aimed at solutions such as reducing the defect rate. Creating customer value through control and optimization to deliver solutions to social issues is how the Group creates social value, and is our reason for existence.

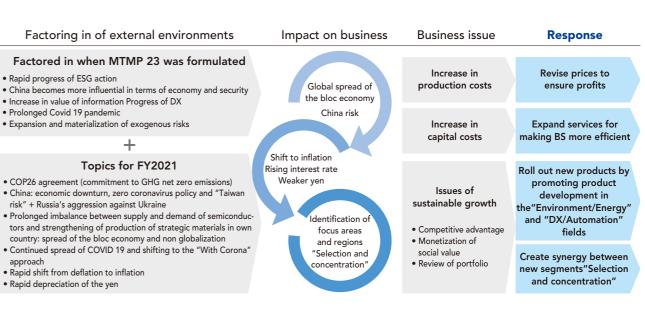
With this goal of creating social value based on control and optimization, the SHI Group has drawn up a vision for 2030, and is currently striving to get closer to our goal and vision by executing our Medium-Term Management Plan 2023 (MTMP23), which we created by "backcasting" from our 2030 vision.

Understanding the Business Environment

While there have been no major changes in ongoing megatrends such as rapid urbanization, climate change, resource scarcity, and demographic change, following the COVID-19 pandemic that began in 2020, the years 2021 and 2022 brought changes in the external environment that could have a long-lasting impact on the Group's performance.

With respect to the COVID-19 pandemic, thanks in part to the effects of multiple rounds of vaccinations and therapeutic drug approvals, economic activity in Europe and the United States has recovered to roughly pre-COVID levels. China, on the other hand, is experiencing intermittent city lockdowns, and there are developing countries where vaccination is not yet widespread. Looking at the world as a whole, it is believed that rather than defeating the virus, we are moving towards an era of coexistence with COVID.

In 2021, the 26th Conference of the Parties to the United Nations Framework Convention on Climate



Medium-Term Management Plan 2023 (MTMP23)

Fiscal 2021 Results

approach

In fiscal 2021, orders received were ¥1,075.3 billion, net sales were ¥944 billion, operating profit was ¥65.7 billion, and profit attributable to owners of parent was ¥44.1 billion. Both orders received and net sales set

(The CAPITALS urces of Our Stre

Change (COP26) was held, which had a significant impact in the environmental field. At the event, limiting the increase in global average temperature to 1.5 degrees Celsius was recognized as a new common goal for the world. As a result, countries are now effectively obligated to promote various GHG (greenhouse gas) emission reduction initiatives to achieve their targets, and it is imperative that corporations take action as well.

Then, in 2022, Russia's invasion of Ukraine began, bringing about soaring energy prices, a rapid shift from deflation to inflation, the division of the world economy into blocs due to increased country risk, and rapid depreciation of the yen, among other consequences that are likely to have medium- and long-term impacts. Looking at the global situation, there is a possibility of further decoupling, and the possibility of a worldwide recession with developing countries at the epicenter cannot be ruled out, making the situation extremely unstable and risky.

record highs. Orders, net sales, and operating profit increased year-on-year in all segments.

The main reason for this is that the demand for machinery, which had been stagnant in 2020 due to the COVID-19 pandemic, turned around in 2021 and started



We will address supply chain issues to improve sales and profits.

to increase globally. Orders received exceeded the target of ¥1 trillion for the final year of the MTMP23. However, this was partly due to last-minute orders from customers, and it is uncertain whether we will be able to achieve annual orders exceeding ¥1 trillion in fiscal 2022 and beyond.

While orders have grown more than expected, net sales did not necessarily grow accordingly. Several problems in the supply chain are contributing factors. One is the problem of semiconductor procurement. Anticipating that this problem will continue, we are taking measures such as strengthening our buying power by switching from procurement at the business division level, which we have traditionally done, to centralized procurement at the Headquarters Procurement Office. There are also transportation problems, which originated on the West Coast of the United States and have not yet been completely resolved due to port issues in the Netherlands and port and land transportation disruptions caused by lockdowns in the Shanghai area. Rising air freight rates have also had an impact.

In addition, I am concerned about the low growth in operating profit, as well as issues related to sales. Here too, supply chain problems, such as rising prices of raw materials and procured goods and the effects of tight supply and demand, are the main factors. As for future measures, in addition to switching procurement methods, we intend to perform drastic reviews of raw materials and procured goods at the time of design among other medium- to long-term measures.

Financial targets

Unit: JPY billion	Actual FY2020	Actual FY2021	Forecast FY2022 (9 months)	[Reference] Forecast FY2022 (12 months)	FY2023 targets* (as of May 2021)	FY2023 targets* (as of May 2022)
Orders	813.9	1,075.3	880.0	1,030.0	1,000.0	1,070.0
Net sales	849.1	944.0	850.0	1,010.0	970.0	1,050.0
Operating profit	51.3	65.7	51.0	64.0	70.0	76.0
Operating profit ratio	6.0%	7.0%	6.0%	6.3%	7.2%	7.2%
ROIC	6.1%	7.3%	7.0%	_	7.5%	7.5%
Exchange rate (dollars)	JPY106	JPY112	JPY120	JPY120	JPY100	JPY120
[Reference] ROE	5.6%	8.5%	7.2%	_	8.0%	8.0%

* Revise the 2023 targets because of a change of the closing date

As of May 2021: Apr. 2023 to Mar. 2024 ,As of May 2022: Jan. 2023 to Dec. 2023

Outlook for Fiscal 2022

In fiscal 2022, in order to unify the accounting periods within the Group, the Company and its subsidiaries in Japan will shift their fiscal year-end to December. As a consequence, the Company and its subsidiaries in Japan will have a nine-month accounting period from April 2022 to December 2022, while its overseas subsidiaries will have a twelve-month accounting period from January 2022 to December 2022. In terms of business performance, although changes in the external environment are beginning to affect some orders, and we need to pay close attention to developments in the Logistics & Construction segment, which is heavily influenced by China and other countries where the future is unpredictable, I expect the performance of the Company as a whole to remain relatively robust, given that we already have a substantial backlog of orders and considering the fact that the impact of the changeover in our fiscal year-end will be over at the beginning of 2023.

In terms of orders received, excluding Logistics & Construction, the three divisions of Mechatronics, Industrial Machinery, and Energy & Lifeline are expected to maintain the same level as the previous year, whereas for net sales, I expect an increase as progress in resolving procurement issues moves forward.

As a result of these factors, in fiscal 2022 (the fiscal year

Change in Fiscal Year End (Financial Year 2022 End)

		2022							
	January to March	April to June	July to September	October to December	January to March				
		1Q	2Q	3Q					
Domestic		1H of F	Y2022	2H of FY2022					
Domestic		F							
	1	Q	2Q.	3Q					
Overseas		1H of FY2022	2H of FY2022						

Performance Forecast for FY2022

Unit: JPY billion	Actual FY2020 (2020.4-2021.3)	Actual FY2021 (2021.4-2022.3)	Forecast FY2022 (Domestic 9 months) (Apr. 2022-Dec. 2022)	[Reference] Forecast FY2022 (Domestic 12 months) (Apr. 2022-Mar. 2023)
Orders	813.9	1,075.3	880.0	1,030.0
Net sales	849.1	944.0	850.0	1,010.0
Operating profit	51.3	65.7	51.0	64.0
Operating profit ratio	6.0%	7.0%	6.0%	6.3%
Ordinary profit	49.5	64.8	49.0	62.0
Ordinary profit ratio	5.8%	6.9%	5.8%	6.1%
Extraordinary loss	(5.8)	(2.5)	(2.0)	(2.0)
Profit attributable to owners of parent	26.8	44.1	30.0	39.0
Profit ratio attributable to owners of parent	3.2%	4.7%	3.5%	3.9%
Dividend per share	JPY65	JPY115	JPY90	—
Dividend payout ratio	29.8%	32.0%	36.8%	_
ROIC (after Tax)	6.1%	7.3%	7.0%	—
[Ref.] ROE	5.6%	8.5%	7.2%	—
Currency exchange rate (US dollars)	JPY106	JPY112	JPY120	JPY120

Progress on MTMP23

The MTMP23, which started in fiscal 2021, defines the social issues that need to be resolved by 2030 and the ideal state of our Group, and then "backcasting" from there, defines what we should be doing now, with the major goal of laying the foundation for solving social issues.

A major theme in pursuing this goal is how to balance the expansion of corporate value in the Group with the expansion of social value through promotion of CSV (creating social value by solving social issues through ending December 31, 2022), we are forecasting orders of ¥880 billion, net sales of ¥850 billion, operating profit of ¥51 billion, and profit attributable to owners of parent of ¥30 billion. These figures incorporate cost-increasing factors that can be ascertained at this point in time, but do not incorporate prolonged supply chain disruptions, further deterioration in conditions, geopolitical risks, or the re-emergence of infectious diseases, so it is necessary to monitor the situation carefully.

products and services).

The most important thing is to create the capabilities and systems to create products of unprecedented value. In the past, we have developed a variety of businesses under the banner of the "value chain," but so far, we haven't grown as much as I'd like. In the MTMP23, by radically reassessing our portfolio and setting a direction for the future, we aim to create a real value chain and create new products through new combinations. I believe

we were able to make some progress in this direction in fiscal 2021. We will continue to build on this foundation, stepping up our efforts in fiscal 2022 and 2023.

At the same time, I believe we need to further evolve our ROIC management, which has been in operation for nearly 20 years. ROIC does not simply look at the profitability of the current business, but depending on how it is broken down, it is possible to see what areas should be profitable and which businesses will be profitable. By devising ways to set KPIs for the intermediate stages leading to ROIC, we will develop a more advanced form of ROIC management that it takes into consideration the time horizon and growth potential of businesses. Because the business environment, market, and competitive environment differ from business to business, in

Sustainability Initiatives

The SHI Group has shifted from its previous emphasis on financial value to a stance that also considers the provision of value from an ESG perspective. We are therefore working to maximize corporate value in terms of both financial value and social value. With regard to the promotion of sustainability, we aim to solve social issues through our corporate activities, in other words, to contribute to society through the promotion of CSV. addition to tracking the ROIC, I believe it is also important to reduce the denominator of ROIC by managing and evaluating each business according to appropriate indicators, and by increasing the efficiency of the asset side of the balance sheet for the Group as a whole.



Based on this idea, the MTMP23 promotes the goals of solving social issues through products and services, enhancing our capabilities to respond to environmental and climate change issues, and applying the Task Force on Climate-related Financial Disclosures (TCFD) framework in the management of climate-related risks and opportunities and disclosure of information.



We are working to maximize corporate value in terms of both financial value and social value.

Initiatives Related to the Environment (E)

We have endorsed the TCFD and have declared our intention to reduce CO₂ emissions by 50% for Scope 1 and 2 and 30% for Scope 3 compared to FY2019 emissions by 2030 and then become carbon neutral by 2050. As a specific initiative, we have reviewed our business

related to boilers, which generate significant emissions. We have decided to stop accepting new orders for boilers that use coal as the main fuel, including at our Group company SFW. The goal is to reduce emissions by preventing the use of such emissions-intensive

Initiatives Related to Society (S)

We are strengthening our human resource initiatives from a social perspective. Specifically, we are developing and introducing systems to support efficient work styles and nursing care and childcare through work style reforms. At the same time, as an investment in human resources, we are increasing training opportunities for new employees, executive education, and other career stage-based training. In the future, as DX (digital transformation) permeates companies, the qualities and skills required of employees are expected to change significantly. We are therefore actively reskilling our employees to equip them with the skills needed for the next

Initiatives Related to Governance (G)

With regard to governance (G), we are promoting diversity at the management level. In June 2021, a woman was appointed as an external corporate auditor. In April 2022, one new non-Japanese Vice President was appointed, bringing the number of non-Japanese Vice



products. For products whose use can be expected to have further energy-saving benefits, such as motors with inverter control, we will tout these benefits as a selling point and actively expand sales.

In addition to this, we intend to reduce the negative environmental impact of our Group's products during use by improving their efficiency and fuel consumption, and to contribute to reducing workloads at our customers' manufacturing sites by improving automation and convenience, and we are strengthening our product development by focusing on these areas.

generation of work.

However, I believe that developing employees who will contribute to the enhancement of corporate value and social value is about more than just building up their skills; it is also important for Group employees to feel a sense of meaning and motivation in their work, and to take a positive attitude toward increasing value. Therefore, as part of our organizational development activities, we are promoting the PRIDE PROJECT (see page 26 for details). We conduct employee awareness surveys to see how employees' motivation has changed as a result of our activities, and we make necessary improvements based on the survey results.

Presidents to two. By promoting diversity in gender and nationality in this way, we will create a system that can incorporate and reflect diverse opinions, thereby strengthening the foundation that supports the sustainable growth of the Company.

Toward Sustainable Growth

Fiscal 2021 was a fruitful year, with orders exceeding ¥1 trillion yen. Fortunately, in the first quarter of fiscal 2022, orders in the overseas machinery market remain strong, which suggests that our fiscal 2022 performance may be relatively robust as well.

However, it is also true that the business environment is changing faster and more intensely, making it more difficult to predict. In particular, with regard to the zero COVID policy in China and the issue of Russia's invasion of Ukraine, there is no way of knowing how the situation will end. Even under these circumstances, our success in fiscal 2022 depends on how we resolve supply chain issues, particularly procurement issues.

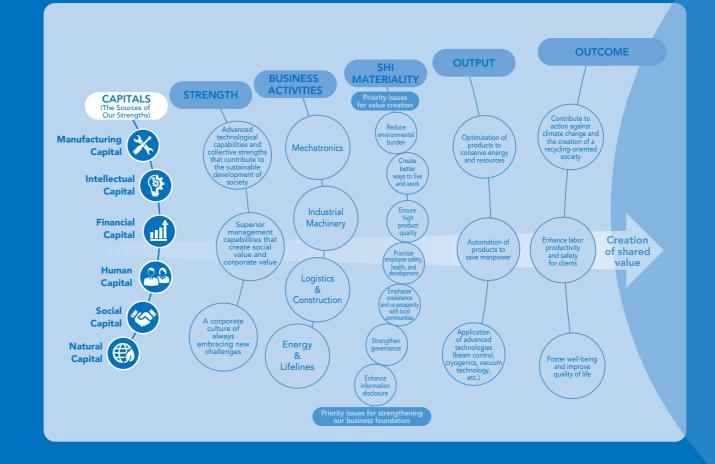
On the other hand, the MTMP23 is only the first step toward our vision for 2030. To achieve this vision, it is necessary to review our business portfolio to realize

synergies within new segments and develop products and services that will lead to new growth, and fiscal 2022 is the cornerstone year for achieving these goals. Under these circumstances, non-financial initiatives are also important to achieve sustainable growth as a company. In addition to addressing fundamental issues such as employee safety, health, and development, we will simultaneously implement initiatives to realize better lifestyles and work styles and reduce our environmental impact. At the same time, we will actively communicate more than ever how we are approaching environmental issues and the utilization of human resources. Through these efforts, we will promote value creation initiatives that balance both economic and social value and lead to sustainable growth.



Ever since it was established in 1888 to handle the operations at the Besshi Copper Mine, which constituted the original core business of the Sumitomo Group, the SHI Group has accompanied the evolution of our society and industry. The diverse forms of capital we have accumulated over the course of our extensive history now serve as the business foundation of our Group and the source of our strengths. We endeavor to achieve further growth for our Group by integrating these forms of capital in an organic way and maximize the value we can draw from them over the medium to long term.

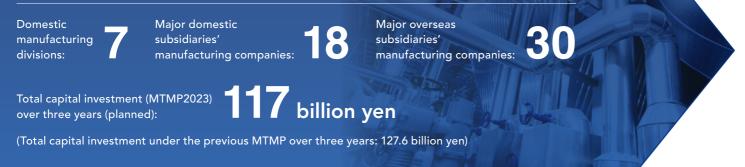




(The Sources of Our Strengths)

The Sources of Our Strengths/ Manufacturing Capital 🔀

Meeting diverse needs with our global production system and quality control system



A Production System That Aims to Supply First-Class Products to the World

The SHI Group seeks to establish a robust and optimal production system in order to meet diversifying client needs and fluctuating demand in an appropriate manner. In addition to setting up the necessary global production bases by taking into account our shipping destinations and other factors, we have been constantly working to raise production capacity through the construction of new plants and improve production efficiency through improvements that take advantage of automation, labor-saving technologies, and better layouts.



Focused Investment in Businesses We Seek to Expand

We are aggressively investing in businesses that we seek to expand moving forward, especially our businesses in the areas of semiconductors and plastics machinery in the Industrial Machinery segment, as well as electric motor control systems and precision gears in the Mechatronics segment.



A new plant for the SHI Group's plastics machinery business (Construction completed in July 2021)

Ensuring Product Safety and Product Quality

As an integrated machinery manufacturer, we believe that it is our responsibility to contribute to society by providing a stable supply of high-quality, safe, and reliable products and services that satisfy our customers. In view of this, we have established a group-wide quality policy and identified the assurance of product quality as one of

SHI Group Quality Policy

Quality Principles

Through the continuous and unwavering pursuit of worldclass quality that is recognized globally, we will supply customers with products and services that they recognize as adding value to their business.

Quality Policy

Customer First: Define quality targets based on the expectations of the customer Continuous Progress: Continuously advance the quality system and incorporate quality with a process mindset Everyone Participates: Every person involved in guality sets an objective and tackles guality issues head-on as a team

Evolving our quality management system through audits

Each of our operating divisions has been working on obtaining ISO 9001* and other quality management system (QMS) certifications. (As of August 2022, approximately 93% of our Group's major manufacturing divisions have obtained these certifications.) In addition, the Corporate Quality Group, which oversees quality within our Group, conducts QMS audits of each operating division annually in the form of internal audits. The President & CEO also visits major business sites every year to inspect our manufacturing sites and hold dialogues with operational managers to discuss quality- and production-related issues and promote the evolution of our quality management processes.

* Includes QMS certifications such as JIS Q 9100 adapted for aerospace equipment, ISO 13485 adapted for medical devices, etc

Setting up an employee education system

The SHI Group considers the assurance of product safety and quality to be a key priority that all employees should be deeply conscious of. In general, quality control education will be conducted for all new employees (including new graduates and career hires) when they join the company. We have also introduced the Six Sigma, an internationally recognized process improvement approach, as our shared quality reform framework, and we conduct practical education every year to raise awareness of this concept throughout our Group. In fiscal 2021, 57 employees have completed the Six Sigma education module.

our key sustainability issues in order to ensure the safety and quality of products across the SHI Group. We are making every effort to ensure the safety of each product by taking into account the attributes of our various products as well as the wide range of customers who use our products or are involved in them in other ways.



Manufacturing site inspection by the Representative Director, President & CEO

Rigorous quality compliance

A section on "Prohibition of inappropriate conduct in guality control" has been included in our Compliance Manual, which outlines the various laws, regulations, and specific action guidelines that must be observed by our Group's employees in order to ensure that everyone in our Group is fully aware of the importance of quality compliance. In addition, we have been working to strengthen our quality control processes and quality audit system as well as enhance compliance through compliance education on an ongoing basis as part of our efforts to prevent the recurrence of inappropriate conduct in quality control that had taken place in the past.

The Sources of Our Strengths/ Intellectual Capital ()

Total number of patents obtained:

Number of patents **3,613** obtained overseas:

Intellectual property activities aimed

at creating a competitive advantage

7,405

Strengthening our product capabilities to achieve sustainable growth

Total R&D expenses



(Total R&D expenses under the previous MTMP over three years: 56.5 billion yen)

Message from the General Manager, Corporate Technology Management Group Directions for strengthening our intellectual capital

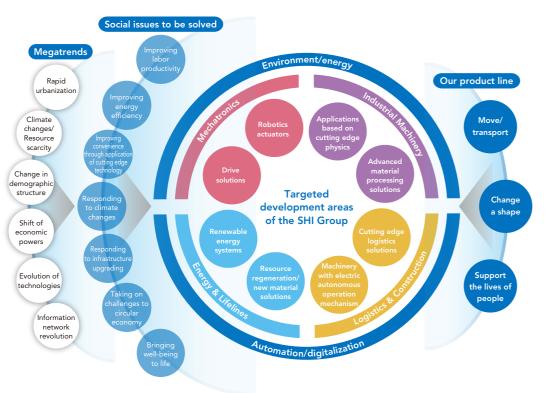
Toshihiko Chijiiwa Senior Managing Executive Officer & General Manager, Corporate Technology Management Group

We are aggressively pursuing R&D in growth sectors with the aim of building a resilient enterprise and playing a role in tackling social issues through our products and services. We are focused on R&D based on a longer time horizon by keeping a close eye on markets, megatrends, and our clients. We also emphasize intellectual property as a source of competitive advantage for the SHI Group, and we seek to promote intellectual property activities in conjunction with our R&D efforts.



Developing First-Class Products and Services That Tackle Social Issues

We have identified social issues that would arise from megatrends that are expected over the medium to long term as well as the development domains for products and technologies that are required to tackle these socials issues. These considerations have informed the R&D activities that we are implementing based on a longer time horizon.



Our R&D Strategy

In our MTMP2023, we have identified "environment & energy" and "automation & digitalization" as our priority areas. We are also focused on R&D based on a longer time horizon by keeping a close eye on megatrends in the markets and our clients.

Specifically, we are aggressively pursuing the R&D of products and services aimed at building a sustainable society and tackling the social issues set out in the SDGs. In particular, the key issues identified for the entire

Group include improving energy efficiency and taking action against climate change, addressing our aging society and declining birthrate as well as the shortage

R&D Framework

For new product development, we are promoting activities with close coordination between business divisions and Corporate Technology Management Group, and we are implementing an integrated development process that involves conducting basic technology and elemental technology development in advance at the Technology Research Center and the Production Engineering Center and commercialization development in our business divisions.

