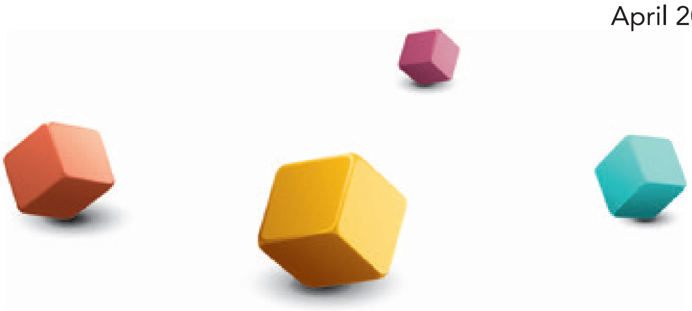
SHI

Integrated Report 2021

April 2020–March 2021



Sumitomo Heavy Industries, Ltd.

BUILDING ON A SOLID FOUNDATION

Positioning of Integrated Report 2021

Corporate Information

Financial | Non-Financial | Technical Information

- Integrated Report 2021
- Securities Reports | Corporate Governance Report
- Interim Business Report "To Our Shareholders" | CSR Activities Report
- Website "Investor Relations" | Website "Sustainability"
- Sumitomo Heavy Industries Technical Review

Securities Reports | Corporate Governance Report | Interim Business Report "To Our Shareholders" | Sumitomo Heavy Industries Technical Review

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 (such as environmental and sustainability data).

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

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

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 2021 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., 142 consolidated subsidiaries (39 in Japan, 103 overseas) and 6 equity- method affiliates (1 in Japan, 5 overseas). Context changes are duly noted in the text.

"Timeline"
This report covers FY2020 (April 1, 2020 to March 31, 2021). Coverage of overseas subsidiaries is from January 1, 2020 to December 31, 2020 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

Cautionary Note Concerning Forward-Looking Statements

Integrated Report 2021 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.

CONTENTS

To Our Stakeholders

The Sumitomo Heavy Industries (SHI) Group was established in 1888 as a machinery production and repair shop for the Besshi Copper Mine, the founding business of the Sumitomo Group. We have since evolved along with the development of society and industry. We are committed to fulfilling our corporate mission in accordance with the Sumitomo Business Philosophy, which embodies the common philosophy of all Sumitomo Group companies. The Sumitomo Business Philosophy is also highly compatible with today's environment where social skills are emphasized and 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 providing a variety of products and services that meet the demands of the times. We will continue refining our products and services to meet the needs of our customers. To help realize a sustainable society, meanwhile, we will deploy innovation to develop and provide products and services that offer solutions to social issues. We believe this will help the Group achieve sustainable development and enhanced corporate value and thus meet the expectations of shareholders, employees, and local communities.

In Integrated Report 2021, 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.

SUMITOMO'S BUSINESS PHILOSOPHY

Business Philosophy

Article 1
Sumitomo shall achieve prosperity based on a solid foundation by placing prime importance on integrity and sound management in the conduct of its business.

Article 2
Sumitomo's business interest must always be in harmony with public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

[Commentary]

1. Sumitomo shall achieve prosperity based on a solid foundation by placing prime importance on trust and reliability.
2. 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.

BUSINESS PRINCIPLE

Corporate Mission Statement

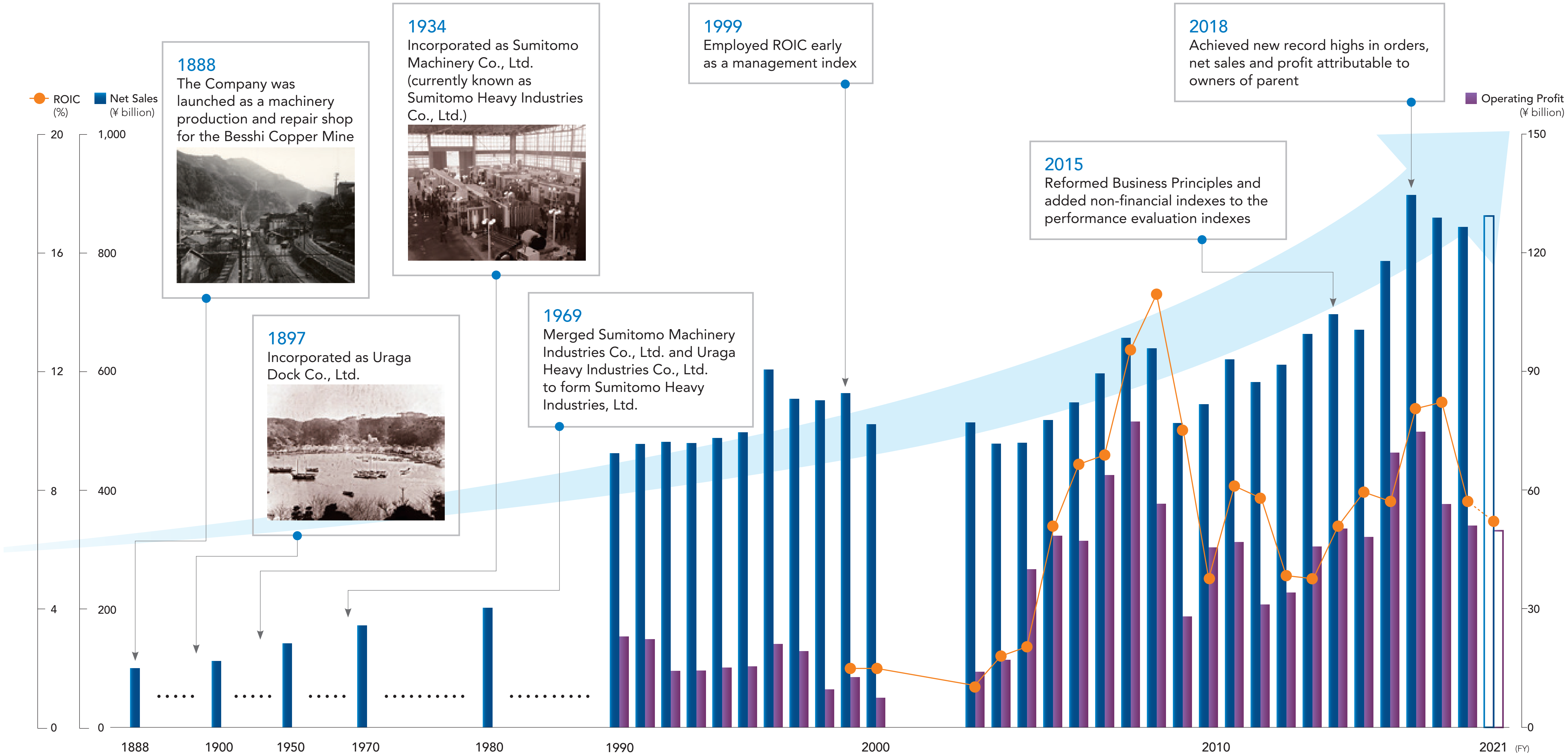
We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world.

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



1888 The Company was launched as a machinery production and repair shop for the Besshi Copper Mine

1897 Incorporated as Uraga Dock Co., Ltd.

1934 Incorporated as Sumitomo Machinery Co., Ltd. (currently known as Sumitomo Heavy Industries Co., Ltd.)

1949 Listing of Company stock on both the Tokyo and Osaka stock exchanges

1961 Established Nagoya Works

1962 Uraga Dock Co., Ltd. merged with Uraga Tamashima Diesel Co., Ltd. to form Uraga Heavy Industries Co., Ltd.

1966 Established Sumitomo Machinery Corporation of America (SMA)

1969 Merged Sumitomo Machinery Industries Co., Ltd. and Uraga Heavy Industries Co., Ltd. to form Sumitomo Heavy Industries, Ltd.

1972 Established Oppama Shipyard (currently known as Yokosuka Works)

1973 Established Toyo Factory (currently known as Ehime Works—Saijo Factory)

1974 Equity investment made into Cyclo Getriebebau Lorenz Braren GmbH (currently, Sumitomo (SHI) Cyclo Drive Germany GmbH)

1980 Established Sumitomo Heavy Industries Casting and Forging Co., Ltd. (currently known as Sumitomo Heavy Industries Himatex Co., Ltd.)

1982 Merged with Nittoku Metal Industry Co., Ltd. to form the Precision Equipment Division (currently known as the Precision Equipment Group)

1983 Established Sumitomo Eaton Nova Corporation (currently, Sumitomo Heavy Industries Ion Technology Co., Ltd.) jointly with Eaton Corporation in the U.S.

1986 Established Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

1999 Acquired Osaka Chain and Machinery, Ltd. (currently known as Sumitomo Heavy Industries Gearbox Co., Ltd.)

Established Sumitomo Heavy Industries Engineering & Services Co., Ltd. (currently known as Sumitomo Heavy Industries Material Handling Systems Co., Ltd.)

2000 Established Sumitomo Heavy Industries Finetech, Ltd.

Acquired CBC Tech Co., Ltd., a manufacturer of extrusion molding machines, and renamed it as Sumitomo Heavy Industries Modern Machinery, Ltd. (currently known as Sumitomo Heavy Industries Modern, Ltd.)

2002 Established Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (currently, Sumitomo Heavy Industries Construction Cranes Co., Ltd.) jointly with Hitachi Construction Machinery Co., Ltd.

2003 Acquired 100% ownership of Shin Nippon Machinery Co., Ltd. after a stock swap

2006 Acquired 100% ownership of SEISA Gear, Ltd. (currently, Sumitomo Heavy Industries Gearbox Co., Ltd.)

2008 Acquired 100% ownership of Demag Plastics Group (currently, Sumitomo (SHI) Demag Plastics Machinery GmbH)

2009 Acquired 100% ownership of SEN-SHI and Axcelis Company (currently known as Sumitomo Heavy Industries Ion Technology Co., Ltd.)

2010 Acquired 100% ownership of Nihon Spindle Manufacturing Co., Ltd.

2011 Acquired 100% ownership of Hansen Industrial Transmissions NV in Belgium

2015 Sumitomo Heavy Industries Material Handling Systems Co., Ltd. takes over the industrial crane business from Mitsubishi Heavy Industries Machinery Technology Corporation

2017 Acquired 100% ownership of Persimmon Technologies in the U.S.

Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (currently, Sumitomo Heavy Industries Construction Cranes Co., Ltd.) became a consolidated subsidiary

Acquired the CFB boiler business of Amec Foster Wheeler plc (currently, Sumitomo SHI FW Energie B.V.)

2018 Acquired 100% ownership of Italian industrial motor manufacturer, the Lafert Group

2019 Invertek Drives Ltd. became a wholly owned subsidiary

MTMP*2023

- Aiming to strike a "balance between corporate value and social value" and determine a long-term direction by "back casting" while reviewing the "business portfolio" to maximize value as plan targets.
- For fiscal 2023, targeting net sales of ¥970.0 billion, operating profit of ¥70.0 billion and ROIC of 7.5% or more.

MTMP*2019

- We achieved steady growth and transformed ourselves into a highly profitable company by our strengthening overseas business and service activities, making proactive investments, and engaging in M&As and alliances.
- We identified the material issues of the SHI Group and focused on CSR initiatives.
- Through aggressive growth-oriented investments, including in M&As, we achieved our financial targets in fiscal 2018, the second year of the plan.

MTMP*2016

- We accelerated globalization through the acquisition of SFW and aggressively invested in growth-oriented, high-margin businesses.
- We achieved our initial financial targets for net sales and ROIC in fiscal 2015, the second year of the plan.

* Medium-Term Management Plan

Message from the President

The Sumitomo Heavy Industries Group will take on the challenge of transforming itself with the aim of becoming a company that contributes to sustainable growth and expanding its social value.

Fiscal 2020 in Review

In fiscal 2020, due to the impact of the spread of COVID-19, a state of emergency was declared and economic activity stagnated in Japan. Overseas, lockdowns caused by the pandemic and the resulting drop in economic conditions led to global demand for machinery entering a downward phase. In addition, the ongoing geopolitical risks due to the worsening trade dispute between the United States and China and the volatility and slump in crude oil prices led to an increased sense of uncertainty.

In such a business environment, the SHI Group has been taking measures against COVID-19 such as ensuring the safety of our employees and cooperating with social demands to the maximum extent possible. We endeavored through trial and error to implement a business continuity plan (BCP) for maintaining production in the event of an outbreak within the Group while also maintaining the business and our operations amid declining orders. Despite these efforts, for fiscal 2020 the Group received orders totaling ¥813.9 billion and posted net sales of ¥849.1 billion and operating profit of ¥51.3 billion, a decrease in both sales and profits from the previous fiscal year.

Market trends were not foreseeable due to COVID-19, and the new Medium-Term Management Plan, which was scheduled to start in fiscal 2020, was postponed. The earnings forecast for fiscal 2020 could not be finalized when the full-year earnings for fiscal 2019 were announced in May 2020. Fortunately, the negative impact of COVID-19 has not been as detrimental as we had initially expected, as we announced our forecast in August 2020 and later revised it upward twice, in October 2020 and January 2021.

With regard to extraordinary profit and loss, impairment losses were recorded in the Ships Division and others.

Profit attributable to owners of parent was ¥26.8 billion, and the annual dividends were revised upward by ¥11.00 from the forecast of ¥54.00, as of January 2021, to ¥65.00 per share.

(¥ billion)

	2019	2020	Change
Orders	826.2	813.9	–12.3
Net Sales	864.5	849.1	–15.4
Operating Profit	56.8	51.3	–5.5
Operating Profit Ratio	6.6%	6.0%	–0.6 pt
Profit Attributable to Owners of Parent	32.8	26.8	–6.0
Return on Profit Attributable to Owners of Parent	3.8%	3.1%	–0.7 pt
ROIC	7.3%	6.1%	–1.2 pt

Shinji Shimomura
Representative Director, President and CEO

Fiscal 2021 Forecast

Orders and net sales are expected to increase year on year, to ¥880.0 billion and ¥870.0 billion, respectively.

Operating profit is expected to decrease slightly year on year to ¥50.0 billion. While the impact of COVID-19 is being contained, we expect operating profit to decrease due to an increase in fixed costs including from greater sales activities. However, net income is expected to remain almost flat due to an upturn in extraordinary profit and loss including the elimination of impairment losses recorded in the previous fiscal year, and we expect to pay annual dividends of ¥70.00 per share, an increase from the previous fiscal year.

Medium-Term Management Plan 2023

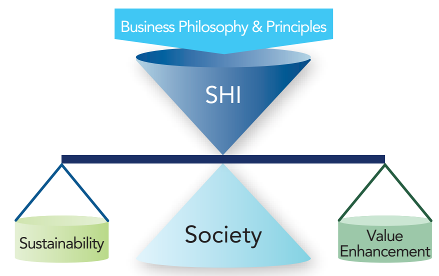
In April 2021, the SHI Group started its new Medium-Term Management Plan 2023 (hereafter "MTMP23").

In developing the plan, we took a balanced approach between sustainability and value expansion. COVID-19 is still having a significant impact on our daily lives and social and economic activities. This has further accelerated the trend to emphasize the sustainability of society, including the realization of a decarbonized economy. While the Group's previous Medium-Term Management Plan primarily focused on increasing corporate value, MTMP23 takes into account changes in the external environment and aims to achieve a balance between sustainability and value enhancement for the Company and society.

Based on Sumitomo's Business Philosophy, which is the starting point of the SHI Group, and our own Business Principles, we will strive to expand both our corporate value and social value by pursuing sustainability as a company and solving social issues that enhance the sustainability of society.

In particular, we will focus on enhancing corporate sustainability through the resolution of social issues and determining our course of action from a long-term perspective.

→ P67 Roundtable Discussion with External Directors



Basic Policies

We have set the following five Basic Policies for MTMP23.

2030: Social issues to be resolved and the ideal state of the SHI Group

Realization of a sustainable SHI Group (Enhancement of corporate value)
1. Developing a robust entity
2. Reformation for improving corporate value
3. Transforming into a company with a comfortable work environment

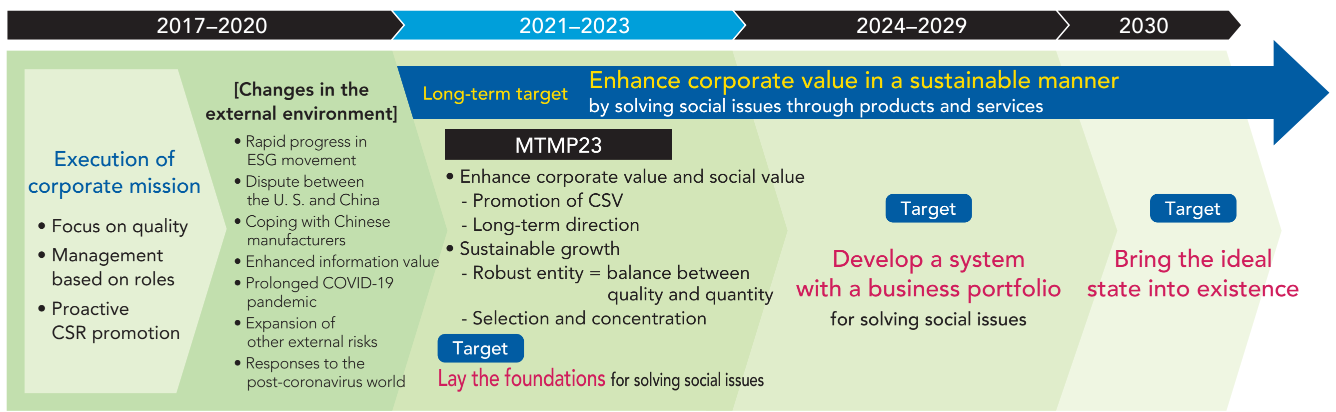
Contribution to society through promotion of CSV (Enhancement of social value)
4. Contributing to the SDGs through products and services
5. Reducing environmental burdens through business activities

Strike a "balance between corporate value and social value"

Key points in the formulation of MTMP23
(1) Aim to strike a "balance between corporate value and social value"
(2) Determine a long-term direction by "backcasting"
(3) Reviewing the "business portfolio" to maximize value

Positioning of the Medium-Term Management Plan

MTMP23 requires a long-term mindset as we aim to expand our corporate value through the resolution of social issues, and we have set our goals to achieve our ideal state for 2030, 10 years ahead. As such, this plan is the start of our long-term goals and lays the foundation for our transformation. We will present a clearer picture in the next Medium-Term Management Plan and beyond and aim to realize our ideal state in 2030.