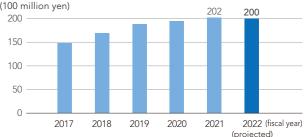
Intellectual Property Strategy

With a focus on creating (producing intellectual property), attacking (utilizing intellectual property), and defending (respecting the rights of other companies), we actively work on a unified basis to create, protect, and utilize intellectual property. To establish a direct connection between senior management in business divisions and intellectual property activities, we have appointed chief intellectual property officers (CIPO) in each division. Our Intellectual Property Department also participates in the intellectual property activities of each division in all respects and conducts activities aimed at allowing different divisions to share their respective experiences in order to enhance intellectual property value from a medium- to long-term standpoint and further vitalize related activities at the division level. In order to establish superiority in development of overseas business, we are actively working to raise the overseas acquisition ratio of patent rights. As part of our BUSINESS ACTIVITIES

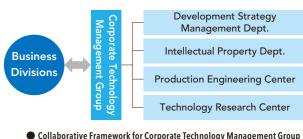
OUTCOME



of labor, and promoting a circular economy.



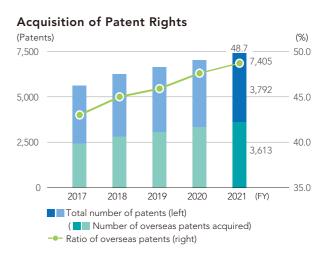
* Actual figures are based on P/L, while projections are based on corporate decisions.



 Collaborative Framework for Corporate Technology Management Group and Business Divisions

The Corporate Technology Management Group works in close collaboration with the business divisions through organizational units differentiated by function.

social contribution efforts, in recent years we have also been focusing on licensing and transfers and making more effective use of our intellectual property rights.



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The Sources of Our Strengths/ Financial Capital

Our financial basis that serves as the foundation of a robust entity

Stockholders' Equity Ratio

(as of end of March 2022



Net Interest-Bearing

7.3%

ROIC

(Return on invested capital)

Message from the General Manager of Corporate Finance, Accounting & Administration Group Supporting the transformation of the SHI Group to its ideal state from a financial perspective

Toshiro Watanabe Managing Executive Officer & General Manager of Corporate Finance, Accounting & Administration Group

As a result of our efforts to consolidate our businesses while reviewing the profitability of individual businesses through ROIC management, we are now able to autonomously operate business units that demonstrate strength in their respective markets. In order to further enhance our future growth potential, we believe that it is now time to set a direction for the SHI Group as a whole and re-establish a business portfolio that is desirable. My mission is to support this reform from a financial perspective for our Group to achieve its ideal state.

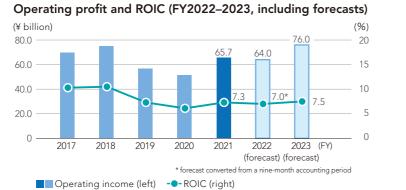


Our Business Results for Fiscal 2021

In fiscal 2021, we received ¥1.0753 trillion in orders and generated net sales of ¥944 billion as well as an operating profit of ¥65.7 billion. With the recovery trend in capital investments, particularly in the manufacturing sector, net sales exceeded our target for fiscal 2021 and orders reached our target for fiscal 2023, the final year of our MTMP.

However, these results could be attributed to a business environment that was better than expected, which included a front-loaded rise in demand from

capital investments, as well as the positive starts made by Lafert and Invertek Drives, which we had acquired in Europe in 2018 and 2019. On the other hand, we should not be overconfident as profitability has lagged behind in some areas relative to the growth in net sales. Moreover, issues related to supply chains have become more apparent against the backdrop of COVID-19 and heightened geopolitical risks in recent years, and efforts to diversify risk have become more important than ever.



Promoting ROIC Management

For over 20 years, we have practiced ROIC-based management with an emphasis on business profitability. This has allowed us to make progress in the consolidation of our businesses and create a business portfolio that is sufficiently profitable to achieve our ROIC target of 7.5% in fiscal 2023 as set out in our MTMP.

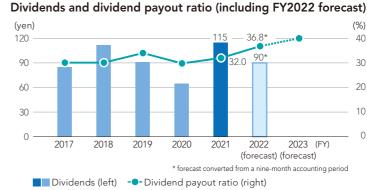
However, we also recognize that as an unintended consequence of our rigorous selection and concentration, each of our businesses has established secure positions in relative niche areas, which has limited the

Our Financial Position

Our stockholders' equity ratio at the end of fiscal 2021 was 50.4%, 2.8% higher than that at the end of the last fiscal year. Having experienced sustained periods of financial hardship in the past, we have come to emphasize not only profitability but also financial stability. Our

Progress of Our Investment Plans and Shareholder Returns

Under our MTMP2023, we plan to make ¥117 billion in capital investments in addition to investing ¥68 billion in R&D expenses and ¥40 billion in M&A and new businesses over a three-year period. In fiscal 2021, the first year of the MTMP, capital investment was ¥45.6 billion and R&D expenses were ¥20.2 billion (on a cash-out basis). We expect machinery-related demand to continue growing moving forward, and we have revised our three-year cumulative capital investment upward to ¥117 billion in order to further expedite our investment, with a focus on our core businesses and



potential scope of our business activities to some extent. To address this issue, we have reorganized our businesses into segments that are based on common social issues in our new MTMP. We aim to offer better solutions to our customers by eliminating the barriers between different businesses and creating synergies, while also expediting our growth in new domains through efficient and aggressive investment. These ideas will allow us to unlock the growth potential of our businesses that has hitherto remained untapped.

stockholders' equity ratio has reached nearly 50% in recent years, which allows us to maintain a certain degree of financial stability. Moving forward, we will focus on growth-oriented investments and shareholder returns.

strengthening our IT capabilities.

In addition, we have raised our annual dividends to ¥115 per share from ¥65 per share in the previous fiscal year, thereby increasing our dividend payout ratio to 32.0% from 29.8% in fiscal 2020. With regard to shareholder returns, MTMP2023 aims to deliver improved profits and an incremental increase in dividend payout ratio, with a target of 40% in fiscal 2023. Finally, we also plan to incorporate an element of stable dividends while raising our return rate in our next MTMP.



The Sources of Our Strengths/ Human Capital

Global human resource management that supports the sustainable growth of our businesses

Number of **24**,584

(as of end of March 2022



Message from the General Manager of Human Resources Group

We seek to set up an organizational structure and work environment that bring the best out of our diverse human resources

Kazutoshi Shiraishi Executive Officer & General Manager of Human Resources Group

We believe that promoting the active participation of a diverse workforce with different values and experiences will lead to the birth of innovation and greater organizational vitality. In addition to creating a safe and secure work environment, we have continued to engage in efforts to set up an environment in which our employees can work comfortably and feel motivated to work, as well as to strengthen interpersonal connections and to develop an organization with even better organizational capabilities.



Our Human Resource Strategy

The management of human resources is a particularly significant theme for our Group in order to accelerate globalization and to continue providing first-class products and services that meet the needs of society. Based on our ethos of "Our Business Is the People," which runs throughout the Sumitomo Group, we have established the SHI Group Human Resource Policy and are promoting initiatives for employees to grow alongside the Company. In addition, we believe that employee health management is fundamental to the sustainable growth of the Group, and we are taking a proactive approach to promoting health management while striving to create a workplace where safety is the top priority in all our business operations. In our diversity promotion activities, we are focusing on creating a workplace where diverse human resources can thrive through our various initiatives, including empowering women in the workplace, encouraging work-life balance, and fostering respect for LGBT individuals.

SHI Group Human Resource Policy

Our Business Is the People. Based on the recognition that "one of the most important management resources is human resources," the Sumitomo Heavy Industries Group will realize human resource management that contributes to the sustainable growth of its business.

Organizational Climate	We will create an organization that respects the diverse personalities and potential of all individuals, and encourages good communication and open collaboration. We will create a workplace that is vibrant, and that is safe, secure and healthy.
Recruitment	We will recruit people who contribute to our business growth, resonating with Sumitomo's Business Philosophy and the SHI Group Business Principles.
Deployment	We will assign the right people in the right places to maximize employee and organizational performance.
Talent Development	We will respect employees' will to develop themselves, and will also offer learning opportunities as well as opportunities to put their learning into practice.
Evaluation and Treatment	We will offer a fair and convincing evaluation system and process to boost employee motivation.

Nurturing Talents

Career development and our evaluation process

We aim to build a human resource management system based on the SHI Group Human Resources Policy that maximizes the performance of both employees and the organization through the appropriate allocation of human resources, and which allows for fair and convincing evaluation and treatment of employees.

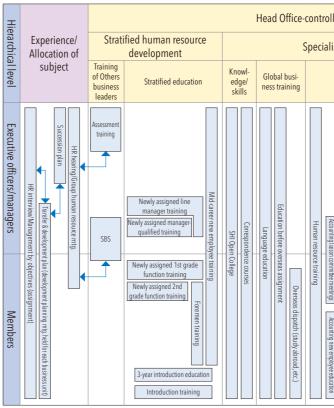
We use a target management sheet (assessment sheet) to conduct interviews in which employees set annual goals with their superiors and discuss the achievement outcomes for these goals. This is then tied to employee evaluation, with employees regularly provided with their evaluation results as feedback.

The assessment sheet also contains a space for employees to share their preferences on future career development. We strive to nurture our employees into talents by learning more about their intentions while allocating and utilizing our human resources throughout the organization in an appropriate manner.

Training and education

As a Group in which employees of all ages and across the professional spectrum play an active role, we provide opportunities for employees to acquire the necessary skills and knowledge through various level-specific

SHI Group Human Resource Training Systems



and specialized field-specific training programs while utilizing on-the-job training based on target management as the basis for development. In the area of specialized technical training, we offer 80 courses in the fields of machinery and materials, electrical equipment and electronics, control systems, software, information, and production technology, with a focus on hands-on practical training courses. We also offer one-on-one programs designed to nurture first-class engineers as selection-based courses for the development of professional expertise. In the area of human resource development for digital transformation, we conduct digital transformation literacy training for all employees. In fiscal 2021, we launched the "SHI Open College," which allows employees to selectively attend courses based on their own job scope and career goals. Managerial training is also conducted for management-level personnel to promote the development of their subordinates. In addition, we select candidates for leadership roles from individual companies under our Group and offer them intensive training over a period of one to two years under the Sumitomo Heavy Industries Business School (SBS) or the Management Course with the aim of fostering the medium- to long-term development of our management personnel.

olle	ed activities								ties in e iness ur				
aliz	zed human resource development						. Training of	Exper-					
	Each division Management quali						Manage- nent quality	business leaders	tise educa- tion	Others			
	CIPO training Design Division managers mtg. Development Division managers mtg. Service Division managers mtg. Sales Division managers mtg. Purchasing Division managers mtg. Management Division					Quality Control Division managers mtg MBB							
Accounting liai						Expertise engineering	Digital transformation literacy training	Intellectual property management training			Business.		Coa
Accounting liaison committee meetings	P	Legal educ				education (selection- based)	tion literacy	management tion literacy		BB	Business skills training	Specific te	Coaching
neetings	Practical education in material procurement	Legal education in material procurement		Producti	VE	Expertise engineering education (general practical-based)	training			GB		Specific technology education	
Accounting r	tion in mat	erial procur	Basic	on enginee	VE training			ellectual proper					
Accounting new employee education	erial procure	ement	Basic sales training	Production engineer education		Expertise engineering education (general lecture-based)		Intellectual property training for new employees		WB		New employee training	
ducation	ment		9		Basi	c engineering education		employees				training	

CORPORATE DATA

The Sources of Our Strengths/ Human Capital

Developing the Organization

In order for the SHI Group to achieve sustainable growth based on our medium- to long-term management strategy, we believe that in addition to the details of the strategy, it is vital to have individuals and the organization take on the challenge of boldly tackling various issues and overcoming difficulties with their colleagues, even if they occasionally fail. We have launched a group-wide organizational development initiative known as PRIDE PJ (Pride Project) to promote the cultivation of a corporate culture in which employees within the organization think and act on their own initiative to achieve growth and improvement for the organization. Since fiscal 2020, secretariats have been set up in a total of 38 operating

divisions, divisions of the head office, as well as subsidiaries and affiliates, to promote activities centered on the keywords of "dialogue" and "collaboration."



Engaging in dialogue as part of PRIDE PJ

Making Work Easier

As an organization that operates globally, the SHI Group strives to provide appropriate work conditions and environments in addition to complying with the laws and regulations of each country, including those concerning working hours and wages. In addition, our Compliance Manual, which outlines specific action guidelines that include various rules to be observed by group employees, also contains sections on "Respect for Human Rights," "Prohibition of Unfair Discrimination," "Prohibition of Harassment," and "Appropriate Management of Working Hours," reflecting our commitment to create a better work environment. In addition, we have also entered into collective agreements with labor unions and have engaged in a series of dialogues between labor and management on matters such as safety and health, working conditions, and business conditions.

Workstyle reforms

We believe that achieving work-life balance is important for each and every employee to make the most of their unique traits and capabilities. We are promoting the development and implementation of various systems that support efficient workstyles as well as the childcare and nursing care needs of employees.

Flexible work hours and teleworking

We aim to help employees achieve work-life balance and enhance their productivity by promoting flexible and autonomous workstyles that allow them to work anytime, anywhere.

Designation of "no overtime" days

Each business site has designated a "no overtime" day once a week to encourage employees to leave the office on time through on-site announcements and patrols.

Promoting the use of paid vacations and accrued leave Employees are granted 22 paid vacation days each year. Any paid vacation days not used during their validity

period can be used for purposes such as fertility treatment, childcare, nursing care, volunteer activities, etc., in the form of accrued leave.

Childcare leave and shorter working hours for employees with childcare needs

Employees may take childcare leave until the end of March in the year their child reaches three years of age. Flexible work arrangements, including shorter working hours and fewer working days, are available until their child graduates from elementary school.

We are also actively working to encourage more male employees to take childcare leave. The childcare leave utilization ratio (including accrued leave) was 30% in fiscal 2021, rising to 65% when including leave granted by the company for their spouse's childbirth or for other childcare-related reasons.

Establishment of multipurpose spaces and canteen buildings

In order to provide employees with a variety of workspaces and recreational spaces, we have established multipurpose spaces and other facilities at various locations. A new canteen building was opened at Nagoya Works in July 2021.

The building was named "SHIesta," a portmanteau that combines the Spanish word "siesta" (afternoon rest) with the abbreviation of our Group's name SHI, in the hope that it can serve as a more comfortable site for employees to relax.

SHIesta offers a wide variety of lunch menus, including those designed for non-Japanese employees, to

support the health of employees through their diet.



SHIesta and an example of its lunch menu

Promoting Diversity

The Diversity Promotion Declaration

The SHI Group considers diversity to be an indispensable foundation for its growth. We respect the differences in the traits and attributes of each person (e.g., age, nationality, birthplace, gender, gender identity, sexual orientation, presence of disabilities, etc.), and we strive to foster an organizational culture that allows every individual to reach their maximum potential.

The "SHI Group Diversity Promotion Declaration" was issued in 2016 by the President & CEO, our Group's top management, and we have continued to promote initiatives centered on the three pillars of "raising awareness," "revising existing systems," and "improving the environment" set out in the Declaration.

Promoting career development for women

As our Group has a high proportion of male employees, promoting the active participation of women is key to our medium- to long-term growth. Therefore, we have specified this as one of our KPIs in management and launched various initiatives on this front. We achieved our target of doubling the number of female managers (from 12 (1.4%) to 24 (2.7%)) in April 2022, one year ahead of schedule, and we will continue to focus on the career development of women.

- Implementing e-learning on the subject of "subconscious bias" for all managers in our Group
- Conducting diversity management training for managers and as part of level-specific training
- Dispatching employees to J-win, an NPO, as part of our efforts to strengthen the development of female managers
- Supporting career development by having the HR department conduct one-on-one interviews with women prior to their promotion to management positions as well as their superiors and creating development plans



OUTCOME

Conducting seminars to support employees returning to work after childcare leave and conducting interviews with their superiors about returning to work

Creating an environment where our diverse employees can play an active role

The SHI Group strives to create a work environment where our diverse employees can make the most of their individual traits and attributes and play an active role. Along with the globalization of our business, we are actively recruiting talents of different nationalities. We have set up a support system to ensure that our foreign employees can work with peace of mind even after leaving their home countries.

- Support for foreign employees working in Japan
- Personalized support for daily needs
- Japanese language education
- Religion-related provisions
- Efforts to ensure the stable employment of disabled individuals Cleaning and greening teams (Yokosuka Works)
- These teams are responsible for cleaning areas and maintaining the greenery around manufacturing sites. SHI Iki-Iki Farm
- Vegetables cultivated at our farm are harvested and sold to employees at sales events. All proceeds are donated to non-profit organizations that support the development of children.
- LGBT initiatives
- We have invited external speakers to deliver lectures to our Group's HR personnel to deepen their understanding of LGBT issues.
- We disseminate informational articles as part of our company newsletter and email newsletter to promote understanding of LGBT issues among all employees.
- We have created LGBT ALLY stickers and distributed them to employees who support this cause.

The Sources of Our Strengths/ Human Capital

The Sources of Our Strengths/ Social Capital (

Health Promotion Among Employees

Promoting health management

For a company to continue growing sustainably, it is imperative to establish a work environment and health management system that allow each and every employee to keep themselves healthy both physically and mentally so that they can continue to work with vitality. We have established the "SHI Group Health Declaration" to promote various initiatives aimed at supporting good health, with the President serving as the Health Management Officer.

The SHI Group Health Declaration

Based on "Respect People" as stated in our management philosophy, the SHI Group will proactively maintain and promote the health of workers and develop an environment where everyone lives with good mental and physical health.

Promotion of data-based health and collaborative health

In collaboration with the Health Insurance Society of Sumitomo Heavy Industries, we have formulated a plan to create a healthy workplace based on existing data pertaining to the results of regular health checkups and treatment status, and we are steadily promoting health support measures for all SHI Group employees based on this plan.

Promotion of mental health measures

In addition to implementing regular stress check tests, mental

Making Safety Our Top Priority

Creating a safe and secure workplace

With manufacturing sites based around the world, the SHI Group has adopted the "SHI Group Basic Safety and Health Philosophy" as its policy on occupational safety and health and strives to ensure the safety and health of all employees, internal and external contractors, and other affiliated personnel. Given the importance of ensuring occupational safety and health for both employees and the company, we have established the Central Committee on Safety and Health, chaired by the Officer in charge of Human Resources Group, to discuss basic policies and relevant measures on a regular basis as part of our efforts to promote occupational safety and health in collaboration with labor unions.

Measures against COVID-19

We believe that it is our responsibility as a company to ensure the safety and health of our employees, their families, and all affiliated personnel and to make every effort to prevent the transmission of COVID-19 in the workplace. To this end, we have established a "COVID-19 Response Committee" at our Head Office to formulate group-wide policies, plans, health training is also conducted at each business location based on the results of these tests by both our internal occupational health staff and through external employee support programs. Measures to combat cardiovascular diseases

To minimize work-related challenges faced by employees due to cerebrovascular disorders and myocardial infarctions, we actively adopt measures aimed at preventing the onset of such diseases, such as anti-smoking campaigns and walking events, as well as provide health-related guidance and consultation recommendations based on the results of health checkups.

Measures to combat COVID-19 and other infectious diseases We provide employees traveling overseas with the latest information on COVID-19 and actively raise awareness and draw their attention to malaria, HIV, tuberculosis, and other global health risks.

Our Company has been recognized as a "Certified Health & Productivity Management Outstanding Organization 2022 (large enterprise category)"*1 jointly selected by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi.

*1 This system recognizes corporations that practice particularly outstanding health management based on their efforts to address local health issues and engage in health promotion advocated by the Nippon Kenko Kaigi.



The SHI Group Basic Safety and Health Philosophy

The SHI Group strives to create pleasant workplaces where all employees can work in healthy, safe, and secure environments based on a spirit of respect for human beings. With this mind, we act on the basis of a "safety first" policy through collaboration between labor and management.

Expanding the acquisition of ISO 45001 certification

In order to improve our occupational safety and health management system, we are promoting the acquisition of ISO 45001 certification at various sites. Around 50% of our major manufacturing sites in Japan have successfully obtained this certification.

and response processes to prevent the transmission of COVID-19 as well as to monitor the number of cases within our Group. In addition, we are also focused on promoting the implementation of our business continuity plans so that we can continue to contribute to society through our core businesses.

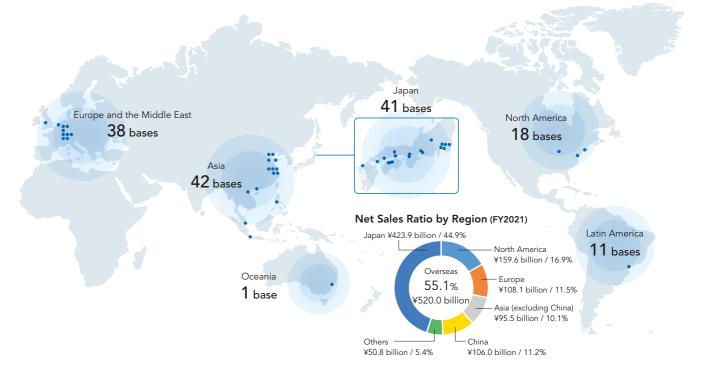
The "Sumitomo" Brand and Our	Global Netw
Number of suppliers	Our global net
7,481 companies	151
(as of end of March 2022)	(as of end

Confidence in the "Sumitomo" Brand

Sumitomo's foray into its businesses of copper refining, copper trading, and copper mining began with the opening of the Besshi Copper Mine in Shikoku, which is one of the four main islands in Japan, in 1691. This was followed by the establishment of the SHI Group in 1888 to handle the mechanical operations at the Besshi Copper Mine by manufacturing and repairing the machinery and equipment used at the mine. As a company deeply rooted in the Sumitomo family, our Group has worked to create a better society for over 130 years in line with the Sumitomo Business Philosophy by embracing our mission to ensure that our business must

A Network that Extends Across the World

The SHI Group has established around 150 bases across the world, including in Japan, the rest of Asia, Europe, the Middle East, North America, and South America. Our various bases work together to develop our business globally.







not only benefit Sumitomo but also the nation and the society at large.



Sumitomo's business activities over the last 400 years are symbolized by the Sumitomo trademark (the Sumitomo igeta motif). This Sumitomo igeta motif is also featured in our company logo, a sign of the confidence we have earned as a member of Sumitomo Group.

The Sources of Our Strengths/ Social Capital 🧇

The Sources of Our Strengths/ Natural Capital (

Responsible Procurement

As a global business enterprise, the SHI Group is committed to mitigating ESG risks throughout its supply chain and to building mutually beneficial and robust relationships with its business partners.

In addition to ensuring fair, equitable, and transparent

CSR Procurement Guidelines (Overview)

The SHI Group aims to provide products and services that contribute to economic and technological development toward sustainable society. In order to achieve this goal, we have established the CSR Procurement Guidelines. The cooperation of our business partners is essential to these efforts. We ask our business partners for their understanding and cooperation in promoting each item of the guidelines.

tal conservation.

- 1 Human rights, labor practice, Occupational Health and safety
- 2 Open and fair competition and trade practices
- 3 Compliance with laws, regulations, and social ethics
- 4 Improvement of product competitiveness and customer satisfaction

transactions, we seek to promote responsible procure-

respect for human rights, compliance, and environmen-

ment along with our business partners in the spirit of

- 5 Consideration for the environment
- 6 Information disclosure to promote communication with stakeholders

Supplier Survey and Summary of Results (FY2021)

We conduct a questionnaire survey on the status of sustainability approaches to our major suppliers to assess ESG risks in the supply chain. After gathering their responses, we send them written requests for improvement that outline the areas in which improvement can be achieved.

Number of responding 409 companies companies Percentage of responding 5.5% companies to total number of Tier 1 suppliers We identified strengthening our efforts in the following areas as particularly important tasks. - Effective use of environment and energy Summary of Survey Results - Safety of production facilities - Corruption and bribery - Waste reduction

Stakeholder Engagement

The SHI Group places great emphasis on maintaining communication with all relevant stakeholders. In addition to incorporating the views of society into our management through ongoing dialogue with stakeholders,

we also strive to foster greater understanding and confidence in our company through appropriate information disclosure.

Major stakeholders and engagement approaches

Customers	Shareholders and investors	Business partners	Employees	Local communities and NGOs/NPOs
We strive to keep abreast of the needs of our customers through our day-to-day sales activities and customer satisfaction surveys.	We are committed to maintaining and improving market confidence in our company through general meetings of shareholders, IR activities, and timely disclosure.	We make every effort to build robust relationships with our business partners through information ses- sions and CSR surveys, in addition to our day-to-day interactions.	We promote communi- cation with employees through our company newsletter, Intranet, employee attitude surveys, labor union engagements, and our Ethics Hotline.	We aim to promote greater understanding of our company through our advertising activities and the dissemination of information and to under- stand existing social issues by participating in social contribution activities.

Energy consumption

522.9 thousand MWh (fiscal 2021)

Key Environmental

Priorities

- taken into consideration
- Reduction of environmental loads in business activities • Preservation of biodiversity

The SHI Group believes that addressing global environmental issues, including climate change, is one of its responsibilities as a company engaged in business activities on a global scale. As our business is founded on the provision of industrial machinery to support our customers' production activities, we believe that improving the environmental performance of our products and services will contribute to the realization of a

Sumitomo Heavy Industries Group Environmental Policy

Under a management system headed by the President & CEO as the chief officer, our Environmental Policy was revised in December 2021 with the aim of expediting our efforts aimed at addressing climate change. The

Sumitomo Heavy Industries Group Environmental Policy

- 1. The SHI Group will work to conserve the global environment and endeavor to prevent environmental pollution. 2. The SHI Group will strive to reduce environmental impacts through efforts such as reducing carbon dioxide emissions and waste, reusing and recycling resources, and using energy more efficiently, and work toward achieving a
- decarbonized and circular society.
- 3. The SHI Group will work to address impacts of its operations on nature and ecosystems and conserve biodiversity. 4. The SHI Group will strengthen its environmental management structure and continue to operate and improve its
- environmental management system.
- 5. The SHI Group will not only comply with environmental laws and regulations but will also establish and apply voluntary standards to assess its environmental performance as needed.
- 6. The SHI Group will work to raise environmental awareness of everyone involved in its operations through continuous environmental education and awareness programs.
- 7. The SHI Group will share with and communicate and disclose to all stakeholders this Environmental Policy.



- Enhancement of environmental risk management • Reduction of CO₂ emissions with actions addressing climate change
 - decarbonized society and enhance the competitiveness of our products. In view of this, we are working to reduce our environmental impact in line with the Sumitomo Heavy Industries Group Environmental Policy through a two-pronged approach of reducing the environmental burden of our business activities and improving the environmental efficiency of our products.
 - policy now contains more specific details on the basic initiatives that should be undertaken by our Group and seeks to further strengthen environmental management throughout the entire Group.

SHI WAY

The Sources of Our Strengths/ Natural Capital

Environmental Management System

Under the Sumitomo Heavy Industries Group Environmental Policy, the officer in charge of general affairs oversees the various initiatives. The divisions of our Head Office conduct environmental management audits once a year at our manufacturing sites, including those of our subsidiaries and affiliates, to maintain and improve the standards of environmental management throughout the Group. Audit results are reported at environmental management meetings attended by key personnel of our Group involved in environmental management, with any outstanding issues shared widely within the Group for the purpose of improvement. We also conduct environmental education as part of our efforts to disseminate and raise awareness about our policies, key priorities, and the necessary initiatives among our employees.



Acquisition of ISO 14001 Certification

The SHI Group has been working to obtain certification at each of its manufacturing facilities in Japan since 1998. In 2018, the SHI Group obtained unified certification in order to unify environmental management operation rules at six manufacturing facilities and seven plants and to improve the efficiency of maintaining certification. In the fiscal 2021 audit, Sumitomo Heavy Industries Gearbox Co., Ltd. under our Group became the first production site other than our manufacturing facilities to receive unified certification, bringing the total number of certified sites to 50. In addition, all domestic Group subsidiaries and affiliates not included in the unified organization have acquired certification individually. Overseas, our major manufacturing plants began acquiring certification in 1998, and as of fiscal 2021, 21 sites have acquired certification. (Percentage of the entire group certified: 79.4%)

Acquisition of Third-Party Certification of Environmental Data

To enhance the reliability of its environmental impact data, the SHI Group has obtained third-party certification from Bureau Veritas Japan Co., Ltd. for environmental impact data associated with its business activities.

Scope of certification: 28 domestic sites of the SHI Group (13 manufacturing sites and 15 offices)

- Data covered: Energy usage (crude oil equivalent) in fiscal 2020 *1 CO₂ emissions from energy use in fiscal 2020 *2
- *1 Energy usage (crude oil equivalent): Electricity, city gas, LPG, heavy fuel oil A, gasoline, light oil, kerosene, hot water, cold water

 $\star 2~\text{CO}_2$ emissions from energy use: CO_2 emissions from energy used by the Company $\star 1$



The 6th Medium-Term Environmental Plan

We have formulated the 6th Medium-Term Environmental Plan (FY2020-FY2023) as a medium-term plan for environmental management and are currently implementing the initiatives in the plan. The plan sets forth four material issues: (1) enhancement of environmental risk management, (2) reduction of CO₂ emissions with actions

Index	ltem	Base year	FY2021 Target	FY2021 Results	FY2021 Evaluation
Environmental management	Number of serious environmental accidents	_	Zero	0	0
	Number of environmental accidents	—	3 or less	5	×
	Total CO ₂ emissions (Japan)	2019	2% reduction compared to FY2019	3.5% reduction	0
	During production / energy productivity (Japan)	2019	2% improvement compared to FY2019	2.8% improvement	0
Response to climate change	During production / energy productivity (overseas)	2019	2% improvement compared to FY2019	4.1% improvement	0
climate change	During transportation / green logistics (Japan)	2019	Maintain FY2019 level	0.9% decrease	0
	Expansion of the range of Sustainability Plus Products (Environmentally friendly products)	2020	23 models	25	0
	Reduction of waste generated (basic unit) (Japan)*	2017–2019	Maintain FY2017–FY2019 average	11.8% reduction	0
	Reduction of waste generated (basic unit) (overseas)*	2019	2% reduction compared to FY2019	5.1% reduction	0
Resource conservation /	Zero emissions landfill rate (Japan)	_	Less than 0.5%	0.1%	0
recycling	Reduction of product packaging materials (basic unit)	2017–2019	Maintain FY2017–FY2019 average	2.8% reduction	0
	Reduction of water consumption (Japan)	2017–2019	Maintain FY2017–FY2019 average	1.5% reduction	0
	Reduction of water consumption (basic unit) (overseas)	2019	Maintain FY2019 level	8.6% reduction	0
Prevention of environmental	VOC reduction volume (Japan)—Total	2019	Maintain FY2019 level	12.2% reduction	0
pollution	VOC reduction volume (Japan)—Basic unit	2019	Maintain FY2019 level	16.9% reduction	0

* Including Harmful Waste Disposed

Our Long-Term Target: Aiming to Achieve Carbon Neutrality by 2050

In May 2022, the Board of Directors passed a resolution to achieve carbon neutrality across the entire SHI Group by 2050. To meet this goal, we are working to achieve the CO_2 emissions reduction targets that we have set through 2030.

Capital Investment in Environmental and Energy-Saving Equipment

We have made ¥2.51 billion in capital investment in environmental and energy-saving equipment in Japan and overseas. We are taking a proactive approach to upgrading aged equipment and installing equipment with the latest technologies from the standpoint of increasing efficiency, conserving energy, and preventing environmental accidents. addressing climate change taken into consideration, (3) reduction of environmental loads in business activities, and (4) preservation of biodiversity. In addition, we have set targets for each of these initiatives through fiscal 2023, and we will monitor the progress we have made each fiscal year.

- Achieve carbon neutrality (net-zero CO₂ emissions) across the entire SHI Group by 2050
- CO₂ emissions from product manufacturing (Scopes 1 & 2): 50% reduction by 2030 (from fiscal 2019)
- CO₂ emissions from product use (Scope 3, Category 11): 30% reduction by 2030 (from fiscal 2019)

			(unit:	million yen)
Amount of capital investment	FY2018	FY2019	FY2020	FY2021
Environment-related	416	826	573	547
Energy conservation- related	2,057	3,706	1,287	1,967
Total	2,473	4,532	1,860	2,513

The Sources of Our Strengths/ Natural Capital

Contributing to the Environment Through Our Business

Sustainability Plus Products (Environmentally friendly products)

Since 2011, the SHI Group has implemented an internal certification system for environment-conscious products based on its proprietary evaluation method with the goal of developing products that are more environmentally conscious. From fiscal 2021, we have incorporated new elements that include social aspects into our

assessment criteria items and renamed the products to "Sustainability Plus Products." Through these efforts, we aim to further improve the products' competitiveness and environmental performance (resource recycling, global warming countermeasures, environmental risk management), while also publicizing the initiative to the outside world as part of our Group's efforts to promote CSV activities.

Assessment criteria items

		1. Resource-saving		Environmental risk	8. Environmental sustainability	
		2. Improvement of recycling at the time of disposal (facilitate sorting and treatment)	Environment	Other	9. Life cycle assessment (LCA)	
Environ-	Resource recycling	3. Making long-life products			-	
ment		4. Packaging/packing			10 6-6-6	
		5. Provision of information			10. Safety	
		6. Resource-saving measures when in use	Society	—		
	Combats global warming 7. Energy-saving measures when in use				11. Labor-saving	

Overview of Our Sustainability Plus Products

Hydraulic excavators

Hydraulic excavators are construction machinery that operates by converting the engine output of diesel engines into hydraulic pressure. The improved fuel efficiency of our hydraulic excavators takes environmental burden into consideration and contributes to reduced CO₂ emissions through their usage. In fiscal 2019, our hydraulic excavators received the Japan Machinery Federation Chairman's Award for Energy-Efficient Equipment/Systems, which attests to their superior fuel efficiency and has spurred us to continue developing and supplying highly fuel-efficient and operable machinery to the global market. These excavators have also been registered as Super Sustainable Products, which are among the most highly-rated sustainable products.

Circulating fluidized bed (CFB) boilers

Circulating fluidized bed (CFB) boilers are unique for their ability to burn a wide range of nonfossil fuels, including forest thinnings and other forms of unused wood, biomass fuels derived from palm kernel shells, palm residues, and construction waste materials, as well as refusedderived fuel (RDF), in an efficient and stable manner, thus playing an important role in the stable supply of carbon-neutral energy. The diversity of fuels that can be used with CFB boilers allows them to contribute to the elimination of fossil fuels and the reduction of CO₂ emissions while making use of biomass and waste materials generated locally.



Our Initiatives for the Preservation of Biodiversity

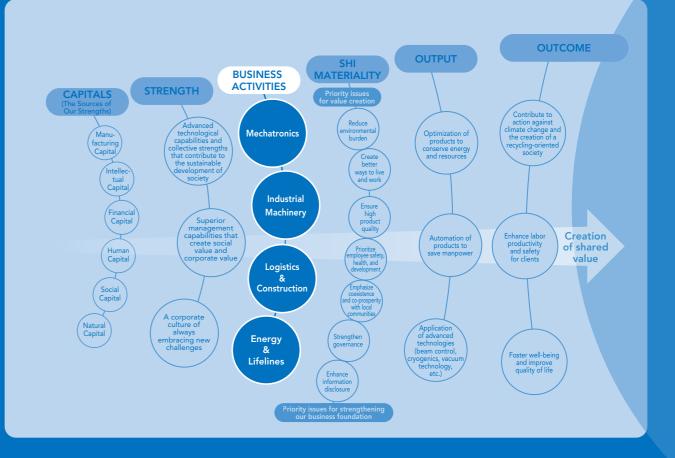
Biodiversity is an important foundation for individuals to lead vibrant everyday lives and for corporate activities, and we believe that it must be passed on to future generations in an appropriate manner. To this end, we have been engaged in our business activities with due consideration to their impact on our ecosystems in line with the Sumitomo Heavy Industries Group Environmental Policy. We launched a partnership with OISCA in fiscal 2017, and since 2020, we have been participating in the Mt. Fuji Forest Development Project, which aims to restore artificial forests on Mt. Fuji that had suffered from insect damage and transform them into robust and diverse forests again.



Participating in the Mt. Fuji Forest Development Project (July 2022)

BUSINESS ACTIVITIES

The SHI Group provides society with a variety of products and services, including industrial machinery that supports the production activities of clients and equipment that supports our social infrastructure. Engaged in businesses as diverse as these, the SHI Group conducts its business activities in four key segments that have been categorized and structured from the standpoint of social issues. We pursue the synergies within each segment to achieve new growth while aiming to enhance both social value and economic value through our business activities.



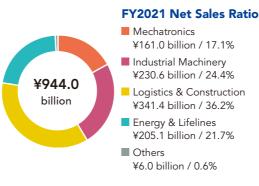
The 4 Segments of SHI

SHI has determined that in order to achieve both sustainable growth as well as the expansion of social value, it is imperative for us to strengthen our exploratory capabilities, achieve a certain scale of operations, and further refine our exploitation capabilities through the power of integration. In view of this, we have conducted a review of the segments that we have focused on since fiscal 2021.

The following are our leading products in the respective segments and how they contribute to society and the environment. The following pages provide an overview of each of our businesses and our business strategies. (The figures in the tables are taken from our business results for fiscal 2021.)

Mechatronics Operating Profit Net Sales ¥161.0 billion ¥6.4 billion **R&D** Expenses Capital Investment ¥2.5 billion ¥13.5 billion **Kev Businesses** Power transmission business, Precision machinery & control equipment, Industrial control systems business Main Products Power transmission & control equipment, Motors, Inverters, Precision positioning equipment Developing high-efficiency motors CYCLO® DRIVE • Expanding our lineup of inverter controls Inverters manufactured by Invertek Drives Improving labor productivity through robotics technology ECYCLO® High-Precision Gear Reducer Ultralight Hybrid Reducer **FCY** Series





Logistics & Construction

Net Sales ¥341.4 billion



R&D Expenses ¥5.2 billion

Capital Investment ¥13.6 billion

Key Businesses Hydraulic excavators business, Mobile cranes business, Material handling systems business

Main Products Hydraulic excavators, Road machinery, Mobile cranes, Material handling systems, Logistic systems



 Reducing CO₂ emissions during use through ICT and electrification

• Reducing CO₂ emissions during use by improving energy-saving capabilities



Hydraulic Excavators

Crawler Cranes





Remote-controlled RTG

 Improving labor productivity through smart logistics

> High-density Automated Warehouses

FY2021 Operating Profit Ratio



- Mechatronics ¥6.4 billion / 9.7%
- Industrial Machinery ¥19.3 billion / 29.4%
- Logistics & Construction ¥19.3 billion / 29.4%
- Energy & Lifelines ¥18.2 billion / 27.7% Others

¥2.4 billion / 3.7%

Energy & Lifelines



R&D Expenses ¥1.9 billion

¥18.2 billion Capital Investment

Operating Profit

¥3.4 billion

Key Businesses Energy plants business, Water treatment plants business, Turbines & pumps business, Ships business

Main Products

Energy and environmental equipment, Water treatment systems, Turbines, pumps, pressure vessels, chemical instruments, Food processing machinery, Ships

- Reducing CO₂ emissions via fuel conversion of coal-fired boilers and the use of non-fossil fuel power plants
- Strengthening resilience and revitalizing the economy through locally distributed power sources
- Creating main renewable energy power sources through large-capacity energy storage facilities
- Improving efficiency and supporting operators with plant management support systems



Biomass Power Plant

Others



Main Products

Real estate, Softwar

Operating Profit ¥2.1 billion

Business Mechatronics Overview



Segment strengths

- Wide range of products
- Global network
- Extensive customer base across multiple industrial fields
- High-precision, high-response control technologies

Segment features

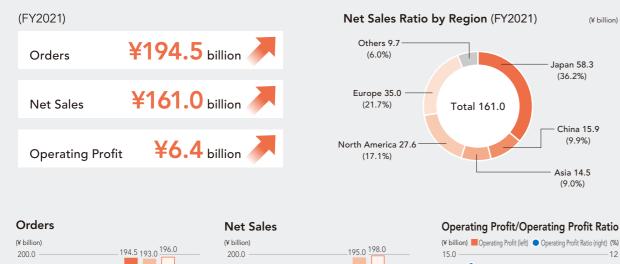
Gear reducers are power transmission devices that reduce the number of revolutions in motors to generate greater power. Such devices are used in a wide range of settings to drive equipment around the world, such as industrial robots in factories, conveyors that transport goods at distribution centers, and cranes that load and unload cargos at ports, thereby supporting our society and daily life. We have launched our global brand "Sumitomo Drive Technologies" based on our mission



• Elimination of labor shortages through automation and labor savings • Reduction of CO₂ emissions through energy conservation

> to address the issues faced by society and our clients by optimizing the movement of goods. We are also expanding our business globally through our many manufacturing and sales bases in Japan and overseas.

In the areas of precision machinery/control devices and industrial control systems, we are developing our business with a focus on laser annealing systems and precision positioning equipment that harness our laser control and processing technologies.



2017 2018 2019 2020 2021 2022 2023 (FY)

forecast target

150.0

100.0

50.0



Looking back on fiscal 2021

Despite the lingering effects of COVID-19, the sluggish market conditions have recovered to some extent. In Japan, demand for capital investments grew, while there was stronger demand overseas for small and medium-sized gear reducers, as well as for high precision gearboxes for robots and motors, especially in North America. Other regions also showed signs of recovery, including Europe and China. Orders for annealing systems and stages for semiconductor-related applications were also strong, reflecting the brisk semiconductor market.

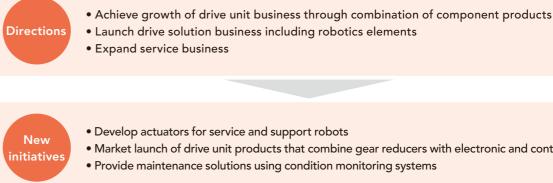
In particular, orders for high-efficiency motors and inverters rose in the second half of the fiscal year by taking advantage of the demand for energy-saving

Outlook for fiscal 2022/Future plans (directions and new initiatives)

Due to a change in our accounting period from fiscal 2022, fiscal 2022 will be a nine-month accounting period from April 2022 to December 2022. The figures for fiscal 2022 presented in pages 38 to 45 are reference values that assume a twelve-month accounting period for fiscal 2022 in Japan.

Both net sales and operating profit are expected to rise year on year due to the large number of backorders following the high volume of orders in fiscal 2021. The order environment is also expected to remain at the same level as the previous year.

In addition to the demand for automation that continues to fuel capital investments, we also aim to capture new demands for manpower reduction, higher efficiency, and electrification, while expediting our growth in the areas of electric motor control systems and high precision gearboxes. We have identified "logistics," "robotics," "food," and "environment and energy" as our key areas of focus, and we will strive to expand our market share across a wide range of industries.