Capital Policy, Financial Targets, and Investment Plans

We will continue to implement ROIC management under the current plan in order to meet the expectations of all stakeholders and sustainably increase corporate value. We will go back to basics once again and focus not only on increasing profit but also on enhancing capital efficiency to improve our financial performance. Specifically, we aim to secure a sufficient spread over the WACC (weighted average cost of capital), enhance capital efficiency, and improve ROIC.

We will also continue to make growth-oriented investments at a high level within the scope of our operating cash flows.

With regard to shareholder returns, we will aim for a dividend payout ratio of 30% or more with it gradually rising as earnings improve.

Based on this policy, we have set the annual dividend and payout ratio at ¥70.00 (31.8%) in our fiscal 2021 earnings forecast.

For fiscal 2023, the final year of the plan, we are targeting orders of ¥1.0 trillion and net sales of ¥970.0 billion, both of which would be record highs. Our target for operating profit is ¥70.0 billion, as we are still in the process of recovering our performance, and for ROIC it is 7.5%.

Capital investment is planned to be ¥100.0 billion over the next three years, with the focus on information technology, in addition to continued investment in core businesses.

R&D investment will be expanded to the ¥74.0 billion level with the aim of achieving growth. In addition, ¥40.0 billion is factored in as investment for M&A and new businesses.

→ P20 CFO Message

● Financial Goals

(¥ billion)

	2020 Results	2021 Forecast	2023 Target
Orders	813.9	880.0	1,000.0
Net Sales	849.1	870.0	970.0
Operating Profit	51.3	50.0	70.0
Operating Profit Ratio	6.0%	5.7%	7.2%
ROIC	6.1%	5.6%	7.5%

● Investment Plan

(¥ billion)

	Capital investment	R&D	M&A, New businesses
	Emphasize main businesses and IT investment	Strengthen product lineup for growth	Identify growth potential businesses
3-year investment (cumulative)	100.0	74.0	40.0

Technologies of the SHI Group that contribute to the resolution of social issues derived from megatrends

The following is an example of our long-term course of action.

The diagram below highlights the priority areas of development that we should focus on in the future in order to resolve social issues. In addition to deriving the megatrends envisioned for 2030 and the solutions to the social issues that will be necessary in that year, we have combined our technologies with the characteristics of our product groups, such as "Move/transport" "Change a shape" and "Support the lives of people."

→ P16 Excellent Products and Services / → P12 Value Creation of SHI Group

Megatrends
✓ Rapid urbanization ✓ Climate change/Resource scarcity ✓ Change in demographic structure
✓ Shift of economic powers ✓ Evolution of technologies ✓ Information network revolution

Source: PwC Japan's website
"Five Megatrends And Their Implications for Global Defense & Security"

Social issues to be resolved
Improving labor productivity | Improving energy efficiency | Improving convenience through application of cutting-edge technology
Responding to climate change | Responding to infrastructure upgrading | Taking on challenges to circular economy
Bringing well-being to life

Targeted development areas of the SHI Group

Environment and energy		Automation and digitalization	
Drive solutions	Applications based on cutting-edge physics	Renewable energy systems	Machinery with electric/ autonomous operation mechanism
Robotics actuators	Advanced material processing solutions	Resource regeneration/ new material solutions	Cutting-edge logistics solutions

Our product lines
Move/transport | Change a shape | Support the lives of people

The key areas of development are environment and energy and automation and digitalization, and some development has already started in these areas.

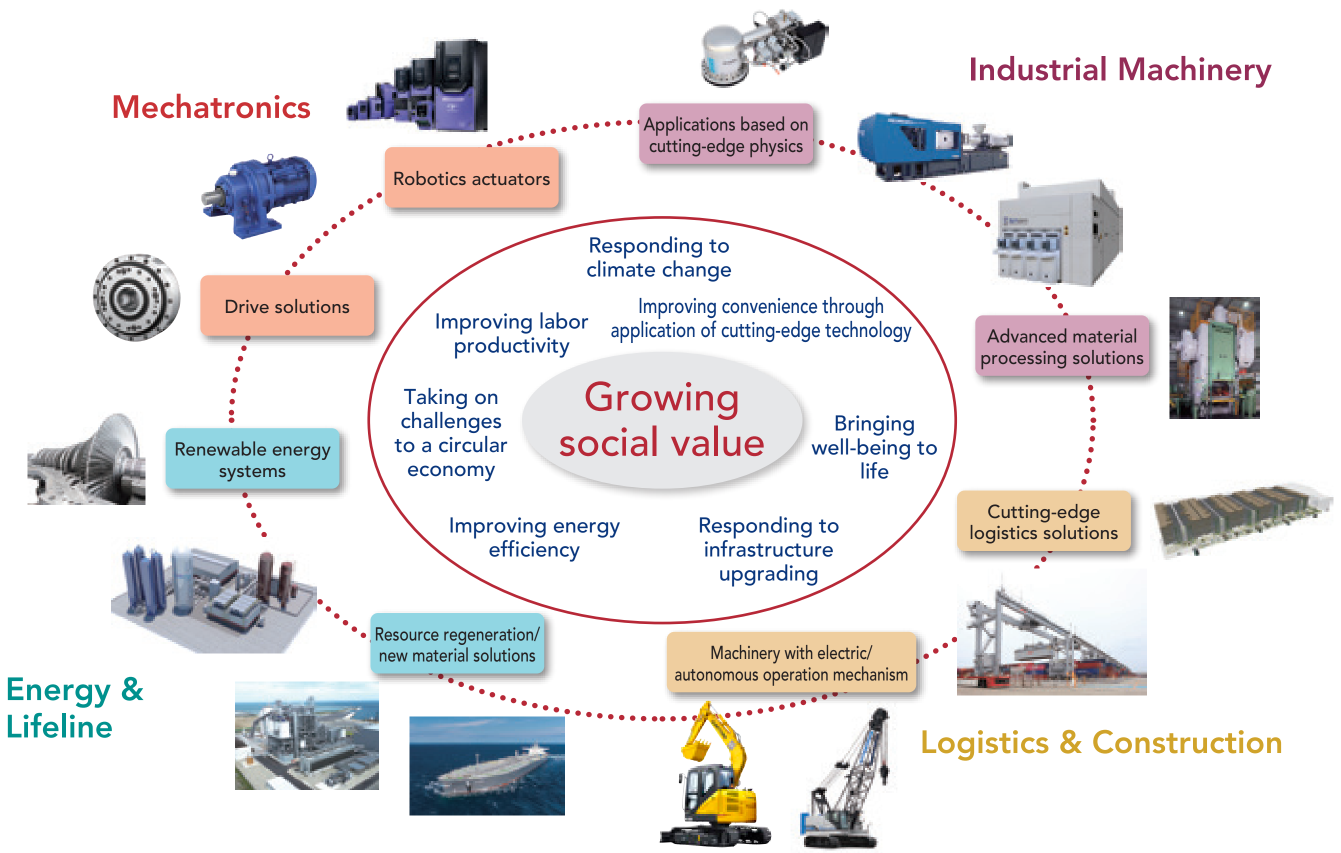
Reviewing the Business Portfolio

So far, we have been able to achieve certain results in terms of business growth by focusing on quality through the adoption of a divisional system to clarify responsibility for earnings and thorough implementation of ROIC management for each business division. On the other hand, some issues have also become apparent such as the fragmentation of management resources, especially human resources, and delays in responding to expanding environmental changes which are becoming increasingly complex. In addition, large investments cannot be made depending on the scale of the business, and limits to new business exploration and growth are emerging.

Therefore, we will review our portfolio based on the judgment that we need to strengthen our exploration capabilities, achieve a certain level of business scale, and have the ability to deepen our business through integration in order to take on the challenges of sustainability and resolve social issues as stated in the current plan. As a first step, we have reviewed our reporting segments with the aim of reintegrating them based on a common course of action and the homogeneity of our businesses and cultivating the seeds of our next growth phase by leveraging synergies.

The four new segments are Mechatronics, Industrial Machinery, Logistics & Construction, and Energy & Lifeline. The diagram below shows the course of action of these four business segments. Each course of action is based on social issues that need to be resolved and is derived from a long-term perspective with a focus on growing social value.

→ P24 Business Activities



Promotion of Sustainability

In March 2020, with the aim of clarifying the role that the Group should play, we identified seven material issues (materialities), consisting of priority issues for value creation and fundamental material issues, that should be addressed on a priority basis.

In the area of fundamental material issues, we place the highest priority on the safety and health of our employees, and aim to instill our management philosophy and code of ethics, comply with laws and regulations, guarantee quality, and earn the trust of our customers, business partners, and local communities. While for material issues for value creation, we aim to contribute to society by understanding social issues from a forward-looking perspective and creating products and services that contribute to solving them.

In order to accelerate these efforts, in April 2021 the CSR Department, which had been an independent organization, was incorporated into the Corporate Planning Group, which is responsible for corporate planning and other activities. To clarify our commitment to sustainability as a key theme of our MTMP23, it has been reorganized and is now called the Sustainability Department. In contrast to CSR, which had strong connotations of social contributions, we aim to realize both corporate value and social value going forward through the provision of our products and services in our management strategy by promoting CSV (Creating Shared Value), which is a goal of MTMP23.

In addition, with regard to the urgent issue of tackling climate change, we have decided to accurately assess the risks and opportunities in our management strategy and determine the course of action the Group should take in order to transform itself into a resilient business entity.

Resolving social issues is the responsibility of our generation. To fulfill this responsibility, we aim to develop stronger and more sustainable corporate activities and thus earn the trust of our stakeholders by combining these important issues with our business activities, like two sides of a coin.

Basic Sustainability Policy

Based on the Sumitomo Business Philosophy and the SHI Group Business Principles, we will engage in corporate management with a focus on enhancing both social value and corporate value in order to realize a sustainable society. This is the essence of our Basic Sustainability Policy.

1. We will aim to achieve sustainable growth by providing products and services that contribute to economic and technological development.
2. We will strive to reduce the environmental impact of all of our business activities, including the entire life cycle of our products. We will also protect the safety, security, and health of all people involved in the Group's corporate activities, and create a workplace where each and every employee can work with vitality.
3. We will strive to practice good corporate ethics and enhance the soundness and transparency of management.

→ P40 Sustainability at the SHI Group

Social issues that the SHI Group aims to resolve

		Material issues	Initiatives
E	Value creation issues	Reducing environmental impact	Responding to climate change and establishing a BCP → P44 Addressing Climate Change Risks
			Taking on the challenge of achieving a circular economy
			Improving energy efficiency → P46 Environment
S		Realization of better lifestyles and workstyles	Improving labor productivity
			Applying advanced technologies to improve convenience
			Infrastructure upgrading and energy supply stabilization
	Fundamental issues	Employee safety, health, and development	Health management, diversity, achieve WLB, education, and organizational development (realization of wellbeing) → P52 Human Resources
		Coexistence and co-prosperity with local communities	Cooperating with local communities and diverse stakeholders
G		Strengthening governance	Involving the supply chain and CSR procurement
		Ensuring product quality	Improving product and business quality and adhering to deadlines → P18 Intellectual Capital
		Enhancing information disclosures	Strengthen relationships with stakeholders

Key Priorities of Medium-Term Management Plan 2023

In Closing

We have announced the MTMP23 in 2021, which was postponed for one year to assess the impact of COVID-19. During this time, the structure of society and markets has changed, remote work has taken root, and there is a sense of the rapid acceleration of the decarbonization movement and the advancement of digital transformation. In formulating the MTMP23, we have taken these changes into consideration and have set the long-term goal of achieving both corporate value and social value as the ideal state of the Group, an enterprise that can grow sustainably, continue to generate profits, and contribute to the creation of social value. In addition, in a major shift from conventional thinking, we adopted backcasting based on megatrends and future goals with 2030 in mind, to set issues to be resolved for the creation of social value. We will continue to improve the quality of our management and take on the challenge of transforming ourselves in order to continuously generate profits regardless of the environment. In addition to addressing fundamental issues such as employee safety, health, and development, we will also implement initiatives to create value by realizing better lifestyles and workstyles, and reduce environmental impact, which will lead to sustainable growth.

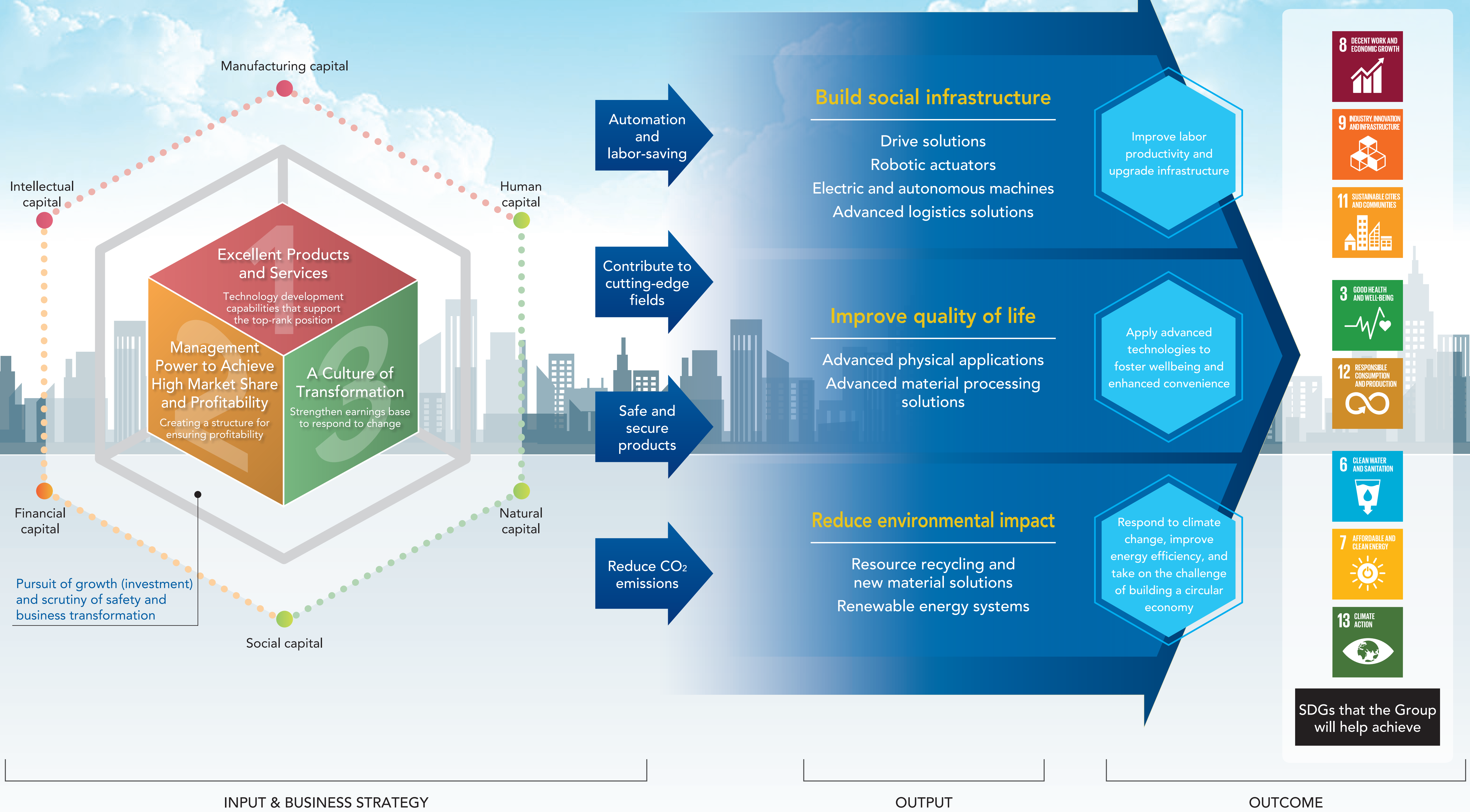
Representative Director,
President and CEO