2017 2018 2019 2020 2021 2022 2023 (FY)

forecast targe

150.0

100.0

50.0

devices and electric vehicles (EV) in Europe and the United States, contributing to a significant year-on-year increase in orders for the segment as a whole. Net sales and operating profit also rose year on year in line with the higher volume of orders.

At the same time, the rapid market recovery in the second half of fiscal 2021 led to market disruptions arising from a shortage of raw materials for semiconductors, electronic components, castings, electromagnetic steel sheets, etc., as well as soaring prices across the globe, which have affected our production. In addition, transportation costs have likewise skyrocketed and contributed to higher costs.

At the same time, as an installed-base business, we seek to improve our ability to propose new solutions to end users in addition to the services we currently offer. The impact of supply chain disruptions on parts procurement and product transportation is expected to persist through fiscal 2022. We will build a global supply network that is resilient to change and adversity by reviewing and strengthening our parts procurement network. In addition, we aim to carry on our efforts in the previous year to further enhance our clients' faith in our product quality through quality improvement operations on the production line and leveraging IoT

in inspections.

• Market launch of drive unit products that combine gear reducers with electronic and control devices

Business Industrial Machinery Overview



Segment strengths

- Wide range of machine element technologies
- Materials processing technology
- Accelerator/cryogenic technologies

Value we aim to provide

- Saving energy in the course of plastic molding and semiconductor production • Saving resources by molding thin, lightweight plastic objects
- Contributing to advanced medical diagnosis and providing medical care that does not compromise QOL
- Supporting the development of advanced semiconductor production processes

Segment features

Injection molding machines are plastic processing machines that fabricate various products by injecting hot plastic into molds. We specialize in the field of precision, high-cycle molding.

Our cryocoolers is not only used in medical devices such as MRI and in advanced scientific fields (especially in the fields of physics and chemistry) but also in cryopumps to create the ultra-high vacuum environment required for semiconductor production processes.

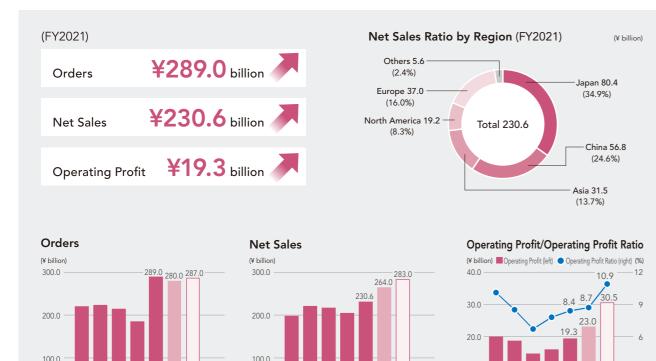
For semiconductor production equipment, we manufacture ion implantation devices that implant ions with high precision into silicon wafers to control their semiconductor electrical properties.

Other products include medical equipment that harnesses cyclotron technologies for the diagnosis and treatment of cancer, forging presses used at automobile manufacturing plants for the production of metal parts, and industrial equipment.

10.0

2017 2018 2019 2020 2021 2022 2023 (FY)

forecast targe



2017 2018 2019 2020 2021 2022 2023 (FY)

forecast targe

Looking back on fiscal 2021

In the area of plastics machinery, demand was particularly strong in the first half of fiscal 2021 owing to the electrical and electronic industries in China, whose market conditions had recovered from the previous year. In the second half of fiscal 2021, demand also grew in other regions, particularly in Europe, even as market conditions were still affected by COVID-19. Domestic demand in Japan recovered as the number of COVID-19 cases declined, and orders, net sales, and operating profit all rose year on year.

Orders, net sales, and operating profit for cryocoolers rose year on year as a result of strong demand from the semiconductor industry as well as a recovery in the MRI and physics/chemistry sectors from the previous year.

In the area of semiconductor production equipment, the high demand for semiconductor production equipment and market expansion continued as a result of

Outlook for fiscal 2022/Future plans (directions and new initiatives)

In the area of plastics machinery, demand for injection molding machines is expected to persist to some extent. However, as compared to the previous fiscal year, the decline in the demand associated with the electrical and electronics industries in China, the shortage of parts required for production in Japan and overseas, as well as the soaring cost of materials, particularly the spike in energy prices in Europe resulting from Russia's invasion of Ukraine, are all expected to have a significant impact on our business performance and delay the recovery from our current situation. In view of these factors, orders, net sales, and operating profit are expected to decline year on year.

Orders, net sales, and operating profit for cryocoolers are expected to rise year on year as demand from the semiconductor industry as well as the MRI and physics/



2017 2018 2019 2020 2021 2022 2023 (FY)

forecast targe

aggressive capital investment by semiconductor manufacturers in the face of the ongoing global semiconductor shortage. Orders rose significantly year on year due in part to some semiconductor manufacturers bringing forward their investment. Net sales declined year on year as there was a reversion of the strong net sales in fiscal 2020 coupled with the modest volume of orders in the previous year, while operating profit declined year on year due to a change in the composition of the models sold.

In the area of medical equipment, industrial equipment, and forging presses, orders rose significantly year on year due to the strong net sales of equipment related to semiconductor production that falls under the category of industrial equipment, while net sales and operating profit were flat year on year.

chemistry sectors will likely remain high as in the previous fiscal year.

In the area of semiconductor production equipment, the semiconductor market is expected to continue growing in the medium to long term. However, orders are expected to decline year on year in view of the large orders received in the previous fiscal year. Net sales and operating profit are expected to rise year on year due to the high order volume in the previous year.

In the area of medical equipment, industrial equipment, and forging presses, orders, net sales, and operating profit are expected to rise year on year due to the strong demand for medical equipment, forging presses, and especially equipment related to semiconductor production that falls under the category of industrial equipment.

• Establish competitive advantage in specific semiconductor production equipment fields

Logistics & Construction Overview



- Canning technology for large structures
- Mechanical design technologies
- Service network

Value we aim to provide

- Improve social infrastructure
- Support disaster recovery
- Providing advanced logistics solutions to address increasingly sophisticated infrastructure requirements

Segment features

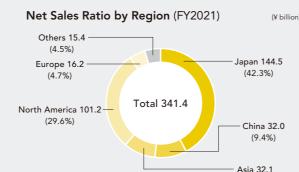
Our hydraulic excavators are mainly medium-sized, which is the volume zone of the market, but we also produce small and large excavators as well as application machinery and road machinery. Our products boast outstanding fuel efficiency and have earned a reputation for their safety features in recent years, particularly the monitoring devices used for the surveillance of the surroundings of excavators. Meanwhile, our road pavement asphalt finishers hold a dominant market share in Japan.

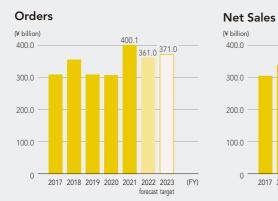
Construction Cranes Co., Ltd. mainly sells crawler cranes in Japan and overseas (except in the Americas), with a market share of over 40% in Japan. In North America, Link-Belt Cranes, L.P., LLLP mainly manufactures and sells truck cranes and has a top-class share of the local market. In the area of material handling systems, we manu-

facture industrial material conveyance systems, logistics systems such as automated warehouses, as well as automated parking systems.

In the area of mobile cranes, Sumitomo Heavy Industries









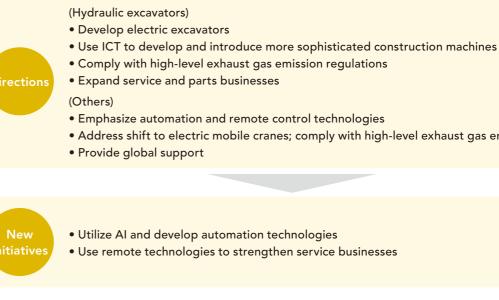
(9.4%)

Looking back on fiscal 2021

Demand for hydraulic excavators showed signs of recovery in all regions except China since its decline in the previous year due to COVID-19. In terms of net sales by region, net sales in Japan rose only modestly year on year due to the impact of logistics disruptions and the shortage of parts required for production on shipments, despite market conditions in Japan remaining firm. While net sales in Europe, the United States, and the ASEAN region rose significantly year on year due to demand recovery, demand in China grew year on year in the first half of the fiscal year but slowed dramatically from the second quarter through the second half of the fiscal year, especially among foreign-affiliated companies, resulting in a yearon-year decline in net sales over the entire fiscal period. Overall, orders, net sales, and operating profit rose year on year across the segment.

Outlook for fiscal 2022/Future plans (directions and new initiatives)

In terms of demand for hydraulic excavators by region, public investment in building national resilience and restoration work undertaken to address the damage caused by frequent natural disasters will sustain a certain level of demand in Japan. In North America, orders are expected to be firm and demand is expected to remain as high as in the previous year despite persistent shortages in the supply of machinery and parts, especially in the area of semiconductors. Although we expect demand in Europe to remain as high as in the previous year, there is a risk of economic recession sparked by Russia's invasion of Ukraine. In China, both overall demand and demand among foreign-affiliated companies are expected to decline. Demand in ASEAN is expected to remain firm, but competition will likely intensify with the entry of Chinese companies into the market. Orders, net sales, and operating profit are all expected to rise year on year for the segment as a whole.



Orders and net sales for mobile cranes in Japan rose year on year as demand in many regions showed signs of recovery compared to the previous fiscal year. Orders and net sales in the United States also rose year on year, reflecting a recovery triggered by the resumption of various economic activities. Operating profit in Japan declined year on year as a result of the shortage of parts required for production and soaring material costs, while operating profit in the United States rose year on year on the back of higher net sales.

In the area of material handling systems, orders rose year on year due to a higher order volume for logistics systems and after-sales services, despite a lower volume of orders for material conveyance systems. Net sales and operating profit declined year on year as a result of fewer large projects compared to fiscal 2020.

In the area of mobile cranes, demand in Japan is expected to decline year on year, while demand in North America is expected to remain firm. Although we expect orders in Japan to decline year on year, net sales and operating profit are expected to rise year on year owing to strong orders in fiscal 2021. In the United States, orders are expected to decline year on year and net sales are expected to be flat year on year due to a shortage of parts required for production despite firm market conditions. As a result, operating profit is also expected to be flat year on year.

In the area of material handling systems, orders are expected to rise year on year as a result of the resumption of investments, primarily in the steel industry, while net sales are expected to rise year on year due to the higher volume of orders received in the previous year. Operating profit is expected to decline year on year due to a change in the composition of the models sold.

• Address shift to electric mobile cranes; comply with high-level exhaust gas emission regulations

Business Energy & Lifelines Overview



Segment strengths

• High efficiency technologies

- Manufacturing capacity and engineering, procurement and construction (EPC) capability
- Operations and maintenance (O&M) know-how

Segment features

In the area of energy plants, we provide the engineering, procurement, construction, and commissioning (EPC) of power plants such as circulating fluidized bed (CFB) boilers, as well as other environmental equipment. In recent years, we have been working on the commercialization of liquid air energy storage (LAES) technology, which allows for large-capacity energy storage.

For water treatment plants, we provide services ranging from facility design and construction to equipment sales, repairs, and operation management, with a focus on

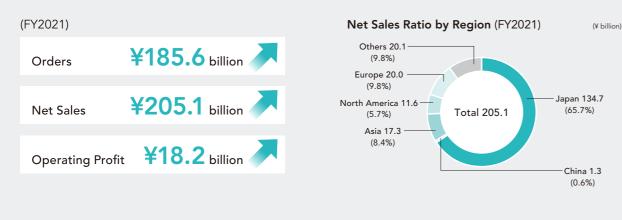
Value we aim to provide

- Realizing a decarbonized, resource-recycling society
- Realizing a recycling-oriented society through resource recycling
- Ensuring a safe and reliable water supply
- Using energy efficiently through heat utilization and recovery
- Developing cutting-edge ships to reduce CO₂ emissions and ensure stable energy transportation

catering to both private and public sectors.

In the area of turbines and pumps, we mainly manufacture small and medium-sized steam turbines used by factories for in-house power generation and to generate electricity for sale, as well as process pumps for oil refinery plants.

For ships, we have successfully achieved not only high-quality products but also superior efficiency for our manufacturing sites and designs through a strategy of differentiation and concentration that is centered on the medium size tanker segment, especially Aframax tankers.



Orders (¥ billion) 250.0 200.0 150.0 100.0 50.0 2017 2018 2019 2020 2021 2022 2023 (FY) forecast targe



250.0

200.0

150.0

50.0



Looking back on fiscal 2021

In the area of energy plants, we delivered four CFB boiler power plants utilizing Japan's FIT (Feed-in Tariff) scheme and received orders for three new biomass power plants. Overseas, Sumitomo SHI FW received orders for three boiler plants. As a result, even though orders declined year on year due to differences in project value, net sales exceeded 100 billion yen for the first time. Operating profit also rose year on year as a result of steady sales.

In the area of water treatment plants, orders rose year on year due to the orders received for large projects, primarily for the operation management of water treatment facilities. However, net sales and operating profit declined year on year as a result of the smaller volume of backorders at the beginning of the fiscal year compared to fiscal 2020, longer delivery times for our products due to a shortage of parts, and operational delays that can be

Outlook for fiscal 2022/Future plans (directions and new initiatives)

In the area of energy plants, the business environment in Japan will undergo a major paradigm shift this year as the FIT scheme transitions to the FIP (Feed-in Premium) scheme along with the introduction and expansion of distributed power sources. Emerging ASEAN economies, particularly Indonesia, have begun to engage with the prospect of launching biomass projects, with new projects starting to emerge. On the other hand, the decarbonization movement in Europe is gaining speed, and the market for large boilers is shrinking rapidly. Orders are expected to rise year on year due to several projects with high feasibility, but net sales are expected to decline year on year due to a decrease in the number of projects. Operating profit is also expected to decline accordingly.

In the area of water treatment plants, there has been continued aggressive investment and a renewal of old plants in Japan with the goal of building national

- energy markets
- consumed energy sources
- Wastewater recycling business development Deploy IoT and ICT to optimize plant operation management manpower • Deploy bioreactors with a view to decarbonization • Strengthen global after-sales service businesses

New nitiatives

Directions

- Develop products that contribute to decarbonization
- Further enhance our plant operation management technologies

attributed to COVID-19.

Despite the sluggish market conditions, orders for turbines and pumps rose year on year due to the resumption of some projects that had been stalled because of COVID-19. While net sales declined year on year due to a smaller volume of backorders, operating profit rose year on year as a result of a higher profit ratio compared to fiscal 2020.

In the area of ships, we received orders for three new vessels, the same as the previous year, which has ensured approximately two years of operation as of the end of March 2022. Net sales declined year on year due to a decrease in sales associated with the building of new vessels, while operating profit declined year on year as a result of the soaring cost of materials, particularly steel.

resilience. Another trend is the movement towards concessions, wide-area expansions, and joint operation of plants. Market recovery in terms of private-sector demand is expected to be modest, with orders, net sales, and operating profit expected to decline year on year, partly as a result of the transfer of our waste treatment business in the previous year.

Orders for turbines and pumps are expected to be flat year on year due to the lingering effects of COVID-19 on the market, while net sales are expected to rise year on year due to the higher volume of orders in the previous fiscal year. On the other hand, operating profit is expected to decline year on year as a result of higher fixed expenses.

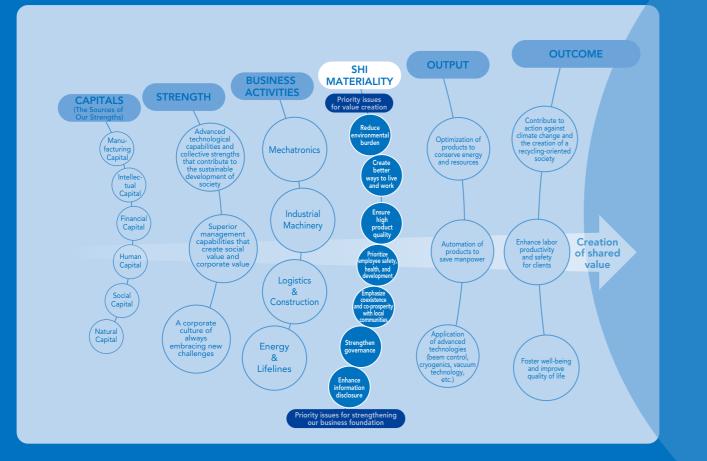
In the area of ships, we expect orders for three vessels as in the previous fiscal year, and we aim to improve profitability on this front.

• Commercialize our offerings in liquefied air energy storage (LAES) and other renewable

• Develop region-specific businesses through the use of biomass and other locally produced/

SHI MATERIALITY

The SHI Group is committed to sustainability-oriented management based on a mediumto long-term perspective with a focus on stakeholders. We have identified seven key sustainability-related issues and are engaged in the appropriate efforts to mitigate medium- to long-term risks, including the risks associated with climate change, while working to address social issues through our business activities. At the same time, we are making every effort to enhance our corporate governance and ensure compliance throughout our Group in order to further strengthen our business foundation.



Sustainability at the SHI Group

The SHI Group has consistently made an effort since its establishment to contribute to the sustainable development of society by providing a diverse range of products and services that support social infrastructure and the production activities of customers. Going forward, we will continue to tackle front-on the complex social issues encapsulated by the SDGs as well as the ESG-related issues that all companies are required to address as we strive to achieve sustainable growth as a company and realize a sustainable society.

Basic Sustainability Policy

Based on Sumitomo's Business philosophy and Sumitomo Heavy Industries Group's management philosophy, we conduct corporate management by enhancing both social and corporate value for the realization of a sustainable society.We have clarified these ideas as a basic sustainability policy.



Key Sustainability Issues

Through a resolution passed by the Board of Directors in 2020, the SHI Group has identified seven material issues from both the perspectives of their importance to society and stakeholders as well as their importance to the SHI Group itself. Through our efforts to address these material issues, we seek to meet the expectations of our stakeholders while pursuing our vision of achieving sustainable growth for the Group.

Identification Process

(1) Extraction of Issues

We identified the key sustainability issues that machinery manufacturers are required to address based on the SDGs as well as the standards of SASB, ISO 26000, and GRI, and with reference to the initiatives of other companies in the same industry.

(2) Narrowing Down of Issues

Through dialogue on ESG material issues with 14 head office divisions and 15 main business divisions, as well as listening to the opinions of external advisors, we

- 1. We shall provide products and services that contribute to economical and technological development and aim for our sustainable growth.
- 2. We shall make every effort to minimize the environmental load in all of our business activities, including the entire product life cycle. In addition, we shall protect the safety, security and health of every person involved in any corporate activities and create a workplace where everyone of us can work vibrantly.
- 3. We shall ensure thorough corporate ethics and improve management soundness and transparency.

have narrowed down ESG material issues based on the following two axes: the scale of impact on the society and how important those issues are to our company. At management meeting and business strategy committee, which are made up of executive officers, we reported on the progress of these activities and confirmed that there were no objections to the narrowed down ESG material issues.

(3) Expert Hearings

We consulted with sustainability experts to assess the validity of the material issues we have identified. We then reviewed the materiality of these issues based on the feedback that material issues for value creation should include not only environmental issues but also social issues (e.g., declining workforce).

(4) Resolutions at the Board of Directors Meetings

The Board of Directors passed a resolution containing these material issues as a key management resolution at its meeting in March 2020.

The Seven Material Issues

Material issues for value creation

1. Environmental Load Reduction

As a machinery manufacturer focusing on business-to-business products, we recognize the importance of both reducing the environmental burden of our own operations—including our manufacturing processes—and reducing the environmental burden of our customers when they use our products. We have therefore been engaging in efforts on both fronts. We also believe that the effective use of resources not only reduces waste but also brings about a reduction of our environmental impact in various ways, including through the reduction of CO₂ emissions associated with the procurement of raw materials, which affirms our commitment to the creation of a circular economy.

Related pages: Natural Capital (Pages 31 to 34), Addressing Climate Change Risks (Pages 50 to 53)

2. Realization of a better life and working style



Japan's declining workforce in recent years due to its declining birthrate and aging population has become a social issue of great concern. We are working to alleviate the

operational burden on our customers and end-users, reduce the number of working hours, and improve safety through the automation and digitalization of our products. We hope to contribute to work-style reforms and better lifestyles for people working in various industries through these efforts.

Material issues for strengthening

our business foundation

3. Ensuring Product Quality

As an integrated machinery manufacturer, we believe that it is our responsibility to continue to provide our customers with a stable supply of high-quality, safe, and reliable products and services. We also believe that product quality is not only about the product's functional properties but also involves important attributes such as its safety for users and the environment. We therefore strive to improve our product quality from multiple perspectives.

Related pages: Manufacturing Capital (Pages 18 to 19)

4. Safety, Health and Education of Employees



We believe that the management of human resources is a particularly significant theme for our Group in order to further accelerate globalization and provide first-class products and services that meet the needs of society in a sustainable manner. Based on our ethos of "Our Business Is the People," which runs throughout the SHI Group, we will not only put safety as our top priority in all our business operations but also actively engage in health management, organizational development, and human resource education.

Related pages: Human Capital (Pages 24 to 28)

5. Co-existence and Co-prosperity with Communities

With numerous business sites based in Japan and overseas, we believe that making contributions to local communities and fostering a spirit of coexistence and co-prosperity are essential for business continuity. We will contribute to the development of local societies and communities by engaging in social contribution activities that leverage the resources and strengths of our Group. Through such activities, we seek to strengthen employee engagement and raise social and environmental awareness, which in turn promotes the sustainable growth of our Group.

Related pages: Social Capital (Pages 29 to 30)

6. Strengthening governance

As a corporate group with a global value chain, we believe that corporate ethics, robust compliance, and risk management are essential building blocks for the sustainable growth of our business. We will also continuously strengthen our corporate governance in order to enhance the soundness and transparency of management.

Related pages: Corporate Governance (Pages 54 to 56)

7. Enrichment of Information Disclosure

We recognize that building stronger relationships with our stakeholders is fundamental to sustainability-oriented management, and we strive to disseminate information and communicate with them through various mediums. Through ongoing communication with all stakeholders, we are committed to understanding the diverse expectations they have of our Group and further refining our model of sustainability-oriented management.

Aligning our Business with Human Rights

As a global business enterprise, the SHI Group recognizes the importance of taking human rights into consideration throughout its entire value chain. In 2021, we launched a company-wide human rights project to identify major human rights risks and establish a management system to address these risks.

Case study: An investigation into the working environment of foreign technical intern trainees

In order to strengthen the alignment of our business with human rights, we have launched a cross-division company-wide project to study and assess potential human rights risks that exist within the Company. Our results found that foreign technical intern trainees are a group that experiences one of the highest risks of human rights violations in Japan. In view of this, we partnered with The Global Alliance for Sustainable Supply Chain (ASSC) in July 2022 for them to lead an investigation into the working environment at our various divisions as well as subsidiaries and affiliates where a large number of our technical intern trainees are attached. In addition to reviewing internal documents and reports, the

Internal Measures Aimed at Instilling Awareness

We believe that medium- to long-term education and activities aimed at raising awareness that have been carefully planned and tailored to each level and position are vital to the promotion of sustainability-oriented management. To this end, we have implemented a variety of measures aimed at achieving this goal.

1. Executive training sessions

We invite experts to conduct sustainability training sessions at least once a year for directors and other officers to help them understand ESG risks, megatrends, international sustainability trends, as well as examples of initiatives undertaken at other companies.

In July 2022, we invited Ms. Chikako Matsumoto, Executive Officer & General Manager of ESG Strategy and Solutions at Sumitomo Mitsui Trust Bank, to deliver a talk on the essential challenges that we need to take on for our Group to achieve sustainable growth from the standpoint of a financial institution. This talk was attended by 35 members of the Sustainability Committee,



Executive training session conducted in July 2022

SHI WAY

CAPITALS (The Sources of Our Strengt

- investigation also involved on-site inspections of working environments and living spaces, as well as interviews conducted with the trainees themselves. ASSC concluded that there were no major issues with the trainees' living spaces and working environ-
- ment. At the same time, we received feedback on areas for improvement that we will continue to work on moving forward.



Interview with technical intern trainees conducted by the Executive Director of ASSC

- who had the opportunity to learn more about the latest global trends in ESG investment, the rationale behind the evaluation criteria, ESG-related challenges in the sectors to which the Company belongs, as well as trends in the financial market that affect our investments and loans.
- 2. Measures aimed at raising awareness of sustainability among all employees
- (1) Sustainability e-learning (conducted once a year)
- (2) Dissemination of information using internal communication tools
 - 1) Serialized articles on sustainability published in the SHI group magazine
 - 2) Dissemination of sustainability-related news through our in-house portal site
- (3) Original learning tool (online card game)



Our in-house portal site

Addressing Climate Change Risks

In October 2021, we accepted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*1 in order to strengthen our response to climate change risks. In May 2022, the Board of Directors passed a resolution to set the target of achieving carbon neutrality (net-zero CO₂ emissions) across the entire SHI Group by 2050 along with our CO₂ emissions reduction targets through 2030 as we step up our efforts to address climate change.

*1 TCFD (Task Force on Climate-related Financial Disclosures) TCFD is a special private-sector-led organization formed at the request of the G20 and composed of members from a wide range of economic sectors and financial markets around the world, including major corporations and credit rating agencies. It recommends that companies evaluate the financial impact of climate change risks and opportunities on their operations and disclose their governance, strategy, risk management, metrics and targets.



Governance

In addition to identifying the reduction of environmental impact as one of the seven sustainability material issues resolved by the Board of Directors in 2020, we have also designated climate change as one of the social issues that our Group should contribute to addressing in our Medium-Term Management Plan 2023.

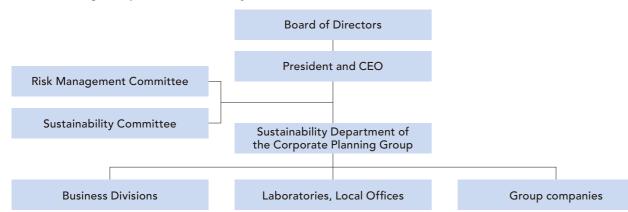
The Risk Management Committee, which is responsible for our company-wide risk management, has positioned climate change risk as a material risk issue and is currently performing the appropriate risk management for this risk under the supervision of the Board of Directors.

The Sustainability Committee, which is chaired by the President & CEO, focuses its deliberations on addressing the issue of climate change by approaching it not only as a risk but also as a source of business opportunities for our Group. The Sustainability Committee reports the results of its deliberations to the Board of Directors twice a year and promotes the relevant initiatives under the supervision and direction of the Board of Directors.

Risk Management Committee (at least twice per year)

The Risk Management Committee, which is chaired by the President & CEO, identifies risks that have a significant impact on the Group and adopts measures to mitigate them.

Sustainability Committee (at least twice per year) The Sustainability Committee, which is chaired by the President & CEO, deliberates on the progress of measures implemented for the material issues and reports to the Board of Directors.



Strategies

The Paris Agreement, which came into effect in November 2016 as a response to global climate change, calls for efforts to keep the global average temperature rise to well below 2°C, and preferably within 1.5°C, as compared to pre-industrial levels. In view of this, our Group has taken action by developing a long-term plan in line with the Paris Agreement. We have assessed the impact of climate change on our Group as the first step in formulating our strategy. The target period for our risk assessment was designated as the next 10 years, given that the effects of climate change on the products of our Group have already become apparent. We then conducted analyses of two different scenarios involving a 1.5°C and a 4°C rise in temperature, respectively.

- 1. A scenario in which measures are implemented and temperature increase is limited to 1.5°C or less
- 2. A scenario in which no effective measures have been implemented and the temperature rises by 4°C

Based on these scenarios, we have identified the impact of stricter regulations on our business as the greatest risk and have decided to focus on adopting measures to mitigate this risk.

The 1.5°C scenario assumes the impact of stricter regulations aimed at reducing CO_2 emissions on our business activities and transition risks such as the increased burden on our business costs as exemplified by the carbon tax. One high-level risk is the tightening of regulations on thermal power generation using fossil fuels. In addition, the higher demand for energy-saving

	Priority Level	Risks	Opportunities		
1.5°C scenario	High	Stricter regulations on power generation using fossil fuels	Stable supply of renewable energy		
	High	Stronger requirements in terms of energy-saving performance	Higher demand for energy-saving products		
	Medium	Stricter regulations on internal combustion engines	Higher demand for electrification and fuel conversion		
	Low	Higher carbon tax and raw material costs	Higher demand for energy- and resource-saving products		
4°C	Medium	Increasingly severe natural disasters	Higher demand for disaster prevention infrastructure		
scenario	Low	Rising sea levels (long-term)	Higher demand for construction machinery for disaster recovery		

In our pursuit of the reduction of CO_2 emissions from product use, we are exploring the possibility of implementing decarbonization measures that include those in areas that cannot be counted toward a reduction of our CO_2 emissions based on the definition of Scope 3 emissions. 1) Measures that can be counted toward a reduction of our CO_2 emissions based on the definition of Scope 3 emissions (CO_2 emissions reduction in the narrow sense) 2) Measures that cannot be counted toward a reduction of our CO_2 emissions based on the definition of Scope 3 emissions but can indirectly contribute to the reduction of CO_2 emissions in the value chain after product delivery (CO_2 emissions reduction in the broad sense)

Tracking CO $_2$ emissions reduction in the broad sense is a unique approach of the SHI Group that seeks to

Climate Change Response Promotion System

technologies among customers in their manufacturing processes will call for the development and provision of even more energy-saving products. On the other hand, based on our analysis, the impact of stricter regulations on internal combustion engines for construction machinery and other equipment will emerge over a relatively longer time frame, as it will take time to develop alternative technologies for heavy machinery, develop the necessary infrastructure, and make the required adjustments to international standards and regulations in various countries. While this scenario assumes higher carbon tax and raw material costs, their impact is limited in our analysis as they only account for a small percentage of our overall costs.

The 4°C scenario assumes an increase in physical risks that are exemplified by increasingly severe extreme weather events. The severity of natural disasters is designated as a medium-level risk, and we anticipate the need to strengthen our business continuity plan (BCP) not only at our manufacturing sites but also across our entire supply chain. In addition, while rising sea levels could have an impact on our manufacturing sites in coastal areas in the long term, we have assessed their impact at the 10-year mark to be relatively minor.

As a machinery and equipment manufacturer that offers a diverse range of product lines, we will evaluate the risks and opportunities by dividing our business into two segments: segments that will be significantly affected by climate change and other segments. This will allow us to achieve our goal of expanding our business by mitigating risks while creating new opportunities.

evaluate the contribution of our Group's products to reducing CO₂ emissions following their delivery to customers. For instance, our products support the decarbonization of production processes through electrification at our customers' production sites and resource conservation from a lower failure rate. Moreover, since our Group provides products and technologies that support the manufacturing process of power semiconductors, we are able to contribute to the impact of various energy-saving products that utilize power semiconductors.

In these various ways, we are currently implementing and considering further measures that allow us to contribute to the reduction of CO_2 emissions in society as a whole through our Group's products.

Addressing Climate Change Risks

Category	Specific examples
CO_2 emissions reduction in the narrow sense	Addressing social issues through our products and services (CSV)
Measures that can be counted toward a reduction of our CO ² emissions based on the definition of Scope 3 emissions	Strengthening R&D: Developing energy-saving and decarbonization-friendly products Revising our product portfolio: Shifting toward energy-saving and decarbonization-friendly products Transitioning our business model: Shifting from product sales toward subscriptions, etc.
Our approach: CO2 emissions reduction in the broad sense	Sharing value creation stories
Measures that cannot be counted toward a reduc- tion of our CO ₂ emissions based on the definition of Scope 3 emissions but can contribute to the reduction of CO ₂ emissions in society as a whole	Supporting energy-saving and decarbonization efforts at the production sites of our customers: Electrification, resource conservation Supporting energy-saving and decarbonization efforts in society as a whole through our customers: Stable supply of renewable energy through energy storage

Business risks and opportunities

The SHI Group is a machinery and equipment manufacturer that offers a diverse range of product lines. We have conducted an evaluation of the risks and opportunities by focusing on our Energy & Lifeline segment and Mechatronics segment, where the impact on our business is expected to be relatively larger due to the higher volume of CO₂ emissions in the course of using products in these segments.

Impact on our Energy & Lifeline (E&L) segment

The demand for coal-fired power plants is already on a downward trend with the transition to a decarbonized society. Therefore, we have shifted the focus of our Group's power plant business toward biomass power plants.

In the course of our business operations, we are closely monitoring market trends in biomass power generation, which is believed to be carbon-neutral, as we

expect existing regulations on CO2 emissions generated during fuel transportation to be tightened.

We also strive to contribute to the stable supply of renewable energy for society as a whole through initiatives such as the development of energy storage systems.

Impact on our Mechatronics segment

With the acceleration of the current trend toward the electrification of hydraulic-drive mechanisms at manufacturing sites, demand for inverters and motors is expected to grow. It is therefore vital for us to respond appropriately to market changes and expand our business opportunities. As we anticipate a growing customer demand for the supply of products with even better energy-saving performance, we will develop not only inverters and high-efficiency motors but also monitoring systems for motors as well as novel solutions that integrate electronic and control devices with gear reducers.

Segment	Main products	Risks	Opportunities/Solutions
Energy & Lifeline	Power plants	 Government restrictions on coal-fired power generation Stricter regulations on biomass power generation using uncertified fuels 	 Growing demand for a transition to energy supply systems with a smaller environmental impact (biomass and energy storage businesses, etc.) Growing demand for the remodeling of existing coal-fired power plants into biomass co-firing power plants
Mechatronics	Power transmis- sion & control equipment	 Growing customer demand for reduced CO² emissions during manufacturing and use of prod- ucts and solutions that meet their requirements Stricter government regulations on the power efficiency of motors 	 Acceleration of the electrification of production facilities Improvement in the value of high-efficiency products Growing demand for systems that integrate electronic and control devices with gear reducers

Risk Management

Our business operations are monitored by the Budget Council, which meets twice a year and comprises the President & CEO as well as other members of senior management. In formulating our Medium-Term Management Plans, backcasting is performed with the aim of addressing social issues that would become relevant in the next 10 years before business plans are formulated by evaluating the risks and opportunities for each business division. Segments whose management is expected to be significantly impacted by issues such as CO2 emissions during the use of products by customers and business scale are flagged for more focused deliberations by the Board of Directors so that improvement measures can be implemented.

The Risk Management Committee, which meets twice a year, identifies risks that have a significant impact on our Group and assesses the priority level of each identified risk for the Company by evaluating its frequency of occurrence and the magnitude of the resulting impact when it occurs. The Risk Management Committee assigns each identified risk to a division to ensure that the risk is managed appropriately while supervising the progress made in this regard. Climate change has been positioned as a material risk issue by the Risk Management Committee.

Indicators and Targets

In May 2022, the Board of Directors passed a resolution to set the target of achieving carbon neutrality across the entire SHI Group by 2050 along with CO2 emissions reduction targets through 2030 on the way to achieving this goal.

The SHI Group has designated CO₂, one of the most abundant greenhouse gases, as the target of its priority measures and has set reduction targets for the total amount of CO2 emissions. As a countermeasure against the potential transition risk of a future increase in carbon

- Aim to achieve carbon neutrality throughout the entire SHI Group by 2050
- CO₂ emissions during product use (Scope 3, Category 11*): 30% reduction by 2030 (compared to FY2019)

Reduction of CO₂ emissions from our group



* Indirect GHG emissions not included in Scope 1 or Scope 2 that come from the use of products sold.

Besides implementing various measures aimed at reducing CO₂ emissions during manufacturing, we have also started to procure renewable energy in fiscal 2022. We have introduced a policy of reflecting CO₂ emissions for each division within the SHI Group in our business evaluation through the implementation of an Internal Carbon Price.

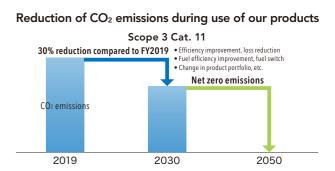
In response to the increasingly severe extreme weather events in recent years, we will strengthen our business continuity plan (BCP) at our manufacturing sites and across our entire supply chain. In April 2022, we established a dedicated BCP department within the General Administration Group whose role is to formulate and implement an effective BCP for the SHI Group. We have been conducting environmental improvement

Climate Change-Related Reduction Targets (Excerpt from the 6th Medium-Term Environmental Plan)

	6th Medium-Term Environmental Plan (FY2020–FY2022)								
ltem	Target value	Base year	Achievement year						
	• 3% reduction in FY2022 compared to FY2019								
1) Reduce CO ₂ emissions	• Abolish the use of heavy oil (fuel conversion)	2019	2022						
(total volume) (Japan)	 Expand investment in energy conservation Consider installation of renewable energy equipment (new buildings) 	2017							
2) Reduce CO2 emissions (total volume) (global)	• (Japan + overseas) 3% reduction compared to FY2019	2019	2022						
3) Reduce CO2 emissions	 Establish emission targets for product usage 	2008	2022						
of products	• Expand Sustainability Plus Products (more than 23 models)	2009	2022						

tax, we have set emissions reduction targets for our manufacturing sites under Scopes 1 and 2. In addition, in order to expedite our transition to a decarbonized society through the provision of products and services that constitute the business foundation of our Group, we have set reduction targets for CO₂ emissions during product use (Category 11), which account for the largest proportion of emissions among the 15 categories of Scope 3 emissions. Scopes 1 to 3 emissions are calculated in accordance with the Greenhouse Gas Protocol.

• CO₂ emissions during product manufacturing (Scopes 1 and 2): 50% reduction by 2030 (compared to FY2019)



activities with the recognition that global environmental conservation and circular economic activities are corporate social responsibilities. We have also been working to reduce our environmental impact by aiming to achieve the targets set for the current three-year period in our Medium-Term Environmental Plan, which is formulated once every three years.

Under our 6th Medium-Term Environmental Plan that began in 2020, we are working to reduce CO₂ emissions from our Group's manufacturing sites (Scope 1 and Scope 2) by 1% per year compared to fiscal 2019. Along with this, we will step up our efforts to procure renewable energy in order to achieve our target of a 50% reduction by 2030 in a self-reliant manner.

→ See page 33 for more details on our 6th Medium-Term Environmental Plan

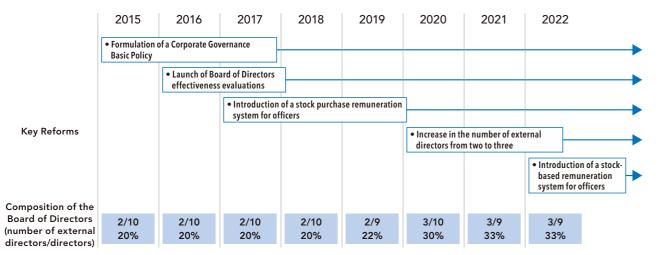
Corporate Governance

Strengthening Our Corporate Governance

The SHI Group has formulated the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. and is working to enhance and strengthen its corporate governance in order to establish a highly

efficient and transparent management structure, as well as to increase its corporate value and enhance the evaluation and confidence of various stakeholders.

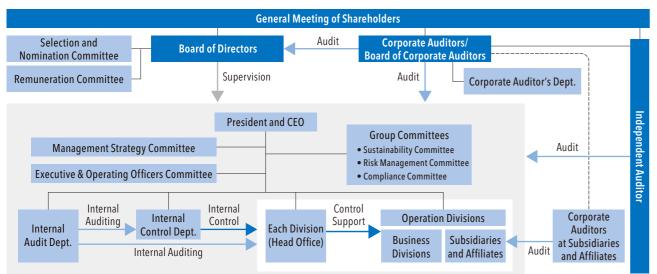
Our Initiatives to Strengthen Corporate Governance



Corporate Governance System

Sumitomo Heavy Industries (SHI) has adopted a governance system of a company with a board of corporate auditors. The system is supported by a dual checking function based on management supervision by the Board of Directors' decision-making over business execution and audits by corporate auditors. The supervisory function is further reinforced by the appointments of multiple external directors and utilization of various discretionary committees, with a view to enhancing management transparency and fairness. This structure is believed to be the most appropriate institutional design for ensuring an effective supervisory function for SHI with its highly diversified business domains.

Corporate Governance System Chart



Supervision

Management Strategy Committee

At the time of submitting this report, the Board of Directors is comprised of nine directors (limited to 12 directors). They include the Chairman of the Board, who chairs the Board of Directors, and three external directors, who supervise management from a standpoint independent from the senior management and whose role is to incorporate the perspectives of external stakeholders into management. The Board of Directors has introduced an executive officer system to create an environment that enables prompt and bold business execution. The senior management reports as appropriate to the Board of Directors on critical management issues and high-risk management challenges, thereby ensuring effective supervision over the senior management and directors. The Board of Directors has also appropriately built up the internal control system and risk management system, pursuant to the Companies Act and other relevant laws and regulations, while supervising the operation of those systems as appropriate by receiving reports from the Internal Control Department on its annual plan and operational status and giving necessary instructions. The Board of Directors meets once a month in principle. Extraordinary Board of Directors meetings are held as appropriate.

SHI has also established the Selection and Nomination Committee and the Remuneration Committee as advisory bodies to the Board of Directors. Both are composed of a

Business Execution

Executive & Operating Officers Committee

The Executive & Operating Officers Committee, chaired by the President and CEO, consists of directors, corporate auditors, executive officers and those responsible for business execution at each operation division of the SHI Group. For the purpose of supervising business execution within the Group, the status of business execution, matters resolved by the Board of Directors and important corporate policies shall be disseminated across the Group, in an effort to follow up with the management of consolidated business results and the implementation of management policies. The Executive & Operating Officers Committee meets once a month in principle.

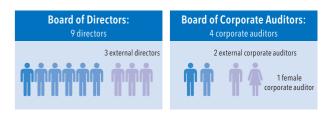
Key Areas of Deliberation for the Board of Directors

General Meetings of Shareholders	Convocation of Ordinary General Meetings of Shareholders		• Formulation of the Basic Sustainability Policy
Settlement of accounts, etc.	Budgets and financial results	Sustainability	• Establishment of reduction targets for CO ₂ emissions
Medium-term management plans Business plans	 Formulation of medium-term management plans Reports on the progress of medium-term management plans from each business division 	Compliance	 Reports on the deliberations of the Compliance Committee
	 Taking action in response to Japan's revised Corporate Governance Code 	Technology/Quality	 Development strategies Status of product quality improvements
Governance	 Board of Directors effectiveness evaluations Implementation of dialogues with shareholders Revision of the stock-based remuneration system for officers 	Risk management	 Reports on the deliberations of the Risk Management Committee
	 Revision of the stock-based remaineration system to onicers Progress of succession plan for the CEO and other top executives Revision of the system of advisory bodies, etc. 	Audits	 Reports on the plans and results of audits conducted by corporate auditors
	Appointment of officers and other key HR matters	Other matters	Capital investments

majority of external officers and chaired respectively by an external director with a view to ensuring objectivity.