Value Creation of the SHI Group

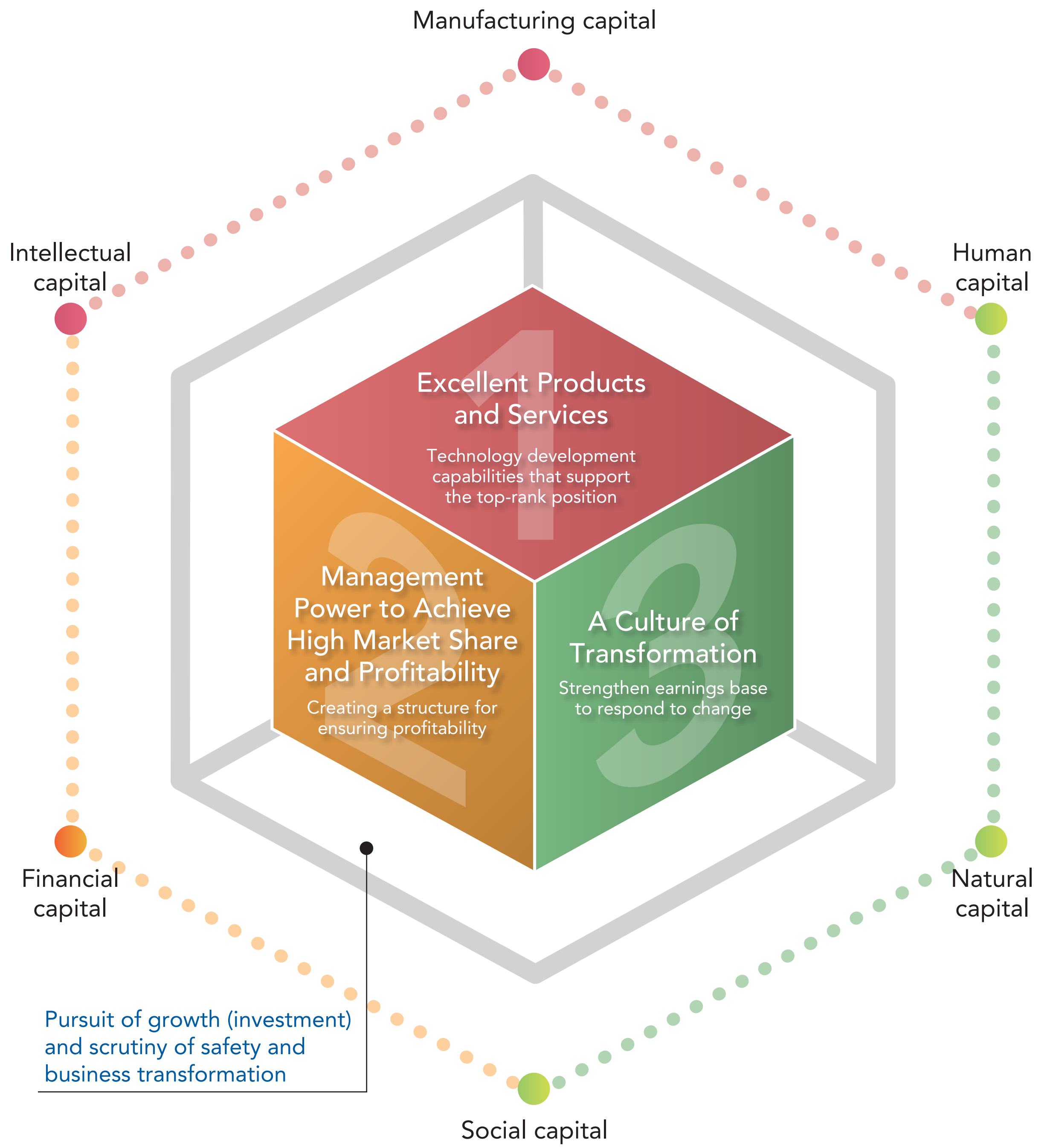
The SHI Group helps create value for customers and resolve social issues by leveraging its advanced technological capabilities to provide excellent products and services. The culture of transformation that we have cultivated over the years has made this possible. We will continue working to improve our corporate value by making full use of our ability to achieve high market share and profitability.

By contributing to automation, labor saving, technological advances, and energy saving in the business processes of our customers—mainly in the manufacturing, infrastructure, and energy sectors—our products provide three types of value to society.

The SHI Group will contribute to the achievement of the SDGs by resolving social issues through responsible corporate activities.



Relationship between Each Capital Type and Our Strengths



Financial capital

→ P.20

Solid financial basis that enabled transformation of business portfolio over the past 20 years

Stockholders' Equity Ratio	Net Interest-Bearing Debt Ratio	ROIC (Return on invested capital)
47.6%	2.4%	6.1%

Intellectual capital

→ P.18

Development of base technologies for service business enhancement in addition to underlying technologies (ICT, AI and robotics, etc.)

R&D expenses Three (3) year total in MTMP23: ¥74.0 billion

(Three (3) year total in previous medium-term management plan: ¥56.5 billion)

Top level in the industry thanks to successive technical innovation in individual business domains and pursuit of advanced technologies

Number of patents acquired: 7,010

Number of overseas patents out of the above: 3,338

Manufacturing capital

Responsiveness to various customers' needs
(A broad product lineup and technical capabilities that can meet high-level requirements)

Domestic manufacturing sites: 7 sites

Domestic subsidiaries' manufacturing sites: 6 sites

Overseas manufacturing sites (Group total): 30 sites

Capital investment Three (3) year total in MTMP23: ¥100.0 billion (Three (3) year total in previous medium-term management plan: ¥127.6 billion)

Natural capital

Effective use of resources to reduce environmental impact and increase productivity

Energy consumption: 1,010 thousand MWh

Renewable energy consumption: 1,223 MWh

Water consumption: 1,514 thousand m^3

Human capital

→ P.52

Human resources capable of creating highly profitable business models

Employees: 24,050

Overseas employees: 11,650

Social capital

Spirit to embrace changes cultivated in the growth process from the start as Sumitomo Besshi Tool Making Workshop in 1888 to today's total of 177 subsidiaries including 13 affiliated companies
  Branded as one of the 19 core companies of the Sumitomo Group

Relationships of trust with customers maintained and reinforced by the management in accordance with the Sumitomo's Business Philosophy

Supplier companies: 7,537

Strength 1 Excellent Products and Services

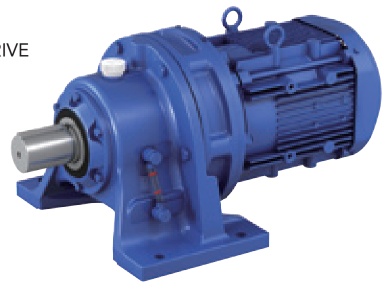
We consider our products and services to be excellent, capable of not only meeting the expectations of our customers but also providing value to our many stakeholders and society.

Moreover, they contribute to the resolution of various social issues.

Mechatronics

Environment

- Developing high-efficiency motors



CYCLO®DRIVE

- Expanding our lineup of inverter controls

Inverters manufactured by Invertek Drives

Society

- Improving labor productivity through robotics technology

E CYCLO® High-Precision Gear Reducer ECY Series

Ultralight Hybrid Reducer

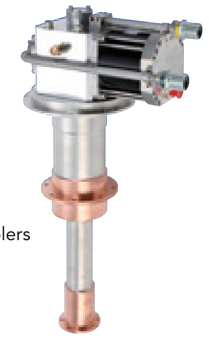
Industrial Machinery

Environment

- Reducing energy consumption through electrification of injection molding machines
- Reducing resource consumption through high-precision molding

Injection Molding Machine

- Developing cryogenic, superconducting, and cyclotron applications



Cryocoolers

- Supporting power semiconductor production

Semiconductor Production Equipment

Society

- Making society IT-oriented through semiconductor production support
- Cancer diagnosis and treatment

Boron Neutron Capture Therapy (BNCT) System

Sustainability Plus Products

We are committed to increasing corporate value in a sustainable manner by delivering products and services that address social issues. Using its own evaluation method, the SHI Group certifies such offerings as "Sustainability Plus Products."

From Environment-Conscious Products to Sustainability Plus Products → P48

Logistics & Construction

Environment

- Fuel conversion with a focus on electrification
- Reducing CO_2 emissions by improving energy-saving performance

Hydraulic Excavators

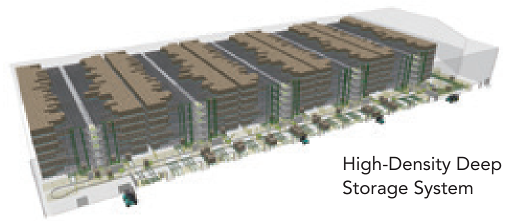
Hydraulic Crawler Cranes

Society

- Responding to infrastructure upgrades

Remote-Controlled RTG

- Improving labor productivity through smart logistics



High-Density Deep Storage System

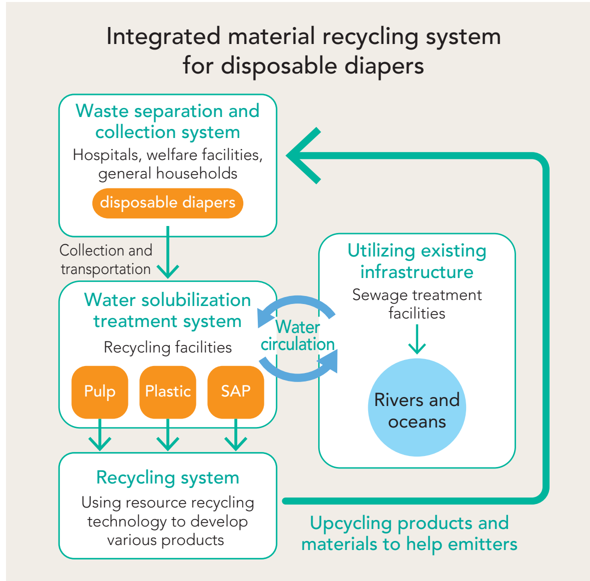
Energy & Lifeline

Environment

- Reducing CO_2 emissions through 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

- Promoting water circulation by recycling food waste liquid and the like
- Promoting a circular economy by recycling waste



Intellectual Capital — Technology development capabilities that support the top-rank position

R&D

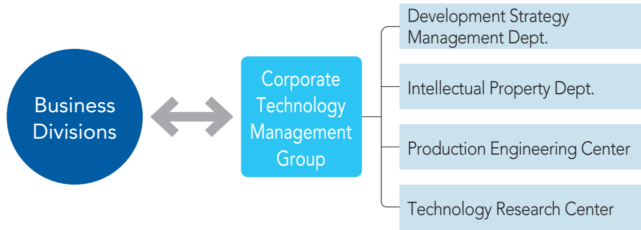
R&D Framework

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.

General Manager of Corporate Technology Management Group | Toshihiko Chijiiwa

● 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.



R&D Field

The Technology Research Center and the Production Engineering Center engage in the development of elemental technologies related to our four business segments (Mechatronics, Industrial Machinery, Logistics & Construction, and Energy & Lifeline), as well as the development of fundamental technologies related to materials, CAE/simulation, ICT/AI, system control, and production. Under Medium-Term Management Plan 2023, we have identified "the environment and energy" and "automation and digitalization" as key priority areas.

We are also focusing on R&D based on a longer-term perspective by closely monitoring market and customer megatrends. Specifically, we are strongly emphasizing R&D on products and services aimed at building a sustainable society and addressing social issues set forth in the SDGs. Here, we have identified a number of key issues common to the entire Group. These include improving energy efficiency and addressing climate change, addressing Japan's declining birthrate, aging population, and labor shortage, and building a circular economy.

Intellectual Property Strategy

Intellectual property for the SHI Group is a source of competitive advantage.

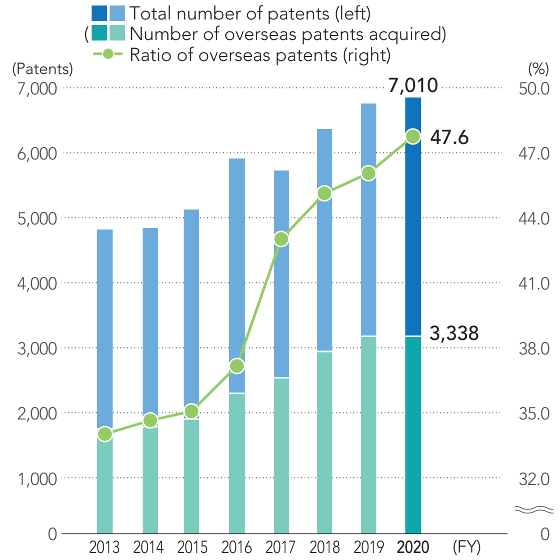
With a focus on creating, attacking and defending, the SHI Group actively works on a unified basis to create, protect and utilize the Group's intellectual property.

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. The Intellectual Property Department also participates in the intellectual property activities of divisions in all respects and conducts activities to enhance interdivisional synergies to raise intellectual property value throughout the Group from a medium- to long-term standpoint and to 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 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.

Acquisition of Patent Rights



Creating	Acquisition of intellectual property rights	Attacking	Intellectual property utilization	Defending	Respect of other companies' rights

Quality Management

We will continue to consistently provide high-quality products and services that are appreciated by customers.

Our Approach to Quality Assurance

The SHI Group believes that the quality of a product is determined by the quality of the processes used to make it. In addition to complying with quality management protocols in each business division, therefore, we work to continuously improve quality levels through reviews by the president and audits by the Corporate Quality Group of the Head Office.

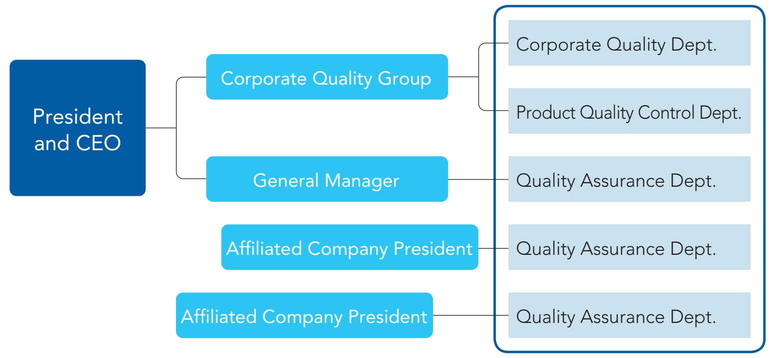
We have also introduced Six Sigma and are actively working to strengthen our data-oriented processes and raise the level of our quality assurance activities.

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 quality sets an objective and tackles quality issues head-on as a team

Quality Management System

The SHI Group's various business divisions and affiliated companies have their own quality assurance systems suited to their particular business activities. To ensure independence, the Quality Assurance Department of each business division reports directly to the division manager and/or the president of the relevant affiliated company. In addition, we hold Quality Assurance Department managers' meetings where our quality assurance managers get together to share ideas, policies, and measures for improving quality and work in a cooperative manner.



Strength 2 Management Power to Achieve High Market Share and Profitability

CFO Message

We will step up investments and R&D related to digital transformation and the environment while improving capital efficiency to increase future corporate value and shareholder returns.

Director, Executive Vice President and CFO | Hideo Suzuki

Review of Financial and Capital Strategies ▶ Full-scale 10-year-horizon investments since fiscal 2017

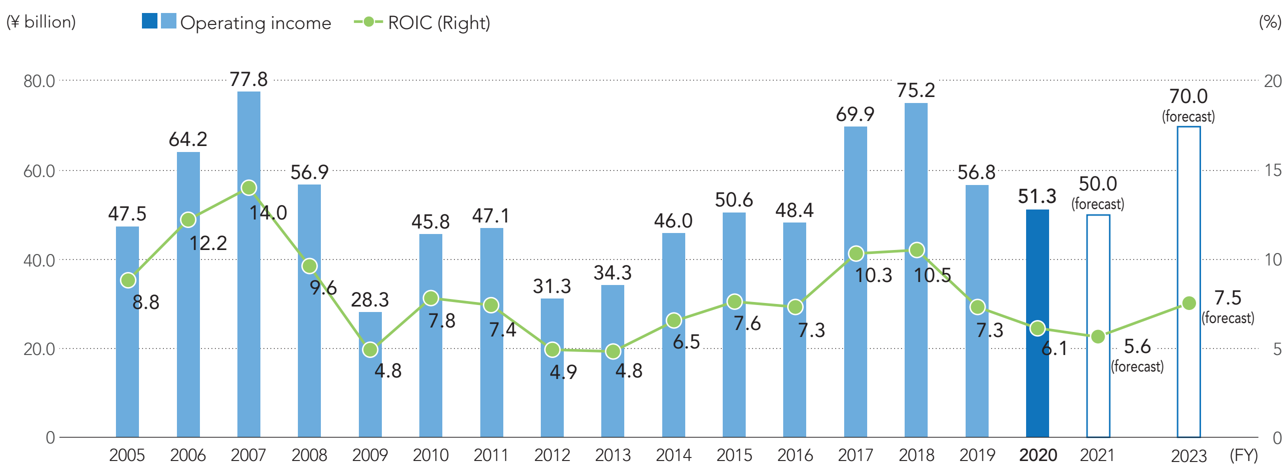
In fiscal 1999, the SHI Group introduced return on invested capital (ROIC) as a key performance indicator (KPI) from the perspective of placing importance on shareholders. Since then, we have worked to increase corporate value by achieving ROIC that exceeds the weighted average cost of capital (WACC). Looking at the long-term trend, our ROIC peaked at 14.0% in fiscal 2007, but that was mainly because we kept invested capital low at that time. In fiscal 2018, operating profit was similar to fiscal 2007, but ROIC declined to 10.5%, falling further to 6.1% in fiscal 2020.

Up to fiscal 2016, none of our investments (including those in M&As) in our financial strategy were made with a view to changes for 10 years into the future. It was in fiscal 2017 that we understood the need to expand our business in mass produced machinery. Accordingly, we acquired Persimmon Technologies (manufacturer of vacuum robots) in 2017, Lafert (motors) in 2018, and Invertek Drives (inverters) in 2019.

Given the outlook for the actuator industry, we see that there is a limit to how much growth and added value we can enhance with component mechanical technology alone. Therefore, we need to systemize our operations by adding electrical servomotors and inverters while strengthening sales globally, especially in Europe.

Our fiscal 2020 balance sheet shows that consolidated total assets exceeded ¥1 trillion, of which intangible assets accounted for 7.5%, or ¥76.8 billion. In addition to the aforementioned acquisitions, this was largely due to goodwill from our fiscal 2017 acquisition of FW Energie B.V. (currently Sumitomo SHI FW Energie B.V.), a company with strengths in circulating fluidized bed (CFB) boiler technology.