Board of Corporate Auditors

The Board of Corporate Auditors is currently comprised of four corporate auditors (limited to five corporate auditors), including the chairman, served by a standing corporate auditor, and two external corporate auditors. Highly effective audits are conducted by external corporate auditors who capitalize on advanced expertise and a wealth of experience in various fields, as well as by standing corporate auditors who capitalize on their expertise and wealth of experience in the Company's management. They also provide their opinions actively to the senior management at meetings, including those of the Board of Directors and the Executive & Operating Officers Committee. The Board of Corporate Auditors meets once a month in principle but may meet at any time as appropriate.



Management Strategy Committee

The Management Strategy Committee, chaired by the President and CEO, consists of directors and others appointed by the President and CEO. It deliberates on matters to be discussed by the Board of Directors, including the important management strategies and business strategies concerning the SHI Group, and equivalent important decision-making matters, as an advisory body to the President and CEO. It reports the results of deliberations to the President and CEO. The Management Strategy Committee meets once a month in principle, but may meet at any time as appropriate.

Corporate Governance

External Directors and External Corporate Auditors

We have determined that our external directors and external corporate auditors meet the requirements of the Company's Independence Standards for External Officers (contained in Chapter 5 of the Corporate Governance Basic Policy of Sumitomo

Executive Compensation

Compensation for the Company's directors and executive officers comprises basic remuneration, performance-linked remuneration, and stock-based remuneration. The approximate component ratios are 60%, 30%, and 10%, respectively. Basic remuneration is a fixed form of remuneration determined for each position. An allowance is added to the remuneration for directors, 85% of which is fixed remuneration. Performance-linked remuneration comprises dividend-based remuneration that fluctuates in response to the Company's annual dividend, as well as performance-based remuneration that fluctuates in response to the consolidated business results for directors and executive officers of the Head Office and to the performance of operation divisions for directors and executive officers in charge of such divisions. The component ratios are 50% and 50%, respectively. The dividend-based remuneration is calculated by multiplying a standard amount for each position by a coefficient determined based on the Company's annual dividend. 15% of the directors' allowance is variable as it is multiplied by the coefficient used for calculating dividend-based remuneration.

Performance-based remuneration linked to the performance of operation divisions is calculated by multiplying a standard amount for each position by a coefficient determined according to the ranks A to E based on the three indicators of net sales, amount of operating profit, and operating profit ratio, and takes into account additional factors such as safety records and compliance status, with the President and CEO as the final decision-maker.

The Company aims to share value with shareholders through the use of these indicators, while incorporating perspectives including profitability, growth potential, financial discipline, safety, and compliance into executive compensation.

Stock-based remuneration is intended to clarify the

Heavy Industries, Ltd.) and that there is no risk of a conflict of interest with general shareholders. We have notified the Tokyo Stock Exchange of all external directors and external corporate auditors who are independent officers.

co-movement between executive compensation and the Company's stock value, and it seeks to raise awareness among officers that they can play a role in improving the Company's performance and increasing its corporate value over the medium to long term by sharing with shareholders the benefits and risks associated with fluctuations in its stock price. Under this remuneration system, a trust established by the Company through monetary contributions will acquire the Company's shares, and these shares will be distributed to each officer through the trust (with the number of shares to be distributed equivalent to the number of points granted to each officer by the Company). The number of points to be granted to each officer, which serves as the basis for calculating the number of shares to be distributed, shall be within the range of points resolved at the General Meeting of Shareholders and shall be allocated in accordance with the officer's position.

Compensation of corporate auditors is determined by mutual consultation among corporate auditors. Compensation of external officers consists solely of basic remuneration. The maximum aggregate amount of compensation paid to directors shall not exceed ¥40 million per month, pursuant to the resolution passed at the General Meeting of Shareholders held in June 2006. Separate from the maximum amount of monetary remuneration for directors (¥40 million per month), a stock-based remuneration system with a maximum aggregate contribution amount of ¥112.5 million from fiscal 2022 through fiscal 2024 will be introduced, pursuant to the resolution passed at the General Meeting of Shareholders held in June 2022. The maximum aggregate amount of compensation paid to corporate auditors shall not exceed ¥10 million per month, pursuant to the resolution passed at the General Meeting of Shareholders held in June 2022.

	Amount of	Amount by	Type of Compensation	n (¥ million)	Number of	
Classification	Compensation (¥ million)	Basic Remuneration	Performance-Linked Remuneration	Stock Purchase Remuneration	Eligible Officers	
Directors (excluding external directors)	326	207	87	32	7	
Corporate auditors (excluding external corporate auditors)	69	69	_	_	2	
External officers	48	48	_	_	6	

Selection and Nomination Committee –

On the advice of the Board of Directors, the Selection and Nomination Committee deliberates on candidates for directors and corporate auditors, dismissal of directors and corporate auditors, appointments and dismissal of representative directors and directors with managerial positions, as well as progress of the succession plan for the CEO and other top executives, and reports to and advises the Board of Directors. The Selection and Nomination Committee meets at any time as appropriate. In FY2021, the committee met four times to report on the appointment of representative directors and directors with managerial positions, as well as the nomination of candidates for directors and corporate auditors, while advising on the appointment of the candidates for executive officers and verifying the progress of the succession plan for the CEO and other top executives.

Remuneration Committee

On the advice of the Board of Directors, the Remuneration Committee deliberates on the system and standards of compensation of directors and executive officers and related matters, and reports to and advises the Board of Directors. The Remuneration Committee meets once a year in principle but may meet at any time as appropriate. In FY2021, the committee met twice to report on the revision of executive compensation for FY2021 and discussed a desirable executive compensation system for the future.

Risk Management

Basic Concept

The importance of risk management, including the management of ESG-related risks, is rising year by year with the expansion of our business scale, the acceleration of globalization, and the increasingly complex nature of social and environmental issues. Based on this recognition, the SHI Group is actively working to strengthen its risk management system and upgrade its risk management processes in order to make optimal management decisions and achieve sustainable growth.

Promotion System

The Risk Management Committee, which meets four times a year, is chaired by the President and composed of the Directors in charge of internal control, finance, technology, and other executive officers of the Head Office, as well as general managers of related Headquarters departments. The Risk Management Committee identifies, analyzes, and evaluates risks from a group-wide perspective, formulates countermeasures, and monitors the status of risk management in each division. The Internal Control Department reports to the Board of Directors twice a year on the progress of the Committee's activities and the monitoring results. In addition, corporate auditors will also audit the risk supervision carried out by the Board of Directors from an independent standpoint.

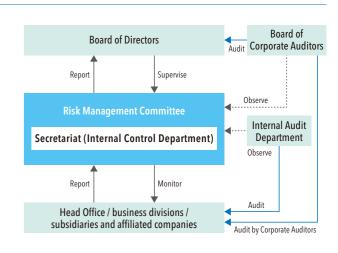
Risk Assessment Process

The Group manages risks by categorizing them into business risks that may arise in the course of business and operational risks that may arise in the course of the daily operations of each department.

In addition, the Risk Management Committee has been established to identify all management-related risks. The Risk Evaluation Subcommittee has been established under the Risk Management Committee to perform an assessment of the identified risks for the entire Group. Following this risk assessment, risks that need to be addressed are categorized as "significant

Overview of Risks

Busine	On archienal viele			
Management-level risks	Business-level risks	Operational risks		
Group governance, Responding to medium- to long-term manage- ment issues [Delays in addressing climate change and next-genera- tion research and development], Information disclosure	External environment, Sales and services, Research, development and design, Production, pro- curement, and logistics, Quality, Information systems, Human resources, Management of large projects, BCP	Work environment, Competition and trading, Finance and account- ing, Business operations, Facilities and properties, Environmental management, Community and social relations, Internal reporting		



Group risks." Risk reduction measures are implemented for these risks, which are then followed up on.

Significant Group risks that have been identified and worked on for fiscal 2022 include climate change risks (risks associated with the transition to a decarbonized economy, the physical risks of increasingly extreme weather events, etc.), risks associated with quality-related misconduct and data tampering, information security risks, as well as risks associated with large-scale disasters, infectious diseases, and serious accidents.

SHI WAY

Compliance

Basic Concept

In order for the SHI Group to continue growing sustainably as a global business enterprise in the future, it is essential for the Group to comply with the laws and regulations of each country, as well as its internal regulations and corporate ethics. To this end, we have formulated the Basic Compliance Policy and are implementing various initiatives throughout the Group to ensure compliance.

Promotion System

The Compliance Committee, which meets twice a year, is chaired by the President and composed of the Officers in charge of internal control, finance, technology, and other executive officers of the Head Office, as well as general managers of related Headquareters departments. The Compliance Committee monitors the occurrence of compliance violations and formulates the necessary preventive measures and other measures aimed at preventing the recurrence of violations. The Internal Control Department reports to the Board of Directors twice a year on the progress of the Committee's activities and the monitoring status of compliance violations. This is followed by deliberations on how the level of compliance can be raised. In addition, corporate auditors will also audit the compliance supervision carried out by the Board of Directors from an independent standpoint.

Initiatives to Strengthen Compliance

• Creation of Compliance Tools

We have compiled a Compliance Manual that outlines the rules and specific behavioral guidelines that must be observed by all officers and employees of the SHI Group. The manual has been distributed to employees to raise awareness of the compliance standards that must be strictly adhered to. The Compliance Manual covers a comprehensive list of compliance-related matters, including sections on compliance with antitrust laws, prohibition of unfair competition, prohibition of bribery, prohibition of harassment, prohibition of insider trading, and proper accounting standards.

Compliance Awareness Survey

To ensure adequate understanding and awareness of compliance among employees and identify potential compliance risks at the workplace, we conduct an annual compliance awareness survey with the aim of maintaining and raising the level of compliance.

Anti-bribery Measures

We have established the SHI Group Anti-Bribery Basic Policy to clarify the anti-bribery rules that all employees of the SHI Group must comply with in order to prevent bribery from taking place. This policy contains clauses on the prohibition of bribery (including facilitation payments), the prohibition of bribery through third parties

• Obtaining a Pledge of Compliance

Board of Directors

Compliance Committee

Secretariat (Internal Control Department)

Head Office / business divisions /

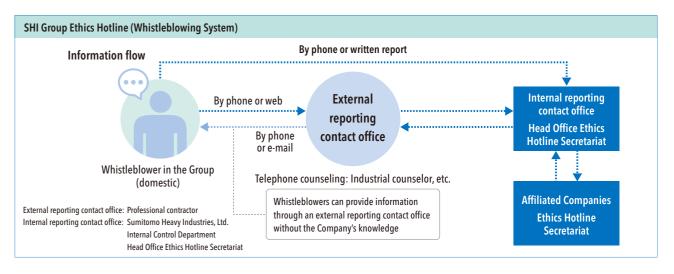
subsidiaries and affiliated companies

As part of our efforts to promote a high level of compliance, we require all managers of the SHI Group and directors of our subsidiaries to submit a pledge of compliance once a year.

such as consultants and agents, and the prohibition of excessive favors in the form of entertainment and gifts. It also clearly states that all violations of relevant laws and regulations or internal regulations will be strictly dealt with in accordance with the provisions of the internal regulations, etc.

Establishment of Systems for Reporting and Consulting

The SHI Group Ethics Hotline was established as a whistleblowing system that allows officers and employees of the SHI Group (including former employees who have departed the Group in the past one-year period) to report and consult on any violations of laws, regulations, or internal rules, as well as circumstances that may pose a risk of such violations. In Japan, we have established a common external contact point for all Group companies, while in China, our main business base, we have established an external reporting contact office that can handle reports or consultation requests in Chinese. In order to maintain a healthy work environment, we have also established an external consultation service



Compliance Education

Name of training	Target participants	Outline	Frequency
Level-specific education	New hires, mid-career hires, newly appointed assistant managers, managers, general managers and officers	Deepen the knowledge of compliance required for each job level	Upon hiring and promotions
Workplace-	Course and the second sec	Deepen the basic understanding of compliance and raise awareness of compliance through the regular reading of the Compliance Manual and regular compliance education at the workplace	Conducted on a regular basis
specific education	Group companies' employees	Raise awareness of compliance through edu- cation and training using the case method, in which participants are divided into groups to discuss and present compliance case studies	Once per year
E-learning	Group companies' employees	Deepen knowledge of compliance through test-based education and training on compli- ance, safety, harassment, and sustainability	Once per year
Function- specific education	Non-managerial employees in sales departments	Gain an understanding of the basics of con- tracts and sustainability as well as the compli- ance risks encountered by sales representatives	Upon assignment to sales departments



Board of

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Internal Audit

Department

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Observe

Audit

Audit by Corporate Auditors

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dedicated to handling workplace harassment issues. All reports are investigated and handled by the Head Office Ethics Hotline Secretariat.

The SHI Group Ethics Hotline accepts reports and consultation requests based on the "SHI Group Ethics Hotline Regulations" (revised June 1, 2022), which complies with the provisions of the Whistleblower Protection Act, and also serves to protect whistleblowers by prohibiting all adverse treatment of whistleblowers, including retaliation against them.

For the number of violations identified by the Ethics Hotline, please refer to Non-Financial Information \Rightarrow P75

We conduct education and training by level and purpose in order to ensure the thoroughness of the Group's compliance.

Directors, Corporate Auditors, and Executive Officers

					Areas of expected expertise and contributions					
	Name	Reasons for Selection	Corporate management	ompliance/ risk management	ESG/ sustainability	Business strategy/ marketing	Global	Technology/ IT/ production	Finance/ accounting	
ard of	Directors					linditioting		picatian	accounting	
	Tetsuya Okamura Representative Director, Chairman of the Board	Mr. Tetsuya Okamura was appointed as a Senior Vice President of the Company in 2012, and he has contributed to strengthening the competitiveness of our plastic machinery business. After his appointment as General Manager of the Industrial Equipment Division in 2017, he was appointed as a Director and Executive Vice President in 2018. He has advanced initiatives to stabilize earnings and enhance the strengths of products in this business segment. He was appointed as Representative Director, Senior Executive Vice President in April 2020 and CIO in April 2021. Since being appointed as Representative Director, Senior Executive Vice President in April 2020 and CIO in April 2021. Since being appointed as Representative Director and Chairman of the Board in April 2022, he has encouraged the enhancement of governance systems and has been responsible for the management of the Company Group as Chairperson of the Board of Directors. In view of his excellent management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company.		0		0	\bigcirc	0		
	Shinji Shimomura Representative Director, President and CEO	As Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery, Mr. Shinji Shimomura accomplished high business growth in the Construction Machinery segment with his strong leadership and was responsible for the management of the Company Group. He was appointed as Representative Director and President & CEO of the Company in 2019, and he has promoted reforms aimed at the creation of greater corporate value and the establishment of a robust business structure, demonstrating leadership in the management of the Company Group as CEO. In view of his excellent manage- ment knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company.	\bigcirc	0	0		\bigcirc	0		
	Eiji Kojima Representative Director, Executive Vice President	After being appointed as General Manager of the Mechatronics Division in 2013, Mr. Eiji Kojima has fulfilled his responsibilities as the head of driving control technologies by leading this business across the Company Group. In 2016, he was appointed as a Senior Vice President, and in the same year, as General Manager of the Energy & Environment Group. He has advanced initiatives to strengthen our business competitive ensors and build competitive advantage. In 2017, he was appointed as a Director. With his promotion to Executive Vice President in April 2021, he has taken the lead in the formulation and promotion of strategies for the entire Company Group as the head of the Corporate Planning Group. In April 2022, he was appointed as a Representative Director and has been responsible for the management of the Company Group may Group and the is excellent management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company.		0	0	0		0		
	Kazuo Hiraoka Director, Executive Vice President	After being appointed as General Manager of the Plastic Machinery Division in 2012, Mr. Kazuo Hiraoka was appointed as Vice President in 2015, as Senior Vice President in 2016, and as Director and Executive Vice President in 2020. From April 2021, he has promoted initiatives aimed at business growth as the head of the Precision Equipment Group, a driver of growth and profitability in the Company Group. In view of his excellent management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company.		0		0	\bigcirc	0		
	Toshihiko Chijiiwa Director, Executive Vice President	Mr. Toshihiko Chijiiwa has contributed to technology development in the Company over a long period of time, having held positions in the technology division that included appointments as General Manager of the Technology Research Center in 2014 and as General Manager of the Corporate Technology Management Group in 2020. After being appointed as Vice President in 2017, he was promoted to Senior Vice President in 2020 and Executive Vice President in April 2022. As the head of the technology division, he has led the Company Group's research and development with his wide-ranging and in-depth technological knowledge and yielded results. In view of his excellent knowledge of various technologies that constitute the Company Group's foundation and his management-related supervising ability, the Company has determined that he is qualified to serve as a Director of the Company.		0	0			0		
	Toshiro Watanabe Director, Senior Vice President	Mr. Toshiro Watanabe has held key positions in the finance and accounting division. After being appointed as General Manager of Corporate Finance, Accounting & Administration Group in 2019, he was appointed as Vice President in 2020 and promoted to Senior Vice President in April 2022. As the head of the finance and accounting division, he has promoted initiatives to enhance the profits of the Company Group by utilizing his extensive knowledge and experience in finance, accounting, and other areas. In view of his excellent management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company.		\bigcirc	\bigcirc				\bigcirc	
	Susumu Takahashi External Director Outside Independent	Mr. Susumu Takahashi possesses a high level of insight in economic and management matters, along with broad-based practical experience at both private corporations and government organizations. The Company therefore expects him, as an external director, to offer useful advice for the promotion of sustainable growth and enhancement of corporate value and to supervise the management of the Company from an objective and independent standpoint.	0	0	0					
	Hideo Kojima External Director Outside Independent	Mr. Hideo Kojima is an expert in finance and accounting with many years of practical experience as a certified public accountant. The Company therefore expects him, as an external director, to offer useful advice for the promotion of sustainable growth and enhancement of corporate value and to supervise the management of the Company from an objective and independent standpoint based on his abundant experience and outstanding insight.		0	0				\bigcirc	
	Akio Hamaji External Director Outside Independent	As a former Representative Director involved in the management of the Company, Mr. Akio Hamaji possesses abundant experience and outstanding insight based on his many years as a corporate manager. In view of his expertise in corporate management, the Company expects him, as an external director, to offer useful advice for the promotion of sustainable growth and enhancement of corporate value and to supervise the management of the Company from an objective and independent standpoint.	0	0	0			0	\bigcirc	
proorat	te Auditors			1	1	1		-1		
	Hideo Suzuki Corporate Auditor	After being appointed as General Manager of the Corporate Finance, Accounting & Administration Group in 2012, Mr. Hideo Suzuki was appointed as Senior Vice President in 2014 and as Director and Executive Vice President in 2018. As CFO since 2019, he has been working to manage the Company Group's operating performance and maintain financial discipline in the Company's investment activities targeting growth. In view of his excellent management knowledge and extensive experience, the Company has determined that he is capable of working with other Corporate Auditors to fulfill his responsibilities as a Corporate Auditor.								
	Jun Nogusa Corporate Auditor	After being appointed as General Manager of the Internal Control Group in 2014 following his tenure as the head of the planning and control in business division, Mr. Jun Nogusa has been working to promote the establishment of internal control systems and compliance initiatives for the Company Group. In view of his broad knowledge and extensive experience in the planning and control in business division and the Internal Control Group, the Company has determined that he is capable of working with other Corporate Auditors to fulfill his responsibilities as a Corporate Auditor.								
	Masaichi Nakamura External Corporate Auditor Outside Independent	Masaichi Nakamura is an expert in finance and accounting with many years of practical experience as a certified public accountant and was committed to cor- porate management as a representative director in the past. The Company therefore expects him to conduct effective audits of the Company's management based on his abundant experience and high level of insight.								
	Yaeko Hodaka External Corporate Auditor Outside Independent	Yaeko Hodaka is well versed in the law and has extensive experience and knowledge, especially in corporate legal affairs, as a lawyer. The Company therefore expects her to conduct effective audits of the Company's management from an objective and independent standpoint as an external corporate auditor, based on her abundant experience and outstanding insight.								