Operating profit and ROIC (FY2005–2023, including forecasts)



Future financial strategy ▶ Investment plan, capital efficiency improvement, and management issues

Under our Medium-Term Management Plan 2023 (hereafter, "MTMP23"), we will broaden the scope of our business segments and modify our business management policy with the aim of realizing greater synergies and efficiency across our product lineup. The differences between the new plan and the previous ones are that we have decided to define social issues that the Group should address and the ideal state of the Group in 2030, and backcast from that point in an effort to increase corporate and social value. Our financial targets for fiscal 2023 (the final year of the plan) are total orders of ¥1,000 billion, net sales of ¥970 billion, operating profit of ¥70 billion, and ROIC of 7.5%.

We have also earmarked ¥100 billion in cumulative capital investments over three years of the new plan (MTMP23). While this is less than the ¥127.6 billion allocated in the previous plan, the focus of capital investments going forward will be on digital transformation-related areas with a view to future business model innovation, as well as on environmental and energy-related areas (such as decarbonization) and automation. We will also make R&D investments of ¥74 billion, mainly to strengthen our product capabilities and collaborate with other companies, universities, and research institutes.

Over the past decade, we have generated solid top-line growth, with net sales surpassing ¥900 billion in fiscal 2018, but operating profit (¥75.2 billion in fiscal 2018) has yet to reach its fiscal 2007 peak. We have derived considerable goodwill from acquired companies, but existing businesses did not perform as well as expected. For example, our operating profit ratio for gear reducers and hydraulic excavators are lower than before. By contrast, our plastics machinery business does not have profitability problems, but it is highly volatile.

To enhance capital efficiency, we also need to improve the inventory turnover period. Compared with ten years ago, our efficiency has deteriorated due to the increase in the number of business locations. This is especially true for gear reducers and hydraulic excavators, but we are considering ways to improve the situation, including by calculating the cash conversion cycle (CCC) in the case of gear reducers. A review of the supply chain is also important so we will improve the problem of difficulty in procuring parts when the economy recovers.

Our analysis shows that we are outperforming benchmark companies in terms of our retention strategy, which is based on high-value-added products, and our service businesses. In the past, part of our businesses focused mainly on generating large-scale orders for single items, and there was a sense that closing the sale meant the end of the process. Now, large industrial cranes, material handling equipment, and puzzle-type parking systems, which are included in the Logistics & Construction segment, already account for a large percentage of our service business, and we plan to use this as a model for expanding our services in other businesses. In recent years, the number of employees handling maintenance services for our product users has declined, and for this reason we are emphasizing preventive maintenance, sensor-based condition monitoring, and other offerings to add service businesses to our income base. This will also help build resilience during economic downturns.

Shareholder Return Policy and Information Disclosure ▶ Policy targeting future improvement in dividend payout ratio

Under our shareholder return policy, we are currently targeting a dividend payout ratio of at least 30% and plan to gradually increase the ratio through earnings improvement. Our aim is to achieve a dividend payout ratio of around 40% in fiscal 2023, the final year of MTMP23. While some aspects are still in flux at this point, we would like to consider further raising the payout ratio and setting targets for dividend on equity ratio (DOE) in the next medium-term management plan, which will end in fiscal 2026. We also feel the need to devise ways to disclose information, such as non-financial indicators and explanations of social value.

Through these efforts, we hope to achieve an ROIC of 10% or higher in fiscal 2030. We at the SHI Group will continue refining our ROIC management so we can meet the expectations of stakeholders and increase corporate value.

Dividends and dividend payout ratio for the past 10 years (including FY2021 forecast)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (forecast)
Annual dividends (yen per share)	50	40	35	60	80	80	85	112	91	65	70
Dividend payout ratio (%)	31.5	83.7	24.0	30.2	29.6	29.2	30.1	30.1	34.0	29.8	31.8

* Annual dividends for fiscal 2016 and earlier have been revised to take into account the reverse stock split implemented in fiscal 2017.

Strength 3 A Culture of Transformation: The History of Change at the SHI Group

General Manager of Energy & Environment Group | Yoichi Kato

The Energy & Environment Group's core business is the design, procurement, manufacture, and construction of power generation plants, centered on circulating fluidized bed (CFB) boilers; environmental equipment, such as electrostatic precipitators, ash handling equipment, distillation and crystallization equipment, and rotary kiln recycling equipment; and maintenance services for equipment that we deliver. Among the types of boilers used in power plants and private power generation facilities in factories, CFB boilers have various advantages, including 1. fuel flexibility with the ability to utilize a variety of fuels including biomass and waste, 2. high combustion efficiency, and 3. good environmental performance (i.e. environmentally friendly). Currently, our energy and environment business generates annual sales of around ¥100 billion, with CFB boilers playing a central role. In this section, we introduce our history of change, which includes the Group's transition from a general plant business to its current business specializing on plants for the energy and the environment segment. We also discuss the future of this business, which is attracting attention for addressing climate change and other social issues.

Transformation of the Plant Business

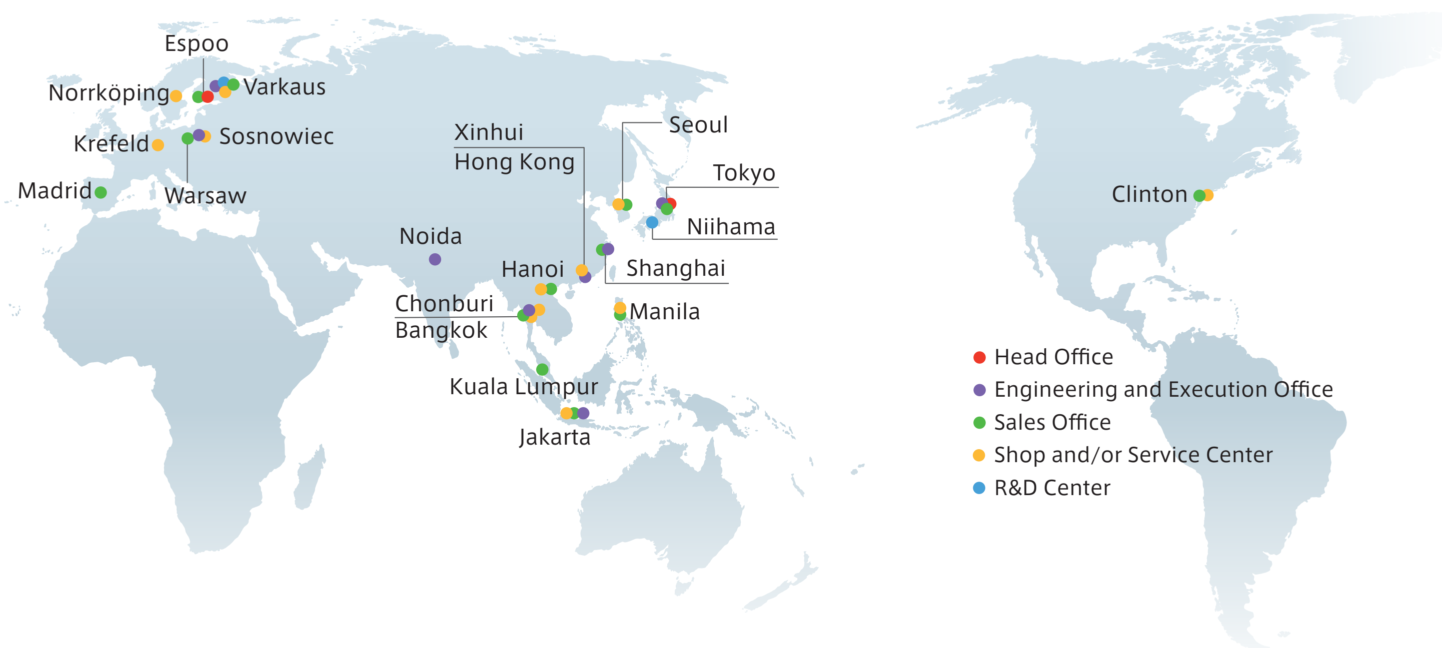
Our plant business dates back to 1929, when Besshi Copper Mine, the origin of the Sumitomo Group, built a Petersen-type sulfuric acid production plant to solve the problem of smoke pollution at the Shisakajima Smelter. In 1968, we established the Chemical Machinery Division, which is the basis of the current Energy & Environment Group. As times changed, we developed a plant business centered on unique machinery, including powder and granular equipment for use in mines and cement production, exhaust gas treatment equipment for desulfurization and dust collection, and separation equipment for distillation and evaporation. In 1985, the division was renamed the Plant Engineering Division to cover the four business segments of chemicals, pulp and paper, nuclear power, and the environment. With the introduction of CFB boiler technology in 1992, we further narrowed down our business focus to the energy and environment segments. Since then, we have accumulated know-how and experience in engineering, manufacturing, construction, and operation, cultivated over the years, and grown into our current energy and environment business.

Overseas Expansion and Accelerated Global Development (through Establishment of SFW)

Our full-fledged overseas expansion began with the development of a seawater desalination plant as part of infrastructure equipment for oil-producing countries. This attracted an order from Dubai in the United Arab Emirates in 1976, and we delivered plants to five nations in total. Subsequently, we continued receiving orders from overseas, including for an offshore oil drilling platform in India. Based on our experience at that time, we recognized the need for an overseas engineering base and established SHI Designing & Manufacturing Inc. (SDMI) in the Philippines in 1989, ahead of other companies in the same industry. Today, SDMI has become an indispensable presence as an engineering center for IT development and 3D-CAD design not only for the plant business but for many business fields of the Group.

After that, while working on overseas projects for both power plants and environmental equipment, a major turning point came in 2017 when we acquired the CFB boiler business of Amec Foster Wheeler plc (AFW) and established Sumitomo SHI FW (SFW). We had previously formed a technical cooperation agreement with AFW in 2001 and were granted a design license, but the acquisition enabled us to do business worldwide and accelerated our overseas expansion.

Current Global Network for the Energy and Environment Business

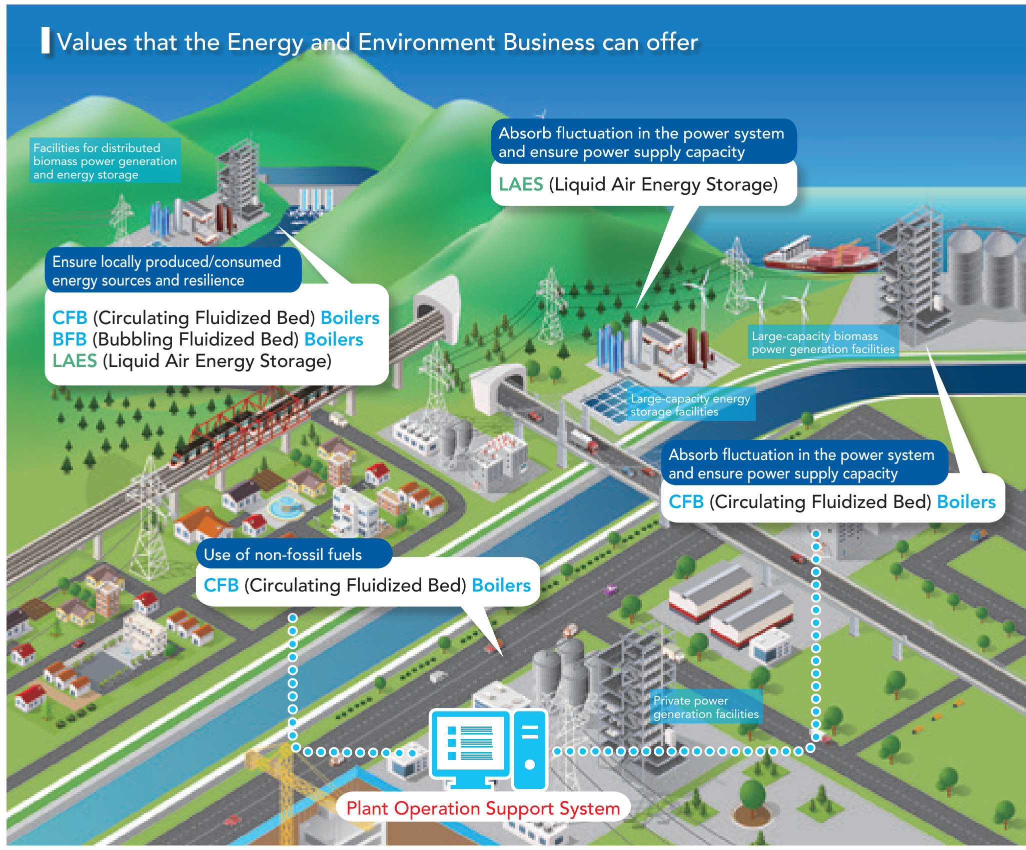


Goals of the Energy and Environment Business

Currently, though the market for CFB boilers is booming due to support from the feed-in tariff (FIT) scheme, we believe that the future of the business lies in the following five areas.

1. Preparation for introduction of feed-in premium (FIP) scheme (in fiscal 2022)
2. Contribution to business potential of non-FIT projects through our large-scale (300 MW class) and high efficiency biomass power generation facilities
3. Contribution to enhanced grid resilience and regional development through our distributed biomass power generation facilities (5–10 MW class)
4. Development of energy storage business centered on liquid air energy storage (LAES) systems
5. Growing sales of bubbling fluidized bed (BFB) boilers, gasifiers, and waste heat recovery boilers for fuel conversion and energy saving decarbonization applications

Values that the Energy and Environment Business can offer



With the need to shift to sustainable power generation methods in order to achieve the SDGs, we anticipate that biomass power generation, which can stably supply carbon-neutral electricity, will be increasingly introduced in the future in the quest to create a decarbonized society. We will continue to contribute to this effort with our highly reliable equipment. At the same time, we will strive to realize carbon-negative power generation methods through carbon capture and recycling (CCR) technologies.

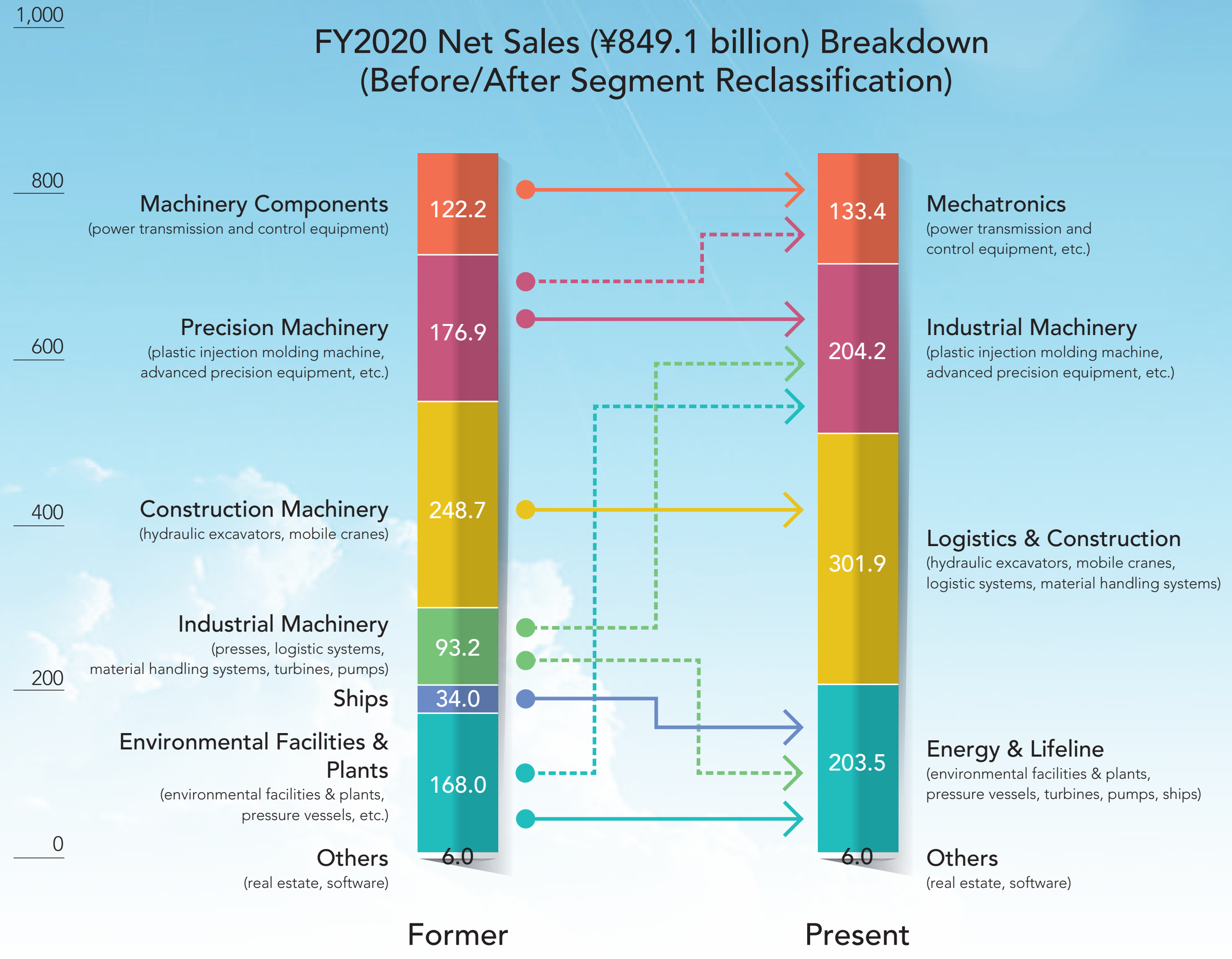
With regard to Item 3 above, we plan to spread our technologies not only in Japan but also in regions where power grids are not yet organized, such as rural areas and islands in emerging countries like Indonesia. As for Item 4, in February 2020 we acquired an equity stake in U.K.-based Highview Enterprises Limited, a leader in LAES system development. These systems are easier to install than pumped-storage power generation systems, the main method used for large-capacity energy storage until now. They also excel in terms of economies of scale of costs in relation to capacity increase as well as providing inertia (the ability to absorb fluctuations in the power system) in comparison with storage batteries, which are becoming more widespread. We are currently conducting joint research with a domestic research institute and working with a customer to build a demonstration facility with the aim of commercializing our LAES technology.

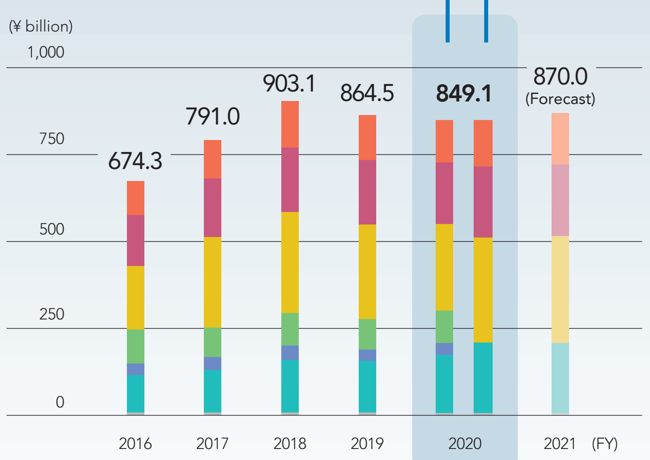
The Group's plant business began with environment-related equipment, while in recent years its boiler business has contributed to a stable supply of electricity. We will continue undergoing transformation as we look to the future of society.

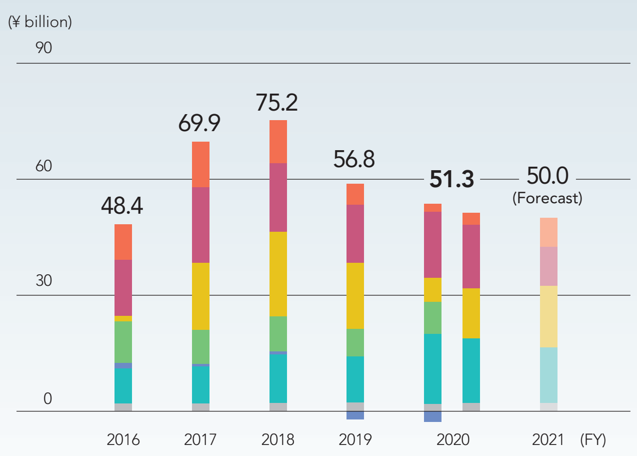
Business Overview

Reorganization of Business Segments

To achieve sustainable growth and increase social value as targeted in Medium-Term Management Plan 2023, we reviewed our portfolio based on our conclusion that we need to strengthen our exploratory capabilities, reach a certain scale of business, and entrench our operations through business integration. We will also reinvent ourselves with emphasis on a common business direction and homogeneity, as well as by leveraging synergies, in order to nurture the seeds for our next stage of growth.







Energy & Lifeline

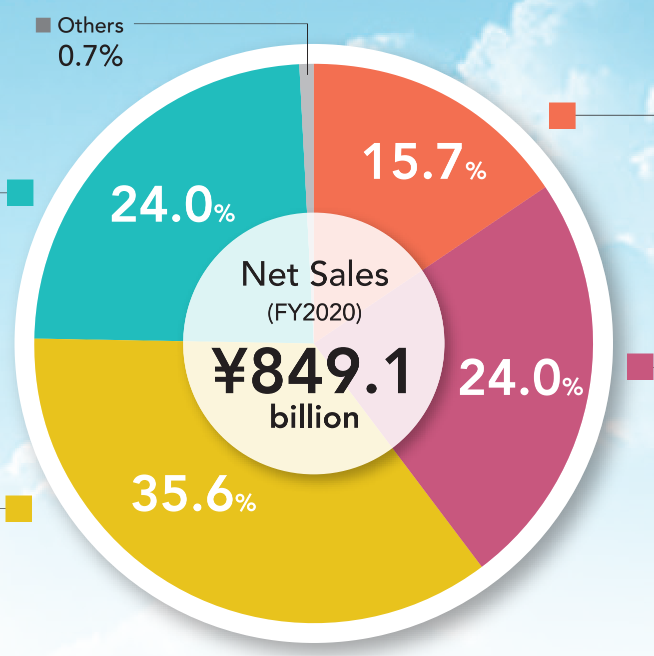
Net Sales	¥203.5 billion	Operating Profit	¥16.7 billion
R&D Expenses	¥2.0 billion	Capital Investment	¥4.2 billion

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

Mechatronics

Net Sales	¥133.4 billion	Operating Profit	¥3.1 billion
R&D Expenses	¥2.4 billion	Capital Investment	¥10.4 billion

Main Products:
- Power transmission & control equipment
- Motors
- Inverters
- Precision positioning equipment



Logistics & Construction

Net Sales	¥301.9 billion	Operating Profit	¥13.6 billion
R&D Expenses	¥5.1 billion	Capital Investment	¥13.8 billion

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

Industrial Machinery

Net Sales	¥204.2 billion	Operating Profit	¥15.9 billion
R&D Expenses	¥10.0 billion	Capital Investment	¥9.7 billion

Main Products:
- Plastics machinery
- Cryogenic equipment
- Precision parts
- Semiconductor production equipment
- Quantum equipment, accelerators
- Forging presses
- Industrial/environmental equipment
- Machining tools
- Defense equipment

Others

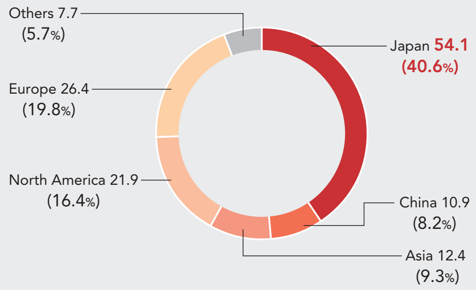
Net Sales	Operating Profit	R&D Expenses	Capital Investment
¥6.1 billion	¥2.1 billion	¥0.0 billion	¥1.7 billion

Main Products: Real estate, Software

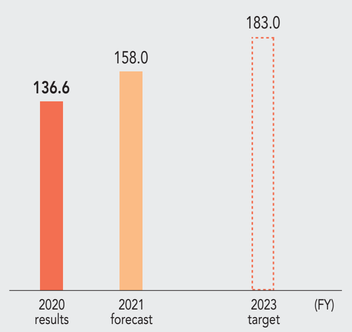
Mechatronics

Orders	¥136.6 billion
Net Sales	¥133.4 billion
Operating Profit	¥3.1 billion

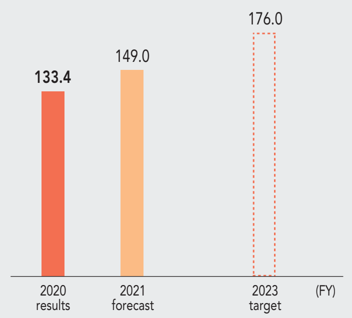
Net Sales Ratio by Region (FY2020) (¥ billion)



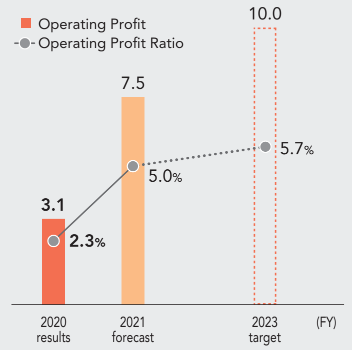
Orders (¥ billion)



Net Sales (¥ billion)



Operating Profit/ Operating Profit Ratio (¥ billion)



Power Transmission and Control Equipment

The main product of this segment are gear reducers, high efficiency motors, and inverters. A gear reducer is a power transmission that reduces motor rotational speed to increase output torque. An inverter is a device that controls the rotational speed and saves energy at the same time. Our products are used in a various situations in the world to drive equipment, such as industrial robots in factories, conveyors to transport goods in distribution centers, and cranes to load and unload cargos in ports, supporting our society and daily life.

With multiple manufacturing and sales bases in Japan and overseas, the Power Transmission & Controls Group is expanding its business globally under the Sumitomo Drive Technologies brand. We have not only the largest market share for gear reducers in Japan, but also one of the top sales records in the world.

"smartris" packaged drive solution for AGVs/AMRs consisting of a gear reducer, servo motor, and driver

S-CMS gearmotor condition monitoring system

PTC Plant No. 2 (new facility in Nagoya Works)

Fiscal 2020 Review and Key Topics

Orders temporarily declined due to the rapid spread of COVID-19 and downturn of the global market. However, overseas orders gradually recovered in the second half of the year.

In Japan, solid demand for logistics and transportation equipment for online shopping, which was increased by stay-at-home consumption due to the spread of COVID-19, covered the order decline. In preparation for growth in demand for robots and other automation equipment, we opened a second facility at the Nagoya Works to expand our production capacity.

In Southeast Asia, rapid growth in demand for medical supplies has triggered a surge in capital investment for its production lines, which contributed significantly to orders. In the Americas, the situation remained unsteady due to the spread of COVID-19, worsening unemployment, and the uncertain outcome of the U.S. presidential election. However, with the transition to a new administration, there were expectations for economic recovery supported by government stimulus and infrastructure investment with policy change. In Europe, meanwhile, demand for robots and textile machines declined sharply, and demand for machine tools fell to less than half the pre-COVID level, resulting in postponement of large-scale investment projects. In China, their economy quickly recovered and robot and EV (electric vehicle)-related demand promoted by the government led overall orders.

Fiscal 2021 Strategies and Measures

In fiscal 2021, we expect temporary supply chain disruptions due to shortages of components and raw materials, including semiconductors caused by the rapid market recovery. With this in mind, we will strengthen our supply chain for parts procurement and build a global supply network that is resilient to change and adversity. In addition, we will further improve the reliability of product quality through quality improvement activities on our production lines and adoption of IoT technology for product inspections.

Following the launch of "smartris," which is a drive solution product designed for automated guided vehicles (AGVs) and autonomous mobile robots (AMRs), we will continue to develop and launch new products that provide electrical equipment, control, and gear reducer in a single package. We will accelerate our efforts to offer drive solutions that help our customers to enhance their product value. We will also create new customer value and grow our service business by proposing maintenance solutions through our various condition monitoring systems, such as the S-CMS gearmotor condition monitoring system, to contribute to the predictive maintenance of production equipment.

In MTMP23, in order to provide products and solutions that support the "realization of a society where people can live comfortably and affluently," we will promote business transformation based on the five core pillars of "New Product Development," "Sales Transformation," "Manufacturing Transformation," "Service Transformation," and "Digital Transformation," and enhance value throughout the value chain.

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

New initiatives
- Develop actuators for service and support robots
- Market launch of drive unit products that combine gear reducers with electronic and control devices
- Provide maintenance solutions using condition monitoring systems

Directions
- Achieve growth of drive unit business through combination of component products
- Launch drive solution business including robotics elements
- Expand service business

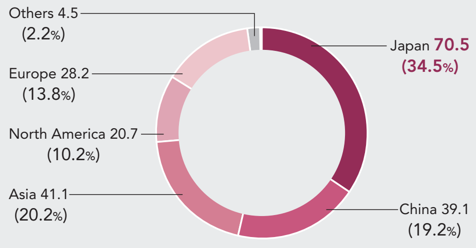
Value we aim to provide
- Elimination of labor shortages through automation and labor savings
- Reduction of CO_2 emissions through energy conservation

Industrial Machinery

Orders	¥184.6 billion
Net Sales	¥204.2 billion
Operating Profit	¥15.9 billion

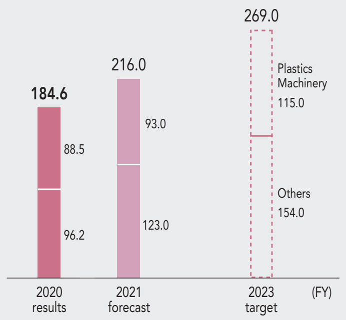
Net Sales Ratio by Region (FY2020)

(¥ billion)



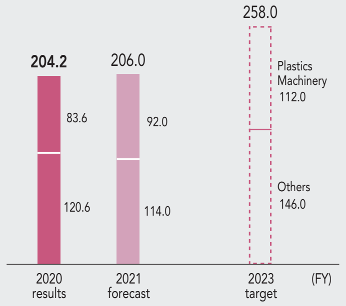
Orders

(¥ billion)



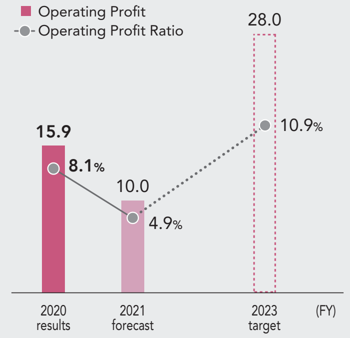
Net Sales

(¥ billion)



Operating Profit/ Operating Profit Ratio

(¥ billion)



Plastics Machinery

Injection molding machines are used to fabricate various products by injecting hot plastic into molds.

Featuring cutting-edge proprietary technology and high quality, our machines have earned the deep trust of our customers. Our specialty is the precision, high-cycle molding field. We are particularly strong in electrical- and electronics-related markets, with products that include smartphone lenses, light guide plates, and connectors. Our machines can efficiently mold complex shapes down to thin products like food containers, and the products made by our machines are used in a variety of fields in our daily lives.

With our global sales and service network, we also actively help our customers improve productivity and address various other challenges.

SE350EV-A-SHR
Plastics processing machine (Injection molding machine)

Cryocooler

Our cryogenic equipment is not only used in medical devices such as MRI and proton therapy systems, but also in advanced scientific fields, such as analytical equipment, quantum computers, and astronomical observatories. We have the No. 1 share of the global market in MRI applications. Our cryocoolers are also used in cryopumps to create clean, ultra-high vacuum environments required for semiconductor production processes. We expect our product solutions to be chosen in various new applications, such as hydrogen storage and high-temperature superconducting generators and motors, as the world moves toward decarbonization.

SICERA® Ultra cryopump

Semiconductor Production Equipment

SHI manufactures ion implantation devices that implant ions with high precision into silicon wafers to control their semiconductor electrical properties. In addition to the high-current and medium-current models, we offer the S-UHE series of high-energy devices, as well as the SAion all-in-one ion implantation device, which combines the best features of both high-current and medium-current devices. In terms of sales, we have a leading share of the domestic market and growing shares of overseas markets.

SS-UHE
High-energy ion implantation device

Medical Equipment

With cyclotron technologies, we manufacture advanced systems for cancer diagnosis and treatments. In the diagnosis field, we account for more than half the share of the domestic market for equipment for production of radiopharmaceuticals for PET scans, which are used to diagnose cancer, as well as brain and heart disease. In the treatment field, we have a record of delivering many proton therapy systems and injectors for heavy-ion therapy systems, as well as a Boron Neutron Capture Therapy (BNCT) system, which provides advanced radiation therapy.

Boron Neutron Capture Therapy (BNCT) system

Industrial Machinery & Forging Presses

Our hot forging presses are used at automobile manufacturing plants in Japan and overseas to produce high-strength metal parts that support engines and automobile under-carriages. We offer a wide range of products, from standard highly versatile machines to specialized machines that meet individual needs. We have machines in all sizes, from small to large, with both manual and automatic models available. We have also delivered many hydraulic presses and ultrahigh-pressure generators, contributing to society with our unique and advanced technologies.

New FPZ Series of forging presses

Segment strengths

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

New initiatives

- Target advances in automation/ electric molding
- Emphasize materials recycling

Directions

(Plastics Machinery)
- Develop eco-friendly plastics and technologies, including recycled plastics
- Strengthen global collaboration and regional strategies

(Others)
- Establish competitive advantage in specific semiconductor production equipment fields
- Expand automobile-related businesses in line with the shift to electrification
- Target business growth in advanced medical fields

Plastics Machinery

Fiscal 2020 Review and Key Topics

Due to the impact of COVID-19, demand declined significantly from the end of fiscal 2019 through the first half of fiscal 2020, and restrictions on movement severely constrained our sales activities, resulting in a challenging environment.

In the second half of fiscal 2020, however, we enjoyed a year-on-year increase in orders thanks to a sharp rise in demand for medical-related products, such as disinfectant containers, as well as electrical and electronic products, including PCs and other information and communications equipment, in addition to game consoles. This was the result of increased time spent at home, mainly in China, where the pandemic was brought under control and the economy recovered quickly. Sumitomo (SHI) Demag Plastics Machinery GmbH likewise faced a difficult situation in the first half of fiscal 2020. In the second half, however, it posted growth in sales and significantly increased its share of the electric molding machine market, where it is strong.

Fiscal 2021 Strategies and Measures

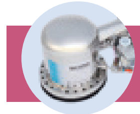
Despite concerns about the impact of soaring material prices and semiconductor shortages, in fiscal 2021 we expect demand to remain strong in China's electrical and electronics industries, as well as in Europe and the United States, and we also anticipate a recovery in domestic demand. In response, we will conduct marketing activities in line with local needs, provide valuable products, and enhance our sales and service activities.

Meanwhile, there is an ever-increasing need to address environmental issues. In addition to making plastic thinner, lighter, and recyclable, attention is moving to the use of non-petroleum and biodegradable resins, making the requirements for injection molding machines more and more complex. By developing technologies that can meet these requirements, we will help realize a sustainable society.

Value We Aim to Provide

- Saving energy by using electric molding machines
- Saving resources by molding thin, lightweight objects
- Reducing workloads at manufacturing sites

Cryocooler



Fiscal 2020 Review and Key Topics

In fiscal 2020, demand in the MRI market declined amid changing hospital equipment needs stemming from COVID-19. The laboratory market also experienced postponement of orders and delays in delivery due to the closure of research institutions. In the second half of the year, however, our customers' businesses began to recover, which helped stem the decline. We also made progress in increasing our market share by engaging in remote sales activities. Meanwhile, the semiconductor market saw further growth in demand stemming from COVID-19, with sales of cryopumps exceeding our expectations. Accordingly, we reported steady growth alongside our vacuum robotics business for semiconductors. As a result, we ended the year with a slight year-on-year increase in sales, with the growing semiconductor market driving our overall performance.