Please refer to the Company's website for the profiles of our directors and corporate auditors. https://www.shi.co.jp/english/company/officer/index.html

SHI WAY

CAPITALS (The Sources of Our Strengths) BUSINESS ACTIVITIES

Directors, Corporate Auditors, and Executive Officers

Composition of each committee in 2022

Name	Current position	Tenure (Years)	Selection and Nomination Committee	Remuneration Committee	Management Strategy Committee	Executive & Operating Officers Meeting	Sustainability Committee	Risk Management Committee	Compliance Committee	Attendance at Meetings of the Board of Directors/ Board of Corporate Auditors
Tetsuya Okamura	Representative Director, Chairman of the Board	4	0	0	0	0	0			Meetings of the Board of Directors: 14/14 (100%)
Shinji Shimomura	Representative Director, President and CEO	6	0	0	O	O	O	0	0	Meetings of the Board of Directors: 14/14 (100%)
Eiji Kojima	Representative Director	5			0	0	0	0	0	Meetings of the Board of Directors: 14/14 (100%)
Kazuo Hiraoka	Director	2				0	0			Meetings of the Board of Directors: 14/14 (100%)
Toshihiko Chijiiwa	Director	New Candidate			0	0	0	0	0	* Appointed in Jun. 2022
Toshiro Watanabe	Director	New Candidate			0	0	0	0	0	* Appointed in Jun. 2022
Susumu Takahashi	External Director	8	0	0		0	0			Meetings of the Board of Directors: 13/14 (93%)
Hideo Kojima	External Director	7	0	0		0	0			Meetings of the Board of Directors: 14/14 (100%)
Akio Hamaji	External Director	2	0	0		0	0			Meetings of the Board of Directors: 14/14 (100%)
Hideo Suzuki	Standing Corporate Auditor				0	0	0	0	0	Meetings of the Board of Directors: 14/14 (100%) * Appointed in Jun. 2022
Jun Nogusa	Standing Corporate Auditor				0	0	0	0	0	Meetings of the Board of Directors: 14/14 (100%) Meetings of the Board of Corporate Auditors: 12/12 (100%)
Masaichi Nakamura	External Corporate Auditor		0	0		0	0			Meetings of the Board of Directors: 12/14 (86%) Meetings of the Board of Corporate Auditors: 12/12 (100%)
Yaeko Hodaka	External Corporate Auditor		0	0		0	0			Meetings of the Board of Directors: 10/10 (100%) Meetings of the Board of Corporate Auditors: 8/8 (100%) * Appointed in Jun. 2022

🔘: Chairperson 🛛 : Committee member

Executive Officers (O designates concurrent position as a director)

	Title	Name	Appointments
0	President	Shinji Shimomura	CEO
	Executive Vice President	Toshiharu Tanaka	Assisting CEO to accelerate business globalization
0	Executive Vice President	Kazuo Hiraoka	General Manager of Precision Equipment Group
	Executive Vice President	Tatsuya Endo	Chairman of Sumitomo Construction Machinery Sales Co., Ltd.; General Manager of Ehime Works
	Executive Vice President	Taiji Tsuchiya	General Manager of Power Transmission & Controls Group
\bigcirc	Executive Vice President	Eiji Kojima	General Manager of Export Administration Department; General Manager of Corporate Planning Group
\bigcirc	Executive Vice President	Toshihiko Chijiiwa	General Manager of Corporate Technology Management Group
	Senior Vice President	Hiroo Morita	In charge of Internal Control Group, Corporate Legal Department, Internal Audit Department and General Administration Group; Regional General Manager of Kansai Office; Chairman of Sumitomo Heavy Industries (China), Ltd.;
	Senior Vice President	Morihiro Kondo	General Manager of Plastics Machinery Division
	Senior Vice President	Yasunobu Kazumi	Representative Director, President & CEO of Sumitomo Construction Machinery Co., Ltd. Representative Director, President & CEO of Sumitomo Construction Machinery Sales Co., Ltd.
	Senior Vice President	Shaun Dean	General Manager of EMEIA HQ, Power Transmission & Controls Group, Lafert S.p.A. Director & CEO, Invertek Drives Ltd. Director & CEO
	Senior Vice President	Tatsuro Araki	General Manager of Production Management Business Division, Power Transmission & Controls Group, President & CEO of Sumitomo Heavy Industries Gearbox Co., Ltd.
\bigcirc	Senior Vice President	Toshiro Watanabe	General Manager of Corporate Finance, Accounting & Administration Group
	Vice President	Shigeru Tajima	General Manager of Process Machinery Center; Representative Director & President of Sumitomo Heavy Industries Process Equipment Co., Ltd.
	Vice President	Kazutoshi Shiraishi	General Manager of Human Resources Group
	Vice President	Mitsukuni Tsukihara	Representative Director, President & CEO of Sumitomo Heavy Industries Ion Technology Co., Ltd.
	Vice President	Takanori Nagai	Representative Director, President & CEO of Sumitomo Heavy Industries Environment Co., Ltd.
	Vice President	Haruhiko Tsuzuki	Representative Director, President & CEO of Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
	Vice President	Melvin Porter	LBCE Holdings, Inc. President & CEO

Roundtable Discussion with External Directors

One year has passed since the Sumitomo Heavy Industries Group launched its Medium-Term Management Plan 2023 (MTMP23). The Group's three external directors sat down to reflect on the past year and discuss the progress being made on the basic policies for MTMP23, namely realizing a sustainable SHI Group and contributing to society through the promotion of CSV, as well as the nature of the remaining challenges. (Conducted on June 29, 2022 at the Head Office conference room)



Our Role as External Directors

Takahashi I believe that our role as external directors is to work together with the management team to make the Group as a whole aware of the necessity and significance of enhancing social value and to contribute to building the capacity to realize this goal.

At the same time, in addition to conducting regular self-checks to ensure that the Board of Directors is functioning effectively, we're also required to listen to stakeholder evaluations of management and improve the quality of management. For this reason, I think it's necessary to enhance information disclosure and strengthen efforts to convey the actual state of management to stakeholders. Currently, our PBR is below 1x. This should be taken as a sign that not only is the Company's communication weak, but also that it's being subjected to the harsh scrutiny of its stakeholders, and as an external director, I am acutely aware of my own responsibility.

Hamaji In the past, external directors have been expected to perform an advisory function at meetings of the Board of Directors and a supervisory function in governance and other areas. In recent years, I feel that we're being called upon by shareholders, in our capacity as their representatives, to make more active contributions by leveraging our expertise to improve corporate value. I would like to take advantage of my experience in managing a conglomerate to promote the development of social value through the synergy of SHI's diverse businesses.

Takahashi Companies like SHI that cut across many segments are susceptible to the so-called "conglomerate discount," which refers to a market valuation below what the businesses would receive on a standalone basis. To prevent this from happening, I think it's important to encourage specific initiatives to maximize synergies between segments and extract the benefits a conglomerate can offer. I also feel that it's the responsibility of the Board of Directors to strive to build a business portfolio that is optimal for a conglomerate.

Kojima As is the trend these days, we are expected to enhance both social value and corporate value. In contemplating our role as external directors, we should think about what it means to improve social value in the current situation.

Increasing social value means improving daily life and

contributing to sustainable development as a society. In order to achieve this goal, it's important to understand how companies can contribute to the creation of a sustainable society through their activities. In the case of SHI, we have the potential to contribute, or have already contributed, to the creation of a sustainable society

through our many businesses and the products we offer. For this reason, I see my role as an external director of SHI as to monitor vigilantly whether the company is realizing increased corporate and social value through its business activities, and to provide advice on how to improve that value.

Assessment of MTMP23

Hamaji In fiscal 2021, the first year of MTMP23, our business results exceeded the plan thanks in part to rebound demand from the COVID-19 crisis in Europe and the United States. Furthermore, the results of previous M&A and capital investments made in anticipation of changes in the external environment have led to an increase in orders in the current fiscal year, so my assessment is that we're getting closer to the vision we have set forth

When we were formulating MTMP23, I recommended strengthening intangible assets, especially development capabilities. The executive side agrees strongly with my assessment, and we continue to invest in development at a higher level than in the past. Meanwhile, the semiconductor industry is characterized by advanced technology development by giant manufacturers and discontinuous ultra-large-scale investments. To survive, we must not be limited by the mind-set of a machinery manufacturer; we need to strengthen our development capabilities to a level comparable to industry standards and make timely and concentrated investments. In the future, it will be essential to allocate management resources according to the attributes of each business and make decisions quickly, and the management team will be required to have a more multifaceted management mindset than in the past.

Takahashi In fiscal 2021, despite being at the mercy of various structural changes taking place worldwide,

we were able to achieve a certain degree of success in terms of business performance, thanks to factors such as the progress of DX worldwide.

In MTMP23 we used the "backcasting" method to lay the foundation for our long-term goals. I think that going forward, in addition to the need for KPIs that specifically evaluate the progress made towards achieving the goals, the challenge will be to promote management reform so that the medium-term targets, which are extrapolated from the business conditions in a single fiscal year, are consistent with the medium-term vision drawn from the long-term targets.

Kojima My understanding is that MTMP23 was formulated with a longer-term perspective than the previous medium-term management plan. From that point of view, the most tangible progress was the establishment of the new segments as part of a review of our business portfolio. I consider it a very good thing that we have consolidated our existing divisions and subsidiaries into four segments with the goal of managing our portfolio at a larger business group level. However, issues remain regarding the management and development policies of the new organization and the utilization of human resources. First and foremost, I believe we need to sort out the scope of authority and responsibility of the segment headquarters and their leaders. I hope to see further progress on this in the remaining two years.

strengthen our intellectual and human capital capabilities, as well as our organizational capabilities.

Kojima I agree that we need to speed things up even more than we're doing now. At last year's roundtable discussion, I noted that we're steadily implementing measures to demonstrate resilience, but we need to strengthen our responsiveness to agility.

If we look at the situation in fiscal 2021, we can say that we've fully demonstrated our resilience. However, when it comes to agility - that is, the speed of transformation in new segments, the establishment of a system to strengthen governance, and business selection and

Status of Progress in Targeted Development Areas

Kojima As our targeted development areas, we set the four themes of Environment, Energy, Automation, and Digitalization. In the last fiscal year, which was the first year of MTMP23, the main task was to select development targets by "backcasting." However, to achieve some degree of success over the next two years or by the next medium-term management plan, we need to speed up the weighting of development targets, the development budget, and the priority allocation of human resources.

Takahashi Among the targeted development areas, the DX and Automation themes are recognized as company-wide initiatives essential for increasing corporate value. These initiatives have already been implemented structurally and achieved results, but we need to speed them up further.

Hamaji I keep an eye on developments in the energy sector. We're working to develop the first commercial Liquefied Air Energy Storage System (LAES) in Japan. We aim to build an operational model of the plant,

Initiatives Related to DX

Takahashi The importance of DX initiatives is becoming increasingly recognized, and the foundation for the use of DX in business operations, such as the use of Al in R&D and after-sales service businesses, is being

Speed of Corporate Reforms

Takahashi We created MTMP23 by "backcasting" from a long-term perspective. By doing so, we were able to clarify where we stood and what we needed to do, which I think gave us the necessary sense of urgency.

At the same time, it's also true that the speed of our actual efforts has not increased sufficiently. To speed up the process, it's important to strengthen our muscles as a company. Specifically, I feel that we need to further

concentration - I'd like to see action taken with a greater sense of urgency.

Hamaji What should we tackle with a sense of urgency? One major theme is the improvement of ROIC, which is a management issue. With regard to ROIC, although company-wide management standards have been established, when it comes to clearly stating the issues to be addressed by each business unit and setting appropriate KPIs, progress has been mixed depending on the business unit, and overall progress has not been monitored by the Board of Directors. I'd like to see us develop these KPIs with a sense of urgency.



which is based on technology developed by Highview Enterprise in the UK, as an energy storage system for the grid that is suited to the Japanese electricity market. This is an initiative that unites the business divisions, investees, and our R&D divisions in a triangular link. If this system can be commercialized, the effective use of electric power, including renewable energy, will advance quickly. We have high expectations for this initiative to make full use of the management resources and strengths that we have acquired through M&A.

established. In order to build the capacity to make the most of DX in all aspects of the provision, maintenance, improvement, development, and organizational management of products and services, we need to deploy

digital-related infrastructure and create systems to develop and educate our human resources. We have already made considerable progress in developing this capacity, and the results are beginning to show, but I would like us to speed up the process a bit.

Kojima From what I've seen, the diversification of our business and its globalization through recent M&As in Europe and the United States have made the advancement of DX more difficult than originally planned. The global COVID-19 pandemic has also contributed to this. DX initiatives are becoming increasingly important, especially in the global deployment of systems for sales strategy, production management including supply

Initiatives Related to the Environment (E)

Takahashi As a company with business segments related to the environment and energy, addressing climate change and sustainability are material issues for us, more so than for other companies. At the same time, they also represent a business opportunity.

Our efforts in these areas are centered on responding to climate change, taking on the challenge of a circular economy, and improving energy efficiency. In particular, now that we have clearly stated our policy on climate change, we're at the stage where we can proceed with measures in line with that policy and link them to concrete results in product development, market creation, and other areas.



chain development, and inventory control, and I hope to see further progress in this area.

Hamaji Efforts to utilize DX in our business are steadily progressing. For example, a few years ago, in one business division that manufactures one-item madeto-order products, where it's difficult to find potential customers to boost sales, a team of women introduced a Marketing Automation (MA) system which has reportedly contributed to an increase in orders. In the future, when a particular department has a success story or acquires empirical knowledge, we should take measures to turn this into best practice and explicit knowledge on a company-wide basis to improve corporate value.

I believe that taking on the challenge of the circular economy is an area that can be expected to become a growth business in the future, just like responding to climate change. We're promoting commercialization in this area to solve social issues through water treatment, resource recycling, and efficient use of energy. In the future, however, we will be faced with the question of how to create a long-term story of value creation, not just short-term businesses centered on our areas of expertise.

Kojima Our response to climate change in terms of reducing negative environmental impact, especially with regard to CO₂ reduction, includes not only direct reductions under Scope 1 and 2, but also indirect reductions by other companies using our products under Scope 3, which is much greater. I therefore think we need to make an effort to provide our stakeholders with a more detailed understanding of the current status of our contribution to reductions, including under Scope 3.

Hamaji I believe we've made great strides in addressing global warming and TCFD over the past year. Going forward, I hope to see progress in creating specific scenarios and implementing them in business to realize our goals.

Initiatives Related to Society (S)

Hamaji One of our society-themed Basic Policies is "Transforming into a company with a comfortable work

environment," and my assessment is that this initiative is progressing steadily. With Japan's declining birthrate and aging population, expanding opportunities for women is an important social issue, and our data at SHI show increases in the number of male employees taking childcare leave and the number of female managers.

Also, we were forced to introduce remote work due to the COVID-19 pandemic, but now preparations are underway to introduce a permanent system to transform into a company with a comfortable work environment, rather than limiting this to a temporary anti-COVID measure. Since the presence of excellent human resources is an essential intangible asset for the Company's growth,

Executive Compensation System

Kojima In terms of corporate governance, "nomination" and "compensation" are the most important themes. From this perspective, I understand that designing a system for compensation incentives should be considered as one way to increase the motivation of executive officers and other employees.

The system adopted by many companies is the introduction of a stock-based compensation system and an increase in the ratio of stock compensation to total compensation. In the case of SHI, we introduced a new stock-based compensation system this fiscal year, but further study is needed to determine how contribution points should be awarded to each director and to what extent stock-based compensation should be increased as a percentage of total compensation. In the case of SHI in particular, each division and segment contributes differently to business performance, and the challenge is how to evaluate them in light of these differences.

Regarding the Qualifications of New Directors

Takahashi Our business is diversified, and I believe it's essential for the Board of Directors to include members who are familiar with our major business segments. Based on this premise, when it comes to new directors, I'd like to appoint people who not only have skills in their own field of expertise, but also a broad range of knowledge and management skills, including in other fields. To this end, we need to pay attention to mid-level employees and above in the Company and implement training and staffing in a way that makes it possible to combine expertise and versatility.

I'd like to see further enhancement of this system.

Takahashi In terms of our role in society, achieving diversity is an important theme for any company. In this regard, in addition to the urgent task of achieving diversity on the Board of Directors, I believe it's necessary to advance efforts to strengthen human capital, further enhance our response to human rights risks, and appropriately disclose such initiatives.

Hamaji The revision of the compensation plan has increased the alignment of the asset value of the compensation consideration with the long-term increase in corporate value and stock price. I applaud these efforts to improve our system for incorporating incentives for rising stock prices into executive compensation. To provide further incentive for sustainable growth and increased corporate value in the future, I think we should consider increasing the ratio of the share price-linked portion of compensation.

Takahashi These institutional reforms, including the introduction of a stock-based compensation system, were implemented after extensive discussions. I think it's too early to judge the results of the new system. My present view is that we should ascertain the results of the reforms as we proceed with further consideration of how the incentives should be structured.

Kojima Even for internal directors and executive officers, different skill sets are required for executive and non-executive roles, and similarly for internal and external roles. It's important to have executives among our internal directors who are highly specialized in each business and have experience in business management. For the non-executive roles, knowledge of portfolio management of the Company as a whole and deep insight into Group governance are required. Moreover, for external directors, it's desirable to have specialized knowledge of company management, economic analysis, international experience, finance, accounting, and legal affairs.

SHI WAY

In addition to this, I would also like to see speedy action on the appointment of female and non-Japanese directors, which is necessary to achieve diversity on the Board of Directors.

Takahashi I agree with you. Board diversity is now an urgent issue, but it's also important to promote diversity throughout the Group. I think we need to move forward more aggressively than ever before to recruit, train, and promote women and foreign nationals and to treat them with respect.

Hamaji When it comes to finding the right people for the challenges we need to address, if we want to achieve sustainable growth and increased corporate value in the future, we need people who are capable of developing breakthrough products and services and at the same time revamping our business portfolio, which are the essential tasks at hand.

I believe that new directors, whether external or internal, need knowledge of global environmental changes and new technological trends, as well as practical experience and knowledge of business restructuring.

How to Proceed with Information Disclosure



Hamaji Although we have a diverse range of businesses, most of them, including our core businesses, are not significantly larger than those of our industry peers. What investors want to know is, in what product areas do we have a competitive advantage, and how do we intend to achieve sustainable growth in the future, despite our inferiority in size?

To gain the trust of shareholders and other stakeholders, I think it's important to clearly state the strategy for each business and to use KPIs to monitor and disclose the appropriateness of the strategies. In addition to improving disclosure on our website, I think we need to take steps such as holding more frequent briefings for investors, especially domestic and foreign institutional investors, and organizing factory tours.

Takahashi It's becoming common knowledge that the accumulation of intangible assets, such as intellectual capital and human capital, is necessary for sustained

enhancement of corporate value. For this reason, it's important to steadily accumulate intangible assets from a medium-term perspective. On the other hand, these intangible assets are difficult to see from the outside and difficult to evaluate.

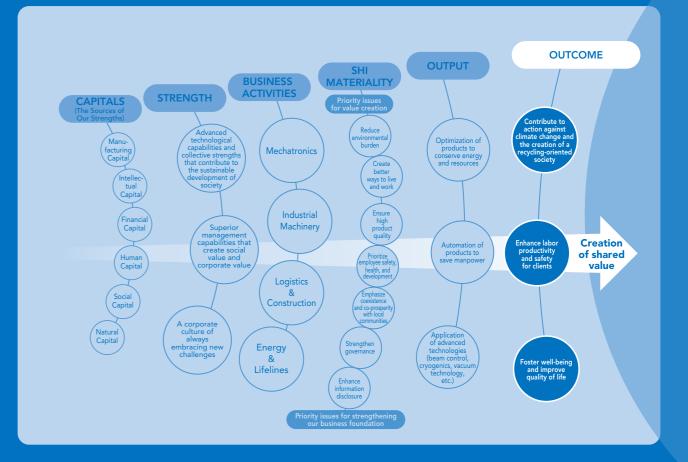
I have the impression that Japanese companies are generally weak in their ability to communicate with the outside world, and I feel that we do not communicate enough about our intangible assets, which are difficult to characterize. In the future, it will be even more important to convey this information to stakeholders through integrated reports and other means, and to further strengthen information dissemination and dialogue.

Kojima The first thing we need to recognize when thinking about information disclosure the fact that our PBR is below 1x. Our intangible assets in particular are not highly evaluated. Improving disclosure alone may not be enough to solve this problem, but until now, I have the impression that even that effort has been insufficient.

Going forward, first and foremost, we need to improve disclosure, and in particular, to actively disclose intellectual property, the value of which is difficult to assess, unless it's strategically confidential. In addition, to demonstrate that we have a long-term perspective, in explaining our long-term strategy up to 2030, we should disclose as much as possible about important intellectual property and development projects that contribute to the expansion of our business and increase our corporate value.

OUTCOME

The SHI Group seeks to enhance both social value and corporate value by tackling social issues through its business activities. In addition, our Group is working to further expand the scope of disclosure of our financial and non-financial information in order to provide stakeholders with a better understanding of our Group's business conditions as well as the progress and outcomes of our Group's activities.