Fiscal 2021 Strategies and Measures

In addition to continued strong demand for semiconductors, we expect the MRI and laboratory markets to recover from the pandemic. We also anticipate that economic recovery in Europe and the United States, in addition to China, will drive overall growth in demand. Our latest 4KGM cryocooler models, now in widespread use, are contributing to the reduction of helium consumption in MRI. In the laboratory field, we are adopting and expanding sales of products used in advanced technological applications, such as quantum computing and quantum communications. In the semiconductor-related business, we will continue increasing our share of the Asian market for cryopumps and expand applications for ion implantation equipment, while in vacuum robotics we will target ongoing growth in volume by increasing our share of major customers' businesses in Japan and attracting new customers. We will also reduce costs and strengthen our manufacturing capabilities to enhance profitability.

Value We Aim to Provide

- Leveraging superconductivity technology to save resources
- Contributing to advanced medical diagnostics
- Saving energy in the semiconductor manufacturing process

Semiconductor Production Equipment

Fiscal 2020 Review and Key Topics

The semiconductor market stagnated in the first half of fiscal 2020 due to the economic downturn caused by the spread of COVID-19. However, demand for semiconductors has since rapidly recovered and is now expanding due to the widespread adoption of teleworking, remote learning, and other digitalization prompted by the pandemic. Aggressive capital investments, mainly by major semiconductor manufacturers, are also driving up demand for semiconductor production equipment. In anticipation of increasing demand for ion implementation devices, we have decided to build a new facility within Ehime Works.

Fiscal 2021 Strategies and Measures

In fiscal 2021, we expect strong demand and market expansion for semiconductor production equipment to continue as manufacturers make aggressive capital investments to address the shortage of semiconductors. In line with this, we will aim to grow our market share while increasing production capacity and sales. We have a new facility under construction, with completion scheduled for fiscal 2022.
In equipment sales, we will further improve product competitiveness and enhance profitability, focusing on our mainstay SAion and S-UHE series.

Value We Aim to Provide

- Supporting more sophisticated semiconductor production processes to help realize a smart society

Medical Equipment

Fiscal 2020 Review and Key Topics

In the diagnosis field, the PET cyclotron market is benefiting from increases in equipment replacement and expansion in Japan and new construction in China and Southeast Asia. To meet increasing demand for PET diagnosis, in fiscal 2020 we started selling a high-power compact cyclotron. In the treatment field, while demand for proton and heavy-ion cancer therapy systems is growing in Asia, new cancer treatment methods are also attracting attention, and for this reason we are working to popularize our cyclotron-based BNCT system.

Fiscal 2021 Strategies and Measures

In the diagnosis field, we will work to popularize our PET-use drug manufacturing systems for research institutes, hospitals, and pharmaceutical companies that distribute radiopharmaceuticals, both in Japan and overseas. In addition to cancer diagnosis, we will develop new equipment for production of radiopharmaceuticals for brain function diagnosis and cancer treatment. In the treatment field, we will strive to make proton therapy more accessible by developing compact proton therapy systems. We will also strive to popularize new cancer treatment methods using our BNCT system.

Value We Aim to Provide

- Realizing a healthy and long-lived society
- Providing medical care that does not reduce quality of life

Industrial Machinery & Forging Presses

Fiscal 2020 Review and Key Topics

In fiscal 2020, economic stagnation stemming from the COVID-19 pandemic caused the global market, including the two major automobile markets of China and the United States, to languish, resulting in a significant decline in demand for new forging presses. Under such circumstances, we strove to expand our service businesses, while automakers made investments aimed at reducing the weight of automobiles. As a result, we received orders for large hydraulic presses for aluminum forging.

Fiscal 2021 Strategies and Measures

Going forward, we will continue responding to automakers' investment plans for weight reduction and production method conversion with a view to solving social challenges, such as decarbonization and carbon neutrality. We will also leverage the FPZ Series, our new forging presses, based on the concepts of stability, suitability, and comfort, to pursue higher levels of quality, productivity, yield, and energy savings. In the process, we will help improve product value for our customers and enhance working environments at forging sites.

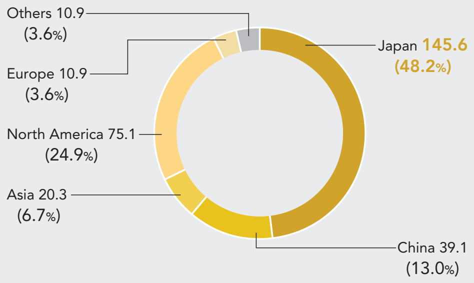
Value We Aim to Provide

- Contributing to weight reduction in automobile parts molding processes

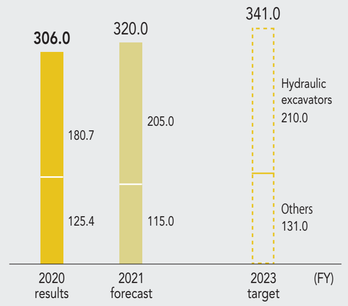
Logistics & Construction

Orders	¥306.0 billion
Net Sales	¥301.9 billion
Operating Profit	¥13.6 billion

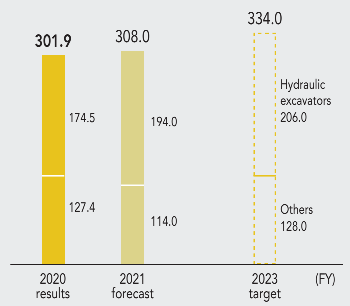
Net Sales Ratio by Region (FY2020) (¥ billion)



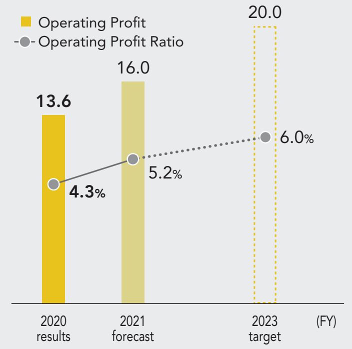
Orders (¥ billion)



Net Sales (¥ billion)



Operating Profit/ Operating Profit Ratio (¥ billion)



Hydraulic Excavators

Our hydraulic excavators, which feature outstanding fuel efficiency, were the first construction machines to receive the Energy Conservation Grand Prize from Japan's Ministry of Economy, Trade and Industry. Our improved fuel efficiency products enable our customers to reduce CO_2 emissions. Our machines also received the Energy-Efficient Machinery Award and the Good Design Award several times, and their reputation is getting stronger. Basing on high machine performance, we supply some specifically designed models for forestry, metal recycling, and demolition. These special models also expand our market presence. In recent years, moreover, we have incorporated increasingly sophisticated functions into the monitoring devices of our hydraulic excavators to ensure better operational safety. Meanwhile, our road pavement asphalt finishers have a dominant market share in Japan, and we are expediting rollouts of these machines overseas, including in Southeast Asia.

SH75X-7 type
Ultrasmall-swing excavator

Mobile Cranes

We mainly manufacture and sell crawler cranes in Japan and overseas (except the Americas). Our market share in Japan is more than 40%. Our cranes are highly evaluated for their functions and designs and have won many awards, including the Machine Industry Design Award and the Good Design Award.

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. Both companies are currently collaborating with each other in the crane-dealing business.

SCX550-3
Hydraulic crawler crane

Material Handling Systems

In this segment, we manufacture industrial material handling systems, automated warehouses, and other logistics systems for logistics companies, as well as automated parking systems.

We also provide material handling systems to a broad range of customers in the steelmaking, shipbuilding, and other manufacturing fields, as well as energy and harbors. In recent years, we have acquired strengths in warehouse-related products for the logistics industry, where demand for automation is growing.

Remote-controlled RTG

Segment strengths

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

New initiatives

- Utilize AI and develop automation technologies
- Use remote technologies to strengthen service businesses

Directions

(Hydraulic excavators)
- Develop electric excavators
- Use ICT to develop and introduce more sophisticated construction machines
- Comply with high-level exhaust gas emission regulations
- Expand service and parts businesses

(Others)
- Emphasize automation and remote control technologies
- Address shift to electric mobile cranes; comply with high-level exhaust gas emission regulations
- Provide global support

 Hydraulic Excavators

Fiscal 2020 Review and Key Topics

In fiscal 2020, hydraulic excavator demand was highly depressed year on year in developed countries in regions, such as Europe and North America, and in Southeast Asia, amid the global spread of COVID-19. On the other hand, China, the world's largest market, and Japan, showed early recovery from the demand downturn, and remained strong. Total worldwide demand was 397,000 units, a 23% increase from fiscal 2019.

In Southeast Asia, meanwhile, we invested around ¥3.5 billion and expanded our existing Indonesia plant to increase production capacity. The new factory is still in a preproduction phase. It will have a production capacity of 2,500 units a year.

In terms of products, Field View Monitor 2 (FVM2), an ambient monitoring device with a notification function, is a standard feature on our highly evaluated LEGEST 7 series hydraulic excavator (12–50 t class). It helps operators to check the safety of their surroundings. FVM2 is a safety technology registered in the New Technology Information System (NETIS) database owned by Ministry of Land, Infrastructure, Transport and Tourism. Furthermore, Customers optionally can choose Field View Monitor 2 Plus (FVM2+), which automatically decelerates and stops the machine when the field operator and machine get close to each other, for 20 t class standard LEGEST 7 series machines.

SH200-7 MC
ICT construction machine

Fiscal 2021 Strategies and Measures

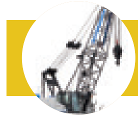
We expect 420,000 units of global demand for hydraulic excavators in fiscal 2021, a 6% increase year on year. We see steady growth in China and Japan, gradual recovery in Europe, North America, Southeast Asia, the Middle East, and other regions, following a downturn caused by the COVID-19 pandemic.

In response, we will improve our profitability by rigorous product cost reductions and fixed cost reductions. We will grasp market changes agilely and fully utilize the production capacities of our three plants, for maximizing product supplies and expanding profits.

In terms of products, we will reduce the environmental impact of our machines by complying with high-level exhaust emission regulations, and we will help customers to resolve their problems and contribute to society by developing and introducing more advanced ICT machines. We will also develop innovative construction machines for carbon neutrality. On the sales side, we will step up our sales and service activities, which are closely rooted in the local areas where we operate, in order to increase market share.

Value We Aim to Provide

- Improve social infrastructure
- Support disaster recovery

 Mobile Cranes

Fiscal 2020 Review and Key Topics

In the Japanese market, private-sector construction demand remained strong due to investments in urban redevelopment, logistics warehouses, and transportation infrastructure. However, public-sector demand decreased year on year, as reconstruction work in the Tohoku region and projects related to the Tokyo Olympic and Paralympic Games came to an end, leading to a decline in overall demand.

However, overseas markets saw declines in demand across all regions except China due to fluctuating and depressed crude oil prices, as well as deteriorating economic and market conditions caused by the COVID-19 pandemic.

Under these circumstances, segment sales decreased 14% year on year due to lower sales of new machines amid falling demand.

As part of our efforts to strengthen our service businesses, we built a new Tokyo Service Plant in Yotsukaido City, Chiba Prefecture, and relocated there in December 2020.

Fiscal 2021 Strategies and Measures

Although market conditions differ according to country and region, we expect global demand outside of China to remain mostly unchanged year on year due to the ongoing impact of COVID-19.

In this environment, we will place top priority on ensuring the safety of employees and cooperating to meet social needs related to COVID-19. At the same time, we will strive to increase the speed and quality of new product development and improve customer satisfaction by strengthening ties with overseas distributors. We will also pursue synergies and enhanced efficiency by strengthening collaboration within the Group, including with Link-Belt Cranes. In terms of services, we will promote the commercialization of inspection services using C-SAI, our drone automatic flight application, and continue reinforcing our competitive business structure.

Value We Aim to Provide

- Improve social infrastructure
- Support disaster recovery

 Material Handling Systems

Fiscal 2020 Review and Key Topics

In material handling systems, demand for upgrading aging facilities remained brisk in the steelmaking, shipbuilding, and energy fields. During the year, we made investments as planned. As a result, domestic demand remained firm despite declining year on year. In logistics systems, we continued attracting steady orders for Magic Rack®, our high-density deep storage system, on the back of rising distribution volumes and serious labor shortages on the logistics frontlines. We also received solid orders for RDRV® in the high-tech film segment. In automated parking systems, as large-scale redevelopment plans gained momentum in central Tokyo, we leveraged our brand strength as industry leader in terms of storage efficiency and warehousing speed to steadily increase the number of orders and deliveries and thus maintain the top market share.

Fiscal 2021 Strategies and Measures

In material handling systems, we will continue emphasizing technological development, aggressively proposing automation solutions, and offering a diversity of models and products. In these ways, we will help our customers in the steelmaking, shipbuilding, energy, harbor, and other sectors improve productivity and efficiency and achieve carbon neutrality. In logistics systems, we will provide automated solutions to address social challenges, such as expected increases in cargo volumes and shortage of workers, and in automated parking systems we will offer highly efficient systems to meet demand for redevelopment in urban centers. With respect to after-sales services, we will promote digital transformation and expand remote maintenance services, which enhance our preventive maintenance capabilities and minimize recovery time in case of malfunction.

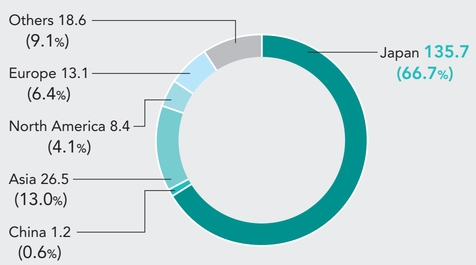
Value We Aim to Provide

- Providing advanced logistics solutions to address increasingly sophisticated infrastructure requirements

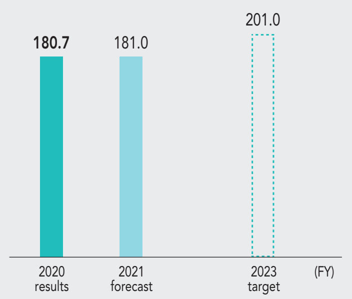
Energy & Lifeline

Orders	¥180.7 billion
Net Sales	¥203.5 billion
Operating Profit	¥16.7 billion

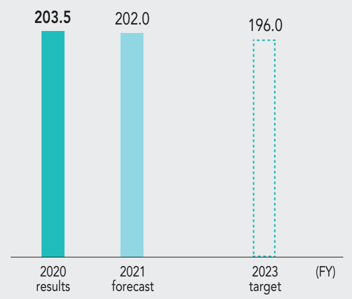
Net Sales Ratio by Region (FY2020) (¥ billion)



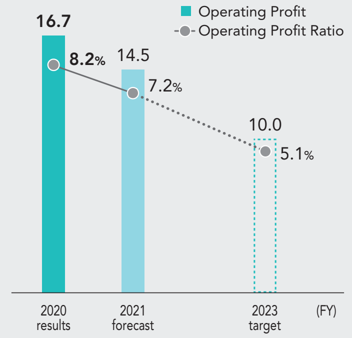
Orders (¥ billion)



Net Sales (¥ billion)



Operating Profit/ Operating Profit Ratio (¥ billion)



Energy Plants

SHI provides design, procurement, fabrication, construction, and maintenance services for power generation plants, centered on circulating fluidized bed (CFB) boilers, as well as environmental equipment, such as electrostatic precipitators, ash handling equipment, evaporation and crystallization equipment, and rotary kiln recycling equipment. CFB boilers enable efficient and stable combustion of biomass and other non-fossil fuels, thus contributing to the stable supply of renewable energy. Furthermore, the widespread adoption of renewable energy, such as solar and wind power, has led to a growing requirement for large-capacity energy storage to strengthen the resilience of power systems. To address this need, we are also working to commercialize liquid air energy storage (LAES) technology in collaboration with U.K.-based Highview Enterprises Limited and subsidiary Sumitomo SHI FW (SFW).

Biomass power plant (Kanda Biomass Energy K.K.)

Water and Wastewater Treatment Plants

We provide our customers with overall services from facility design and construction to equipment sales, repairs and operation management. The businesses are centered on water treatment systems for private sectors as well as water purification, sewage treatment, sludge recycling and other various plants and facilities for the public sectors. Our business circumstances are now beginning to shift from an era of "building plants" to an era of "sustainable use of plants." Keeping this move in mind, we are aiming to provide our customers with new and extra valued services. Such services shall surely be backed by our hard earned technologies and experiences. We will strive to become a provider of comprehensive water treatment solutions.

Sludge scraper

Turbines and Pumps

In this segment, SHI manufactures mainly small and medium-size steam turbines for in-house power generation of factories, as well as to generate electricity for sale. We also make process pumps for oil refineries and other facilities. In recent years, environmental protection and energy conservation have assumed increasing importance as society moves toward decarbonization. Against this background, we are working in the field of power generation to develop high-performance steam turbines that make effective use of renewable energy resources. In this way, we help expand electric power infrastructure in various regions of the world and prevent global warming. Meanwhile, our process pumps are highly trusted by major world-leading companies in the oil refining and petrochemical industries for their diverse specifications, and we contribute to energy conservation by maintaining consistently high quality.

Steam turbine

Ships

We focus on marketing activities to develop ships with high product appeal, and we accurately reflect customer requests in our designs. In recent years, we have adopted a strategy of differentiation and concentration in the middle-size tanker segment, especially Aframax tankers. By focusing on middle-size tankers as our main products, we can achieve not only high product quality but also high efficiency in design and manufacturing. To realize a sustainable society, we continue to develop designs that comply with exhaust gas regulations, which are becoming more strict for ships, and introduce equipment to ensure compliance with such regulations. In these and other ways, we work to satisfy customer needs and contribute to society through the construction of environmentally friendly ships.

Aframax tanker

Segment strengths

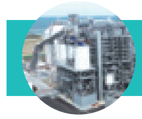
- High efficiency technologies
- Manufacturing capacity and engineering, procurement and construction (EPC) capability
- Operations and maintenance (O&M) know-how

New initiatives

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

Directions

- Commercialize our offerings in liquefied air energy storage (LAES) and other renewable energy markets
- Develop region-specific businesses through the use of biomass and other locally produced/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

 Energy Plants

Fiscal 2020 Review and Key Topics

In Japan, we completed delivery of three CFB boiler power plants utilizing the biomass feed-in tariff (FIT) scheme and received orders for three new biomass-fired power plants. Overseas, SFW received an order for one CFB boiler plant for heat supply using woody biomass as fuel in Europe. In Asian countries, we are receiving increasing inquiries for the construction of power plants that effectively utilize biomass and other materials that were previously discarded, as fuel. Together with SFW, we are continuing to expand our sales and marketing activities on a global scale and have begun cooperation on the project management of ongoing projects as well.

Fiscal 2021 Strategies and Measures

In fiscal 2021, we plan to deliver four new biomass-fired CFB boiler power plants. The business environment of the Japanese biomass FIT power generation market, which has been our focus market in recent years, is changing dramatically with the introduction of a bidding system and the announced upcoming shift to a feed-in premium (FIP) system. We expect distributed power sources will be increasingly deployed amid the increasing adoption of renewable energy and growing emphasis on local production for local consumption (distributed supply and demand) of energy. With this in mind, we will roll out SFW's bubbling fluidized bed (BFB) boilers, which are suitable for smaller applications, in addition to CFB boilers offering high efficiency. As moves toward decarbonization accelerate on a global scale, we will help realize a sustainable society with technologies for delivering a stable supply of carbon-neutral energy.

Value We Aim to Provide

- Realizing a decarbonized, resource-recycling society

 Water and Wastewater Treatment Plants

Fiscal 2020 Review and Key Topics

In the water treatment business for the public sectors, some municipalities postponed their orders for construction due to COVID-19. But there was no significant impact on the entire market. In plant construction, we expanded our sales of unit products. We worked actively to engage in plant design-and-build projects. In plant O&M areas, we received an order for a new comprehensive operational management project.

In the industrial water treatment business, customers reduced or postponed their capital investment plans due to stagnant economic activity and uncertainty about the future. Such headwinds made our orders decline. Despite being in those circumstances, as a result of intensive sales activities, we strove to increase sales of water treatment equipment for the food sectors.

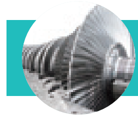
Fiscal 2021 Strategies and Measures

In the public water treatment sectors, jobs outsourced to the private sectors are gradually shifting from "physical construction" to "operational management and support." In plant construction, we will keep focusing on sales of unit products and engaging in plant design-and-build projects. In plant O&M, we will work to develop technologies to address the risk of climate change. This includes our participation in a demonstration project of operational support technology adopted by the B-DASH project of the Ministry of Land, Infrastructure, Transport and Tourism. We are also engaged in the business of recycling used disposable diapers. Here, our aim is to develop recycling technologies that help realize a renewable society.

For the industrial water treatment businesses, we aim to grow our business by developing fundamental technologies to solve the customer's issues (such as facility aging, labour saving, and decarbonization) together so that we will be able to establish a new relationship.

Value We Aim to Provide

- Realizing a recycling-oriented society through resource recycling
- Ensuring a safe and reliable water supply

 Turbines and Pumps

Fiscal 2020 Review and Key Topics

In fiscal 2020, orders for both power generation steam turbines and process pumps decreased due to a significant market decline caused by the COVID-19 pandemic. In the overseas power generation market, the contraction of coal-fired power generation and intensifying price competition made it difficult to attract orders. Nevertheless, we received large-scale orders from a paper manufacturer in Thailand and a steelmaker in South Korea. In the domestic power generation market, we attracted firm orders for FIT system projects and for incineration plants. In process pumps, we benefited from strong investments in the renovation of existing facilities in the petrochemical market, and we received an order for a large project in Bangladesh. Meanwhile, our efforts to increase sales led to a rise in orders for mechanical drive turbines from customers in the oil refining and chemical markets.

Fiscal 2021 Strategies and Measures

In fiscal 2021, market conditions will remain uncertain due to the impact of COVID-19. Nevertheless, we will target business growth by strengthening our product competitiveness through higher efficiency and lower costs, while increasing customer value through proactive development of after-sales services and proposing new service models, such as long-term maintenance contracts. We will also strengthen profitability by creating a system for collecting and utilizing digital data at production sites, promoting robotization, and deploying IT to improve operational quality and production efficiency. At the same time, we will work actively to address social issues in the energy and environmental fields through our products and services.

Value We Aim to Provide

- Using energy efficiently through heat utilization and recovery

 Ships

Fiscal 2020 Review and Key Topics

In the shipping sector, fiscal 2020 was a year of many changes, including soaring and falling markets, with demand for both dry bulk vessels and tankers greatly affected by the COVID-19 pandemic. Particularly in the tanker sector, the second half of the year saw a drastic change compared with the first half, when the market was strong. In addition to falling energy demand caused by the pandemic, factors included significant fluctuations in crude oil prices due to coordinated production cuts by OPEC and other countries, as well as a deteriorating supply–demand balance for ships caused by fluctuating storage demand. As a result, many shipowners refrained from ordering new vessels, especially in the latter half of 2020.

Under these circumstances, we focused on selling our mainstay Aframax tankers. In fiscal 2020, we received an order for three vessels, which will enable us to secure about 2.5 years' worth of work (as of March 31, 2021).

Fiscal 2021 Strategies and Measures

In addition to a recovery of seaborne trades in anticipation of the post-COVID era, new regulations on greenhouse gas emissions for existing vessels, recently decided by the International Maritime Organization (IMO), will officially take effect in 2023. We believe this will lead to increased interest in more environmentally friendly vessels that can be driven by alternative fuels to replace conventional heavy oil.

In the middle-size tanker segment, where we excel, we will more deeply entrench our strategy of differentiation and concentration while creating value for customers through strategic marketing activities. At the same time, we will refine our development process to enhance product appeal and deploy ICT to accelerate improvements in productivity. We will also contribute to the shipping industry by developing products that quickly respond to increasingly stringent greenhouse gas regulations.

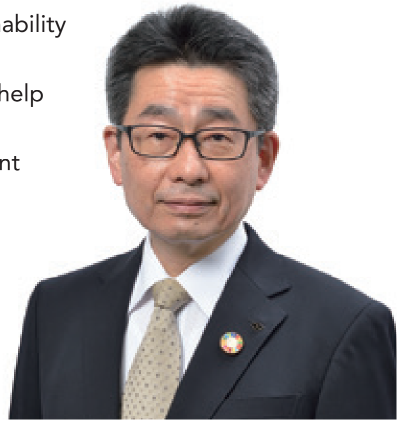
Value We Aim to Provide

- Developing cutting-edge ships to reduce CO_2 emissions and ensure stable energy transportation

Sustainability at the SHI Group

In March 2020, the Board of Directors passed a resolution to identify material sustainability issues from the perspective of their impact on society and their importance to the company. We will work together as a united group to address these material issues, help resolve social challenges, and pursue improvements in our own sustainability.

As part of these efforts, in April 2021 we reorganized the existing CSR Department into the Sustainability Department—by adding personnel and functions for planning sustainability strategies, including responses to climate change, as well as ESG information disclosure—and placed it under the umbrella of the Corporate Planning Group. In May 2021, we announced Medium-Term Management Plan 2023 (hereafter, "MTMP23"). Under the plan, we are working to strengthen our business operations from a medium- to long-term perspective by clarifying the social issues that the Group should address, based on assumed megatrends up to 2030, as well as priority product and business development areas required for that purpose.



Eiji Kojima

Director, Executive Vice President
General Manager of
Corporate Planning Group

Basic Sustainability Policy

→ P10

Based on our Basic CSR Policy, formulated in March 2020, the Board of Directors resolved and formulated our Basic Sustainability Policy in September 2021. This policy states that the Group will contribute to the realization of a sustainable society and achieve sustainable corporate growth as a result.

1 Reduce environmental burden

As a machinery manufacturer focusing on BtoB 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. A look at the Group's overall greenhouse gas emissions (Scope 1, 2, and 3) in fiscal 2020 reveals that more than 90% of total emissions came from the use of our products by customers (Scope 3). In addition to improving the quality and performance of our products, therefore, it is particularly important that we enhance their environmental efficiency.

As part of our challenge to build a circular economy, we are utilizing the Group's products and technologies to promote resource recycling. To help reduce plastic waste, for example, we are developing injection molding machines that are compatible with recycled plastic. In addition, we have started collaborating with other companies to establish a process for recycling used disposable diapers, which is becoming a social issue.

See also "E: Environment" section → P46

2 Create better ways to live and work

As a machine manufacturer, the Group deploys product automation and digitalization technologies to benefit its customers through reduced workloads and operating hours, as well as improved worker safety. Through products and services that serve these purposes, we will help improve labor productivity and working environments for our customers, while at the same time enhancing the competitiveness of our own products. For example, Sumitomo Construction Machinery Co., Ltd., which manufactures and sells construction machinery, has installed an ambient monitoring device—with a notification function equipped with a collision mitigation system—in some of its hydraulic excavators to increase worker safety.

We are also applying advanced technologies to help improve people's quality of life. In addition to delivering semiconductor manufacturing equipment that is indispensable for the ICT sector, for example, we developed the world's first Boron Neutron Capture Therapy (BNCT) system for treating intractable cancer while significantly reducing the burden on patients. We also handle cryogenic equipment, an important component of magnetic resonance imaging (MRI) machines used in medical diagnoses. In addition, we are focusing on the stable supply of energy through our equipment condition monitoring systems and other offerings. We will forge ahead under our new business segment classification to provide products that help create better ways to live and work for people around the world, and to do so more rapidly than before.

3 Prioritize employee safety, health, and development

See "S: Human Resources" section → P52

4 Emphasize coexistence and co-prosperity with local communities

The SHI Group, which has many operations in Japan and overseas, believes that contribution to local communities and a spirit of coexistence and co-prosperity are essential for the sustainable growth of both those communities and the Group itself.

In March 2021, for example, we donated part of our landholdings—approximately 27,000m^2 of the former Uraga Dock site—to Yokosuka City, Kanagawa Prefecture, where our Yokosuka Works is located. As a result, Yokosuka City thanked us for the opportunity to preserve and utilize the Uraga brick docks for regional revitalization.

That month, Sumitomo Heavy Industries Ion Technology Co., Ltd. made a financial donation to Saijo City, Ehime Prefecture, where our Ehime Works is located, through the corporate version of Japan's Hometown Tax system. The funds will be used to promote "urban development that supports regional challenges," including the construction of that city's "People, Dreams, and Future Creation Center Complex" (tentative name).

5 Strengthen governance

As a group with a global value chain and supply chain, we believe that rigorously implementing business ethics and compliance across the entire SHI Group is essential for the sustainable growth of our businesses. In addition to our existing Compliance Manual and the SHI Group's Ethics Code, we established the SHI Group Anti-Bribery Basic Policy in July 2021 to ensure more meticulous implementation of corporate ethics.

Meanwhile, companies around the world are subject to increasing requirements related to their businesses and human rights. For our supply chain management, therefore, we conduct CSR surveys targeting mainly suppliers that are difficult to replace. Through these surveys, we identify specific initiatives related to human rights, the environment, and the like in order to grasp the current CSR implementation status, then we make suggestions for improvements in case problems are found.

See also "G: Corporate Governance" section → P58

6 Ensure high product quality

See "Quality Management" (product safety) → P18

7 Enhance information disclosure

The SHI Group is committed to enhancing information disclosure in response to growing demand for ESG investments and calls for greater transparency from various stakeholders. Since fiscal 2020, we have been stepping up efforts to obtain CSR evaluations from third-party organizations (undergoing CSR evaluations as a supplier), reflecting requests from our customers, while also reaching out to ESG evaluation organizations. Through engagement with ESG evaluation organizations, moreover, we are striving to understand their expectations of us and the issues we face. After collaborating among relevant internal departments, holding regular review forums, and preparing for enhanced information disclosure, we updated the sustainability section of our corporate website in September 2021.

● Evaluations by External Organizations

(As of October, 2021)

Category	Index/Sponsoring Organization	Status
CSR evaluation for suppliers	EcoVadis	Certified as bronze
E	S&P/JPX Carbon Efficient Index	Selected
	CDP Climate Change Score	B−
S	Excellent Enterprise of Health and Productivity Management 2021	Certified
	Platinum Kurumin	Certified
	Nikkei Smart Work Management Survey	★★★
Overall	Toyo Keizai CSR Ranking	144
	Nikkei SDGs Management Survey	★★★☆

Measures to Instill Material Issues Internally

We strive to educate all levels of our organization on sustainability.

1. Executive study sessions

We hold a study session for executives with participation by experts once a year. In fiscal 2020, we invited Mr. Toshihiko Goto, Supreme Advisor of the Japan Sustainable Investment Forum (JSIF), to deliver a lecture entitled "Climate Crisis and Sustainability Management in the Post-COVID Era." A total of 72 people, including non-executives, attended the forum, which was held both physically and online. In addition to the importance of addressing climate change, many participants recognized that corporate responsibility extends to cover the entire supply chain.

Executive study session held in October 2020

2. Employee education

We provide comprehensive compliance and sustainability education for all employees through e-learning. This covers the Sumitomo Business Philosophy, health and safety, compliance, and sustainability. In addition, the Sustainability Department regularly reports on the progress of sustainability initiatives and global trends at division managers meetings hosted by each division of the Head Office. It also explains issues in each division that are closely related to sustainability and encourages divisions to embrace such issues as their own.

i. Comprehensive compliance and sustainability education for all employees

This e-learning program covers the Sumitomo Business Philosophy, as well as health and safety, compliance, and sustainability.

ii. Sustainability briefings for line managers

The Sustainability Department regularly reports on the progress of sustainability initiatives and global trends at division managers meetings hosted by each division of the Head Office. It also explains issues in each division that are closely related to sustainability and encourages divisions to embrace such issues as their own.

iii. "Shine a Light" online learning tool for employees (experiencing the future of the SHI Group)

With the support of Project Design Co., Ltd., we created an original card game to help employees deepen their understanding of the Group's products and social issues and encourage communication among employees. Because the game is provided online, employees can participate regardless of their location. It was developed as a conduit to learn about the operations and products of other business units and related social issues.

Screenshot of online card game in progress

iv. "Sustainability-Navi" in-house portal site

We disseminate sustainability-related information to our employees as part of our educational and promotional activities. Weekly messages from the president, internal news, and external sustainability news are posted on the site to share information on the Group's sustainability.

"Sustainability-Navi" portal site

Addressing Climate Change Risks

We have set targets for responding to climate change in our Medium-Term Management Plan 2023. We will organize risks and opportunities in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and disclose information on our efforts to address climate change.

Governance

→ P63

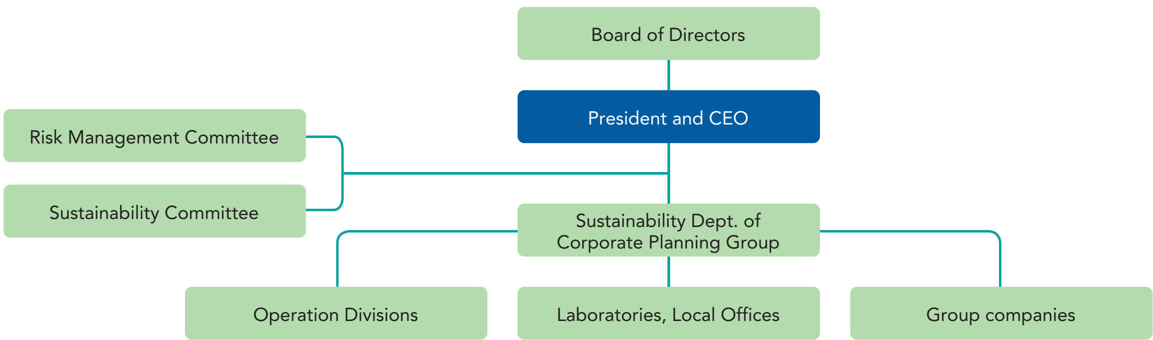
The SHI Group recognized the reduction of its environmental load as the most important issue among the sustainability priority issues resolved by the Board of Directors in March 2020. As such, we have positioned responding to climate change as one of the seven social issues to be solved in our Medium-Term Management Plan 2023.

In order to strengthen our response to climate change, in April 2021, we reorganized the CSR Department into the Sustainability Department, Corporate Planning Group. Through this we established a system for assessing the risks and opportunities of climate change for the Group's business and connecting them to our business strategy.

The Risk Management Committee placed the addressing of climate change as a material risk issue. The Sustainability Department, Corporate Planning Group is in charge of taking measures to address climate change, and the Sustainability Committee deliberates on such countermeasures and reports to the Board of Directors.

- Risk Management Committee (at least twice per year)
  The Risk Management Committee, which is chaired by the president, identifies risks that have a significant impact on the Group and takes measures to mitigate them.
- Sustainability Committee (at least twice per year)
  The Sustainability Committee, which is chaired by the president, deliberates on countermeasures for identified risks and reports to the Board of Directors.

● Climate Change Response Promotion System



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, preferably 1.5°C, compared to pre-industrial levels. We are currently developing a long-term plan in line with the Paris Agreement.

With regard to the impact of climate change on the Group's business, we are conducting analyses based on the following two scenarios of society in 2030.