Eleven-Year Summary and Key Financial Data

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

											(unit: million yen)
FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Summary of Income (for the financial year):											
Net sales	¥ 624,100	¥ 585,871	¥ 615,271	¥ 667,099	¥ 700,838	¥ 674,328	¥ 791,025	¥ 903,051	¥ 864,490	¥ 849,065	¥ 943,979
R&D expenses	9,343	9,835	10,718	11,415	12,299	11,276	14,805	16,836	18,753	19,434	20,143
Operating profit	47,135	31,288	34,329	45,998	50,568	48,431	69,921	75,244	56,806	51,342	65,678
EBITDA*1	64,955	49,570	52,946	62,279	70,289	68,742	92,925	101,219	84,758	81,089	96,609
Ordinary profit	44,619	30,997	33,000	45,113	49,131	48,274	67,466	72,623	52,642	49,544	64,847
Profit attributable to owners of parent	19,492	5,865	17,891	24,348	33,133	33,613	34,660	45,650	32,807	26,764	44,053
Cash Flows (for the financial year):											
Cash flows from operating activities	¥ 23,309	¥ 2,660	¥ 63,661	¥ 62,170	¥ 18,315	¥ 38,158	¥ 71,111	¥ 55,173	¥ 36,263	¥ 64,131	¥ 61,679
Cash flows from investing activities	(22,672)	(19,660)	(27,622)	(14,112)	(15,350)	(25,852)	(37,810)	(54,973)	(57,752)	(43,729)	(49,678)
Free cash flows*2	638	(17,000)	36,039	48,058	2,965	12,306	33,301	199	(21,489)	20,402	12,000
Cash flows from financing activities	19,879	(11,428)	(9,498)	(36,889)	(23,789)	(17,809)	(10,146)	(13,314)	35,964	(7,959)	(28,106)
Cash and cash equivalents at the end of the period	72,376	46,476	76,418	90,324	68,625	61,017	85,503	69,776	83,630	96,242	84,992
Financial Position (at financial year-end):											
Total assets	¥ 691,841	¥ 647,724	¥ 724,182	¥ 786,027	¥ 782,859	¥ 796,484	¥ 894,835	¥ 954,051	¥ 996,111	¥ 1,030,684	¥ 1,094,930
Interest-bearing debt	96,522	98,547	107,433	83,644	68,232	60,460	64,181	73,311	124,669	124,439	111,251
Net interest-bearing debt*3	23,149	50,732	29,607	(8,779)	(2,572)	(3,360)	(24,052)	(278)	37,602	24,921	22,468
Total net assets	282,145	292,826	331,059	365,101	382,817	409,171	444,964	465,001	477,648	504,928	566,843
Amounts per Share of Common Stock: (unit: yen) *4											
Earnings*5	¥ 31.75	¥ 9.56	¥ 29.17	¥ 39.71	¥ 54.06	¥ 54.85	¥ 282.83	¥ 372.56	¥ 267.77	¥ 218.46	¥ 359.61
Net assets	454.43	470.69	532.28	587.37	614.51	650.47	3,517.33	3,701.01	3,790.99	4,005.43	4,501.11
Cash dividends	10.00	8.00	7.00	12.00	16.00	16.00	85.00	112.00	91.00	65.00	115.00
Financial Indexes: (unit: %)											
Operating profit ratio	7.6	5.3	5.6	6.9	7.2	7.2	8.8	8.3	6.6	6.0	7.0
EBITDA ratio	10.4	8.5	8.6	9.3	10.0	10.2	11.7	11.2	9.8	9.6	10.2
R&D expenses ratio to net sales	1.5	1.7	1.7	1.7	1.8	1.7	1.9	1.9	2.2	2.3	2.1
Return on assets (ROA)	3.0	0.9	2.5	3.1	4.2	4.2	3.9	4.8	3.3	2.6	4.0
Return on equity (ROE)	7.1	2.1	5.8	7.1	9.0	8.7	8.4	10.3	7.1	5.6	8.5
Stockholders' equity ratio	40.3	44.6	45.1	45.8	48.1	50.0	48.2	47.5	46.6	47.6	50.4
Interest-bearing debt ratio	14.0	15.2	14.8	10.6	8.7	7.6	7.2	7.7	12.5	12.1	10.2
D/E ratio (times)	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.3	0.3	0.2
ROIC*6	7.4	4.9	4.8	6.5	7.6	7.3	10.3	10.5	7.3	6.1	7.3
Investment in Plant and Equipment and Others:											
Capital expenditures*7	¥ 19,682	¥ 29,888	¥ 20,329	¥ 20,670	¥ 23,721	¥ 27,539	¥ 30,432	¥ 33,713	¥ 39,435	¥ 39,885	¥ 46,729
Depreciation	17,820	18,282	18,617	16,281	19,720	20,311	23,003	25,975	27,953	29,746	30,930

*1. EBITDA (Earnings before Interest, Taxes, Depreciation) = Operating profit + Depreciation

*2. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

*3. Net interest-bearing debt = Interest-bearing debt - (Cash and deposits + Securities)

*4. The Company carried out a 5-to-1 reverse stock split for its common stock with an effective date of October 1, 2017. Amounts per share of common stock was calcu-

lated, under the assumption that such share consolidation was conducted at the beginning of FY2017.

*5. Earnings per share of common stock are based on the weighted average number of shares outstanding in each year.

6. ROIC (Return on invested capital) = (Operating profit + Interest and dividend income) x (1 – Effective tax rate) (FY average of stockholders' equity + FY average of interest-bearing debt) * Effective tax rate = 45% until FY2013, 40% for FY2014, 35% for FY2015 and FY2016, 31% from FY2017

 $\star 7.$ Capital expenditures are capitalized and recorded as assets.

SHI WAY

CAPITALS (The Sources of Our Stree ngths)

BUSINESS ACTIVITIES

SHI MATERIALITY

OUTCOME

Non-Financial Key Data

Environment

Addressing Climate Change

		Unit	2017	2018	2019	2020	2021
GHG Emissions (Scope 1)	Total	t-CO2	36,252.29	38,703.92	41,053.73	37,761.82	38,669.69
Ono Emissions (Scope 1)	Data Coverage	%	81.2	80.1	85.9	85.9	92.6
GHG Emissions (Scope 2)	Total*1	t-CO2	138,160.29	151,293.46	153,767.88	148,157.62	156,931.05
GHG Emissions (Scope 2)	Data Coverage	%	81.2	80.1	85.9	85.9	92.6
GHG Emissions (Scope 1, 2 total)	Total*1	t-CO2	174,412.59	189,997.38	194,821.61	185,919.44	195,600.74
GHG Emissions (Scope 1, 2 total)	Data Coverage	%	81.2	80.1	85.9	85.9	92.6
	Cat-01 Raw Materials	t-CO2	313,671	312,242	313,670	356,805	351,365
	Cat-02 Capital Goods	t-CO2	—	143,234	165,751	128,805	154,343
	Cat-03 Energy Usage	t-CO2	_	9,949	20,162	20,280	21,349
	Cat-04 Logistics (upstream)	t-CO2	11,428	11,984	11,562	11,046	11,082
	Cat-05 Waste Treatment	t-CO2	8,405	8,679	6,958	5,767	5,578
	Cat-06 Business Trips	t-CO2	_	1,962	2,120	2,171	3,761
	Cat-07 Employee Commuting	t-CO2	_	5,723	6,006	6,179	11,138
GHG Emissions (Scope 3)	Cat-08 Lease Asset (upstream)	t-CO2	0	0	0	0	0
GING Emissions (Scope 3)	Cat-09 Logistics (downstream)	t-CO2	0	0	0	0	0
	Cat-10 Processing of Products to Be Sold	t-CO2	0	0	0	0	0
	Cat-11 Use of Sold Products	t-CO2		_	225,549,245	123,029,056	136,614,107
	Cat-12 Disposal of Unsold Products	t-CO2	0	0	0	0	0
	Cat-13 Lease asset (downstream)	t-CO2	0	0	0	0	0
	Total	t-CO2	333,504	493,773	226,075,475	123,560,109	137,172,723
	Data Coverage	%	68.9	91.5	97.9	96.8	96.5
CO ² Emission Intensity	Results	¥ million/ t-CO2	4.93	5.14	4.69	4.80	5.05
	Data Coverage	%	81.2	80.1	85.9	85.9	92.6
	Fuel Consumption	MWh	185,438.34	198,417.57	211,819.50	195,697.93	199,485.64
	Electricity Usage	MWh	267,665.24	294,638.67	300,275.98	293,761.00	313,039.12
Energy Consumption	Water Chilling/Heating	MWh	1,195.00	11,192.70	6,581.90	9,306.90	10,248.85
	Total	MWh	454,298.58	504,248.92	518,677.33	498,765.81	522,773.61
	Data Coverage	%	81.2	80.1	85.9	85.9	92.6
Den malela France Communit	Total	MWh	323.40	335.60	323.40	1,223.30	1,297.59
Renewable Energy Consumption	Data Coverage	%	81.2	80.1	85.9	85.9	92.6

*1 Emissions data for Japan included in Scope 2 is calculated on a market basis

Waste Management

			Unit	2017	2018	2019	2020	2021
	Waste Generation		t	47,503.35	55,031.60	64,165.10	60,866.40	62,591.06
Volume of Waste Disposed	Final Disp	osal Volume	t	704.50	760.30	8,234.10	1,234.70	1,294.45
	Data C	overage	%	81.0	83.6	85.6	85.5	84.2
Volume of Hazardous	T	otal	t	287.27	4,079.37	303.21	817.65	708.26
Waste Disposed	Ta	rget		SHI Group (Japan)				
	Total		t	643.38	735.63	684.35	691.20	716.28
	Data Coverage		%	85.0	87.4	87.8	88.6	86.0
Volume of Volatile Organic Compounds (VOC)		Toluene	t	111.69	128.93	121.74	99.02	100.37
compounds (voc)	Breakdown of domestic	Xylene	t	321.59	351.20	304.88	267.09	257.93
	domestic	Ethylbenzene	t	125.33	167.08	154.95	158.11	148.57
Volume of NOx Emissions	T	otal	t	3.18	2.90	3.11	4.11	3.31
volume of NOX Emissions	Data C	overage	%	50.4	49.5	49.1	49.5	46.6
V/1 (CO F : :	Т	otal	t	0.83	0.81	0.64	0.50	0.18
Volume of SOx Emissions	Data C	overage	%	50.4	49.5	49.1	49.5	46.6

Water Resources Preservation

		Unit	2017	2018	2019	2020	2021
	Municipal Water Supply	thousand m ³	586.99	714.92	759.55	725.00	737.48
	Industrial Water	thousand m ³	621.80	621.80	622.20	610.00	618.10
Water Consumption	Fresh Water & Ground Water	thousand m ³	169.51	190.57	175.85	179.16	197.92
	Total	thousand m ³	1,378.30	1,527.30	1,557.60	1,514.16	1,553.50
	Data Coverage	%	76.4	79.9	80.6	77.1	76.5
Westernature Disala ana	Total	thousand m ³	425.15	467.52	453.90	478.13	460.38
Wastewater Discharge	Data Coverage	%	52.9	50.9	51.3	51.6	47.5

Environmental Management

		Unit	2017	2018	2019	2020	2021
ISO 14001 Cartification Status	Number of Certifications Acquired	Instances	55	55	56	58	58
ISO 14001 Certification Status	Acquisition Rate	%	77.9	80.0	80.1	80.6	79.4
Serious Violations of Environmental	Number of Cases	Instances	0	0	0	0	0
Laws and Regulations*2	Data Coverage	%	77.9	80.0	80.1	80.6	79.4

 $\star 2$ Cases with fines and penalties of US\$10,000 or higher

Social

Employee Data

		Unit	2017	2018	2019	2020	2021
Employees (consolidated)	Total	Number of employees	21,017	22,543	23,635	24,050	24,5
	Male	Number of employees	2,568	2,675	2,719	2,960	2,9
	Ratio	%	89.8	89.1	88.6	88.2	88
Full-Time Employees/Employees (SHI)	Female	Number of employees	289	327	349	396	4
	Ratio	%	10.1	10.9	11.4	11.8	1:
	Total	Number of employees	2,857	3,002	3,068	3,356	3,3
	Male	Number of employees	20	20	19	20	
	Ratio	%	100	100	100	100	1
Executive Officers	Female	Number of employees	0	0	0	0	
	Ratio	%	0.0	0.0	0.0	0.0	
	Total	Number of employees	20	20	19	20	
	Male	Number of employees	802	817	835	904	ç
	Ratio	%	98.5	98.4	98.4	98.2	9
	Female	Number of employees	12	13	14	17	
Managers	Ratio	%	1.5	1.6	1.6	1.8	
	Total	Number of employees	814	830	849	921	Ģ
		Target	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolic
	Under 30	Number of employees	488	527	523	551	5
	30-39	Number of employees	697	738	777	889	8
	40-49	Number of employees	740	757	778	831	5
Employees by Age Group	50-59	Number of employees	706	770	777	852	5
	Above 60	Number of employees	226	210	213	233	2
		Target	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolic
	Male	Years	16.9	17	16.8	16.6	1
	Female	Years	12.0	12.0	11.9	11.9	1
Average Length of Service by Gender	Total	Years	16.4	16.4	16.2	16.1	1
		Target	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolic
	Total	%	2.44	2.32	2.39	2.32	2
Employment Ratio of Disabled People		Target	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolid
Percentage of Employees Covered by	Total	%	60.7	60.3	63.4	64.2	6
Collective Bargaining Agreements		Target	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolid
Rounds of Collective Bargaining (Labor-	Total	Rounds	_	_	_	_	1
anagement Consultations) with Labor Unions		Target	_	_	_	_	Non-consolid

Non-Financial Key Data

Employee Data

		Unit	2017	2018	2019	2020	2021
	Male	Number of employees	107	124	129	139	119
	Ratio	%	77.5	81.6	81.1	86.3	79.3
	Female	Number of employees	31	28	30	22	31
New Graduate Hires	Ratio	%	22.5	18.4	18.9	13.7	20.7
	Total	Number of employees	138	152	159	161	150
	Tarc	jet	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Male	Number of employees	81	86	97	59	90
	Female	Number of employees	11	15	11	7	8
Career Hires	Total	Number of employees	92	101	108	66	98
Career Hires	Ratio of Mid-career Hires to Full-time Workers	%	40.0	39.9	40.4	29.1	39.5
	Taro	,	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Male	%					2.4
Total Turnover Rate	Female	%					4.2
	Total	%	2.4	2.7	2.5	2.4	2.6
	Tarç	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Male	%					2.1
Retirement Rate for Personal Reasons	Female	%					3.0
Nethement Nate for reisonal Neasons	Total	%	1.5	1.7	2.2	1.6	2.2
	Taro	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Percentage of Highly Engaged Employees	%		48		49	_
Employee Awareness Survey Results	Tarç	get	_	SHI and 30 consolidated subsidiaries	_	SHI and 30 consolidated subsidiaries	-
Percentage of Employees Taking	Total	%	72.3	74.1	75.9	73.6	68.6
Paid Vacations	Targ	jet	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Male	Number of employees	56	77	91	70	62
Faulture Taking Children Leave	Female	Number of employees	7	5	8	16	10
Employees Taking Childcare Leave	Total	Number of employees	63	82	99	86	72
	Targ	jet	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Male	%	61.5	63.1	85.8	71.4	68.9
Childcare Leave Utilization Ratio	Female	%	100	100	100	100	100
Childcare Leave Othization Natio	Total	%	64.3	64.6	86.8	75.4	72.0
	Tarç	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Average Number of Days of Childcare	Total	Days	7.6	12.3	11.4	11.0	33.3
Leave Taken by Male Employees	Tarç	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Male	Number of employees					1
Employees Utilizing Shortened Working Hours for Employees with	Female	Number of employees				—	27
Childcare Needs	Total	Number of employees					28
	Tarç	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Annual Training Hours Per Employee *3	Total	Hours			—		4.2
	Tarç	get					SHI Group (in Japan)
Annual Training Expenses	Total	Yen				49,230	79,228
Per Employee	Taro	get				Non-consolidated	Non-consolidated

*3 Calculated based on key training programs organized by the Human Resources Group (Head Office)

Occupational Health and Safety/Health Management

			2017	2018	2019	2020	2021
Work-Related Fatalities	Total	Number of employees	0	0	0	0	0
Work-Related Fatalities	Tarç	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Occupational Accident Frequency	Frequency rate	%	0.0	0.5	0.0	0.0	0.3
Rate (employees)	Tarç	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Occupational Accident Frequency	Frequency rate	%	0.1	0.3	0.2	0.2	0.6
Rate (employees and contract workers)	Targ	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Working Hours Per Year	Total	Hours	2,039	2,029	1,989	1,975	1,987
Working Hours Fer fear	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
	Total	%	_	_	_	33.3	50.0
Percentage of Companies with ISO 45001 Certification	Targ	get	_	_	_	Domestic Main Works	Domestic Main Works
Demonstration of Cruzilians	Total	%	27.3	30.6	27.9	27.7	26.6
Percentage of Smokers	Targ	get	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated

CSR Activities

		Unit	2017	2018	2019	2020	2021
Social Contribution	Total	¥ million	69	82	35	301	33
Expenditures	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated

Supply Chain Management

		Unit	2019	2020	2021
	Japan		69.7	72.7	68.9
	China		10.7	10.9	12.1
	South Korea		2.8	2.5	2.4
Cumpling Status by Danian	Taiwan		0.2	0.2	0.3
Supplier Status by Region	Asia, etc.	%	5.1	4.7	6.3
(procurement amount ratio)	North America and Latin America		6.0	3.5	3.4
	Europe		5.5	5.5	6.6
	Other Areas		0.0	0.0	0.0
	Number of Tier 1 Suppliers	Companies	7,559	7,537	7,481
Critical Suppliers	Number of Critical Tier 1 Suppliers	Companies	288	288	409
Cumpling Cumpu	Number of Surveys	Companies	288	288	409
Supplier Survey	Implementation Rate	%	3.8	3.8	5.5

Governance

Corporate Governance

		Unit	2017	2018	2019	2020	2021
	Total Number	Number of directors	10	10	9	10	9
	Executive Directors	Number of directors	8	8	7	7	6
Compatibility of Directory	Non-executive Directors	Number of directors	2	2	2	3	3
Composition of Directors	External Directors	Number of directors	2	2	2	3	3
	Female Directors	Number of directors	0	0	0	0	0
	Non-Japanese Directors	Number of directors	0	0	0	0	0
Attendance Rate at	Average	%	99.3	99.3	100.0	99.2	98.5
Board Meetings	Minimum Attendance Rate	%	93.3	92.9	100.0	92.3	92.9
Average Tenure of Directors		Years	4.3	4.3	4.0	4.7	3.4
	Total Number	Number of directors	4	4	4	4	4
Composition of Composito	External Corporate Auditors	Number of directors	2	2	2	2	2
Composition of Corporate Auditors	Female Corporate Auditors	Number of directors	0	0	0	0	1
Auditors	Non-Japanese Corporate Auditors	Number of directors	0	0	0	0	0
Attendance Rate at Board of	Average	%	—	_	—	_	100.0
Corporate Auditors Meetings	Minimum Attendance Rate	%	—	—	_	—	100.0

Business Ethics

		Unit	2017	2018	2019	2020	2021
Compliance Education by	Employees Completing Compliance Education	Number of employees	10,874	12,231	12,838	14,599	14,489
E-learning	Implementation Rate (% of all employees who have completed the program)	%	51.7	54.3	54.3	60.7	58.9
	Total	Number of employees	2,436	2,748	2,745	2,852	3,217
Employees Who Submitted the Compliance Pledge	Submission Rate (% of all employees who submitted the pledge)	%	11.6	12.2	11.6	11.9	13.1
Managers Submitting Pledge	Total		70	83	125	143	156
of Compliance	Of which, Number of Non-	compliance Cases*4		_	_	6	10
Amount of Political Donations	Total	¥ million	—	—		1.5	1.5
Amount of Political Donations	Target		—	—	—	Non-consolidated	Non-consolidated

 $\star\!4$ Excluding cases currently under investigation

SHI WAY

Corporate Data (As of March 31, 2022)

Company Name	Sumitomo Heavy Industries, Ltd.	Dom
Head Office	1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan	Chubu
Tel	+81-3-6737-2331	Kansa
URL	http://www.shi.co.jp/english/index.html	Kyush
Founded	1888	
Incorporated	November 1, 1934	Tanasł
Paid-In Capital	¥30,871,651,300	Chiba
Number of Employees	24,584 (Consolidated) 3,370 (Non-consolidated)	Yokosi

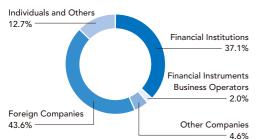
Chubu Office	10-24, Higashi-sakura 1-chome, Higashi-ku, Naqoya-shi, Aichi 461-0005, Japan	Tel: 81-52-971-3063
Kansai Office	3-33, Nakanoshima 2-chome, Kita-ku, Osaka-shi, Osaka 530-0005, Japan	Tel: 81-6-7635-3610
Kyushu Office	8-30, Tenyamachi, Hakata-ku, Fukuoka-shi, Fukuoka 812-0025, Japan	Tel: 81-92-283-1670
Tanashi Works	1-1, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-8585, Japan	Tel: 81-42-468-4104
Chiba Works	731-1, Naganumahara-machi, Inage-ku, Chiba-shi, Chiba 263-0001, Japan	Tel: 81-43-420-1351
Yokosuka Works	19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan	Tel: 81-46-869-1842
Nagoya Works	1, Asahi-machi 6-chome, Obu-shi, Aichi 474-8501, Japan	Tel: 81-562-48-5111
Okayama Works	8230, Tamashima-Otoshima, Kurashiki-shi, Okayama 713-8501, Japan	Tel: 81-86-525-6101
Ehime Works — Niihama Factory	5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan	Tel: 81-897-32-6211
Ehime Works — Saijo Factory	1501, Imazaike, Saijo-shi, Ehime 799-1393, Japan	Tel: 81-898-64-4811
Technology Research Center	19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan	Tel: 81-46-869-2300

Stock-Related Information (As of March 31, 2022)

Stock Information

Transfer Agent	Sumitomo Mitsui Trust Bank Limited
Stock Exchange Listing	Tokyo
Shares Outstanding	122,905,481
Number of Shareholders	32,562

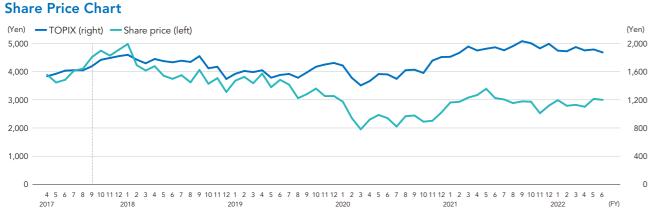
Distribution of Shareholders



Major Shareholders

Name of shareholder	Number of shares held (thousands of shares)	Ownership ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	20,297	16.6
Custody Bank of Japan, Ltd. (Trust account)	9,247	7.5
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	7,083	5.8
Sumitomo Life Insurance Company	4,333	3.5
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,959	3.2
Sumitomo Heavy Industries, Ltd. Kyoeikai	3,070	2.5
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	2,442	2.0
Sumitomo Mitsui Banking Corporation	2,000	1.6
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	1,996	1.6
THE BANK OF NEW YORK MELLON 140042	1,948	1.6

Note: Ownership ratios are calculated less treasury stock (405,310 shares). The Company's name is listed as the shareholder of record for treasury stock, but this figure includes 200 shares that the Company in effect does not own.



* The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017.

Recognition from Society (as of end of August 2022)



FTSE Blossom Japan Sector Relative Index



CDP DISCLOSE 2021

EcoVadis

CDP (Climate Change: B-/Water: B-)



3rd Nikkei SDGs Management Survey 5th Nikkei Smart Work Management Survey



S&P/JPX Carbon Efficient Index







SOMPO Sustainability Index



Platinum Kurumin Certification awarded by MHLW



Excellent Enterprise of Health and Productivity Management 2022

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