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

The 4°C scenario anticipates increases in physical risks associated with intensifying extreme weather. In response, we aim to strengthen our business continuity plan (BCP) not only at our manufacturing sites, but also across our entire supply chain. On the other hand, the 2°C scenario assumes the impact of stricter regulations on business activities to reduce CO_2 emissions, and transition risks such as an increase in the burden of business costs represented by the carbon tax. Under the 2°C scenario, a key challenge would be the planning and implementation of measures to reduce CO_2 emissions in the manufacture and use of products.

As the Group offers a diverse range of products, we will assess risks and opportunities by dividing our business into two segments: segments that will be significantly affected by climate change and other segments, with the aim of expanding our business by mitigating risks and leveraging our opportunities.

Risk Management

The Risk Management Committee identifies risks that have a significant impact on the Group and takes measures to mitigate them. Among these, climate change risk is positioned as the most important issue, and measures to address it are being discussed.

For risks identified by the Risk Management Committee, measures to address them and their progress are reported to the Board of Directors at least twice per year, following which they are incorporated into the Group's business operations.

Indicators and Targets

We conduct environmental improvement activities recognizing that global environmental conservation and circular economic activity are corporate social responsibilities. We work to reduce our environmental load through activities aligned to the Medium-Term Environmental Plans, which are determined every three years.

Under our 6th Medium-Term Environmental Plan, which began in 2020, we are working to reduce CO_2 emissions from the Group's manufacturing sites (Scope 1 and Scope 2) by 1% per year compared to fiscal 2019. We are also in the process of drawing up a plan to reduce CO_2 emissions (Scope 3) from procured goods and our products when they are used by customers.

The response aimed at carbon neutrality in 2050 is an issue that requires urgent action. We will first set a target for reducing CO_2 emissions in 2030 and then accelerate our activities.

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

Item	6th Medium-Term Environmental Plan (FY2020–FY2022)		
	Target value	Base year	Achievement year
1 Reduce CO_2 emissions (total volume) (domestic)	• 3% reduction in FY2022 compared to FY2019 • Abolish the use of heavy oil (fuel conversion) • Expand investment in energy conservation • Consider installation of renewable energy equipment (new buildings)	2019	2022
2 Reduce CO_2 emissions (total volume) (global)	• (Japan + overseas) 3% reduction compared to FY2019	2019	2022
3 Reduce CO_2 emissions of products	• Establish emission targets for product usage	2008	2022
	• Expand Sustainability Plus Products	2009	2022

E: Environment

The SHI Group is engaged in environmental management. The Group has established the "Sumitomo Heavy Industries Group Environmental Policy" based on its environmental philosophy, recognizing that global environmental conservation and circular economic activity are corporate social responsibilities.

Sumitomo Heavy Industries Group Environmental Policy

Environmental Philosophy

Adhering to the Sumitomo Business Philosophy, we will work earnestly to protect the global environment in all of our business activities in our quest to realize a sustainable society.

Environmental Policy

Guided by our environmental philosophy, we will work proactively and voluntarily on the priorities listed to the right.

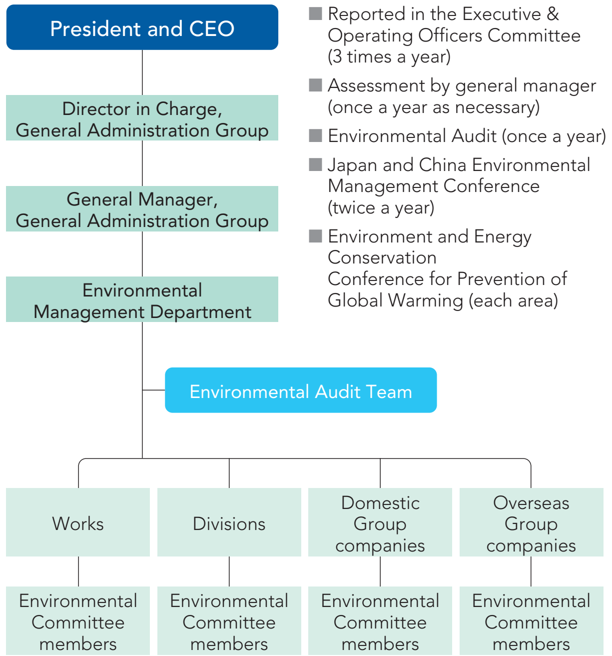
- Prevent environmental pollution
- Help create a low-carbon society
- Realize a circular society
- Preserve biodiversity
- Comply with laws and regulations
- Strengthen and continuously improve our environmental management system

Evolution of Our Environmental Policy

Since establishing our Global Environmental Committee in 1992, we have been promoting environmental protection and compliance in local communities. In November 1999, we established the SHI Group Environmental Policy to clarify our basic policy for Groupwide activities. Under the policy, we are applying environmental management across the entire Group, including in our overseas operations. In May 2017, we revised the policy to reflect our long-term CSR objectives, our basic governance policy, and a revision to the ISO 14001 standard.

Environmental Management System

Environmental activity management for the entire SHI Group is carried out by the general manager of the General Administration Group and the Environmental Management Department under the supervision of the director in charge of general affairs who has been appointed by the president. As chief executive, the President approves and determines the SHI Group's environmental policy.



- Reported in the Executive & Operating Officers Committee (3 times a year)
- Assessment by general manager (once a year as necessary)
- Environmental Audit (once a year)
- Japan and China Environmental Management Conference (twice a year)
- Environment and Energy Conservation Conference for Prevention of Global Warming (each area)

<Activities>

Environmental audit (once per year)

We conduct environmental audits at our manufacturing sites in Japan, China, and Southeast Asia from the perspective of preventing environmental accidents, complying with laws and regulations, and preventing global warming.

The overview of these audits is reported by the general manager of the Environmental Management Department at the Executive Officers' Meeting.

Examination by the general manager of General Administration Group (as required)

For divisions where environmental accidents occurred or targets were not reached during the previous fiscal year, we carry out and provide guidance on the "diagnosis of the general manager of the general affairs division" together with the environmental audit.

Environmental management meeting (twice per year)

Environmental management meetings are held to share reports on activity results and points at issue with works and affiliated companies in Japan. In addition, China environmental management meetings involving affiliated companies in China are held to improve the environmental activities of each of those companies.

The 6th Medium-Term Environmental Plan

The 6th Medium-Term Environmental Plan (FY2020–FY2023*) has been implemented from fiscal 2020. In the 6th Medium-Term Environmental Plan, we have set four material issues: (1) enhancement of environmental risk management, (2) reduction of CO_2 emissions with actions addressing climate change taken into consideration, (3) reduction of environmental loads in business activities, and (4) preservation of biodiversity. In terms of reducing CO_2 emissions, the SHI Group seeks to address climate change by reducing total CO_2 emissions generated during product manufacturing while also expanding the lineup of environmentally friendly products (those that generate less CO_2 emissions when used).

As a specific target, we are working to reduce total CO_2 emissions by 1% per year compared to the level in fiscal 2019.

* The period of activities is until fiscal 2023 in line with Medium-Term Management Plan 2023.

Results of Environmental Activities in Fiscal 2020

Environmental accidents: In fiscal 2020, one major environmental accident and six environmental incidents occurred. This resulted in a significant shortfall from the first year of the 6th Medium-Term Environmental Plan. We will strengthen our management and implement thorough training and awareness-raising to address several areas: leaks of liquids, especially oil; wastewater management; and inadequate reporting. With regard to aging equipment, we will continue to consider our capital investment plan and other measures.

Total CO_2 emissions: Although we achieved the target, analysis shows that our performance was substantially inadequate as the reduction was primarily due to a drop in production caused by the impact of the COVID-19 pandemic. We will promote the introduction of renewable energy and develop a proactive plan for updating our facilities.

Energy productivity: As mentioned above, while total CO_2 emissions declined, we fell short of our target due mainly to an increase in fixed power usage stemming from installation of clean rooms and addition of air conditioners, as well as the decrease in net sales. On the other hand, such measures are an indispensable part of our activities to improve working environments and ensure product quality, so we have reached our limit with respect to achieving reductions through operational management. We will consider our capital investment plan and other measures to address this issue.

Green logistics: We fell short of our target due mainly to the impact of land transportation and longer transportation distances as a result of a higher domestic shipment ratio. We will continue implementing various measures, including modal shift and increases in loading ratio, in order to reduce CO_2 emissions during transportation.

Waste: We fell short of our target due mainly to a decrease in net sales and the unexpected bulk disposal of scrap. We will promote waste reduction by systematically disposing of unused items and thoroughly separating waste and recycling.

Indicator	Item	Base year	FY2020 Target	FY2020 Results	FY2020 Evaluation
Environmental management	Serious environmental accidents	—	Zero	1	×
	Environmental accidents	—	3 or less	6	×
Respond to climate change	Total CO_2 emissions (domestic)	2019	1% reduction compared to FY2019	4.1% reduction	○
	During production / energy productivity (domestic)	2019	1% improvement compared to FY2019	0.049% decrease	×
	During production / energy productivity (overseas)	2019	1% improvement compared to FY2019	11.4% decrease	×
	During transport / green logistics (domestic)	2019	Maintain FY2019 level	6.8% increase	×
Promote recycling to save resources	Reduction of waste generation (basic unit) (domestic)	2017–2019	Maintain FY2017–FY2019 average	5.6% increase	×
	Reduction of waste generation (basic unit) (overseas)	2019	1% reduction compared to FY2019	5.2% increase	×
	Domestic / zero emission—Landfill rate	—	Less than 0.5%	0.052%	○
	Reduction of product packaging materials (basic unit)	2017–2019	Maintain FY2017–FY2019 average	4.2% reduction	○
	Reduction of water consumption (domestic)	2017–2019	Maintain FY2017–FY2019 average	1.2% reduction	○
	Reduction of water consumption (basic unit) (overseas)	2019	Maintain FY2019 level	5.9% increase	×
Environmental pollution prevention	VOC reduction volume (domestic)—Total	2019	Maintain FY2019 level	9.4% reduction	○
	VOC reduction volume (domestic)—Basic unit	2019	Maintain FY2019 level	7.9% reduction	○

From Environment-Conscious Products to Sustainability Plus Products

The SHI Group previously used its own evaluation methods to certify environment-conscious products. From fiscal 2021, we have renamed our environment-conscious products to Sustainability Plus Products with the aim of improving the products' competitiveness and promoting these sustainable products to the market with emphasis on their environmental performance (resource recycling, global warming countermeasures, environmental risks) and social aspects, while also publicizing this activity as an SHI Group CSV* initiative.

* CSV: Creating Shared Value

Sustainability Plus Products are evaluated based on a score of 11 criteria items. This includes "social (automation and labor-saving)," an item added in fiscal 2019, and "social (safety measures)," which was added in fiscal 2020. Additional points are added to the score for third-party awards.

Going forward, we are considering introducing an additional item of "social (reduction of rare-earth elements, rare metals, and conflict minerals [example: reducing helium gas while using cryocoolers])." We will continue to launch sustainable products to further contribute to solving social issues.

Product conditions			Environmental friendliness: Differentiation		
Environment	Resource recycling	1. Resource-saving	Environment	Environmental risk	8. Resource-saving
		2. Improvement of recycling at the time of disposal (facilitate sorting and treatment)		Other	9. Life cycle assessment (LCA)
		3. Making long-life products			
		4. Packaging/packing	Society		10. Safety
		5. Provision of information			11. Labor-saving
		6. Resource-saving measures when in use			12. Reduction of rare-earth elements, rare metals, and conflict minerals (to be added in FY2021)
	Combats global warming	7. Energy-saving measures when in use			

In fiscal 2020, five Super Sustainability Plus products with a score of 90 or higher; and 28 Sustainability Plus products with a score of 80 or higher were certified. The number of entries in each segment is increasing every year. Sales of Sustainability Plus products accounted for 34% of Group sales, having increased by 126% compared to fiscal 2019.

Segment	Product name	Registration classification	Assessment criteria: Environment: Resource recycling	Environment: Combats global warming	Environment: Environmental risk	Society: Automation, labor-saving
Mechatronics	New IE3 high-energy motors	Sustainability Plus Product	△	◎	◎	△
Industrial Machinery	SE-EV series of injection molding machines	Sustainability Plus Product	△	○	◎	○
	FPS forging servo presses	Sustainability Plus Product	○	◎	◎	△
	Eco Pulser™ bag filter dust collector	Sustainability Plus Product	△	◎	○	○
	S-UHE14 ion implantation devices	Sustainability Plus Product	△	◎	◎	○
	SIP ductile of mill rolls	Sustainability Plus Product	○	◎	◎	—
Logistics & Construction	High-reach electric forklifts	Sustainability Plus Product	△	◎	◎	△
	LEGEST 7 hybrid hydraulic excavators	Super Sustainability Plus Product	△	◎	◎	○
	SCX, HSL, HLX of crawler cranes	Sustainability Plus Product	△	◎	◎	◎
Energy & Lifeline	Biomass boiler	Super Sustainability Plus Product	△	○	◎	△
	Vertically split divided-wall column (DWC)	Sustainability Plus Product	△	◎	△	△
	Sumijetter II of grit jet pump	Sustainability Plus Product	○	◎	○	△
	Steam turbines (long-blade, high-efficiency model)	Sustainability Plus Product	○	○	△	△
	Functional tanks	Sustainability Plus Product	△	◎	◎	△

* A list of Sustainability Plus products for fiscal 2020 is available on our website.

More than 90% ◎, 70–90% ○, 30–70% △, Less than 30% ×

Life Cycle CO_2 Emissions

With respect to Scope 1 and 2 CO_2 emissions, which are related to energy use, the usage ratio for Japan accounted for 55% over the entire life cycle in fiscal 2020, while for overseas it was 45%.

For Scope 3 CO_2 emissions (including the Energy & Lifeline fields), use of products sold accounted for a very high 99.6%. This is due to an increase in the number of products, as well as the inclusion of companies that had not previously been included in the total.

It is essential for us to reduce overall Scope 3 emissions by improving the data collection rate for Scope 3.

Reducing CO_2 emissions when sold products are used is an important issue to address going forward. In addition to reducing emissions during manufacturing, therefore, we will help lower emissions when customers use our products.

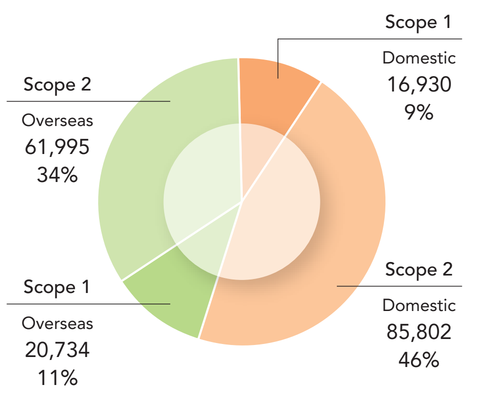
● Product Life Cycle CO_2 Emissions FY2020

(Unit: t-CO_2)

		Domestic	Overseas	Total
Scope 1	Fuel	16,930	20,734	37,664
Scope 2	Electricity/heat (market)	85,802	61,995	147,797
Scope 3	Raw materials			356,805
	Capital goods			128,805
	Energy usage			20,280
	Logistics (upstream)			9,970
	Waste treatment			5,767
	Business trips			2,171
	Employee commuting			6,179
	Use of products sold			135,254,436
	Scope 3 Total			135,784,414
Grand total				135,969,876

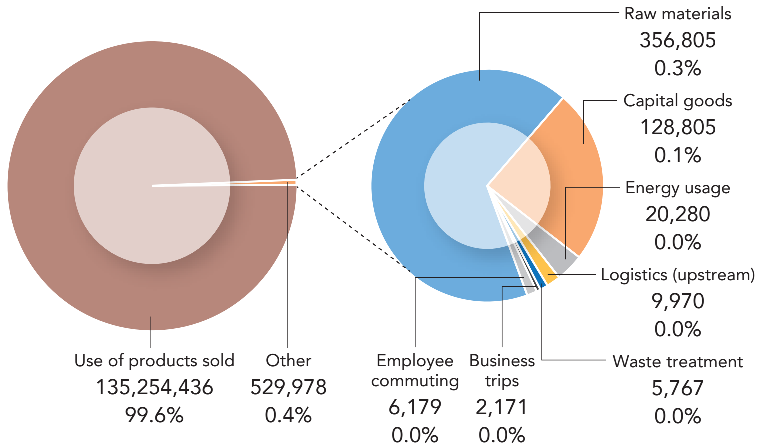
● Life Cycle CO_2 Emissions (Scope 1, 2)

(Unit: t-CO_2)



● Life Cycle CO_2 Emissions (Scope 3)

(Unit: t-CO_2)



* Scope 2: Domestic figures are calculated based on market value.

Product-Related Contribution to CO_2 Emissions Reduction

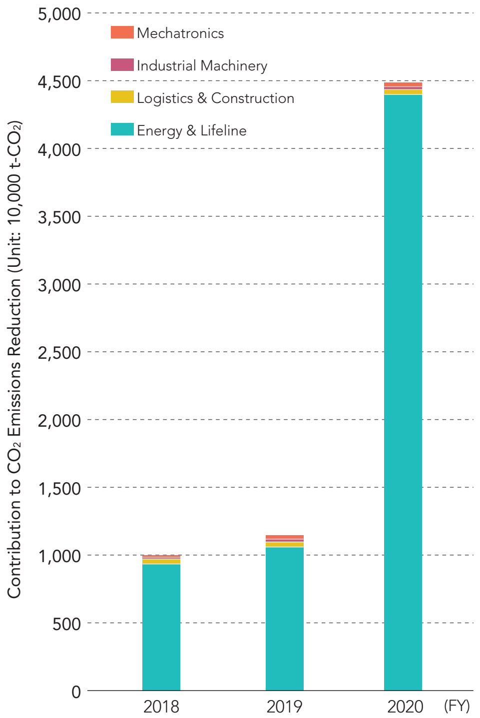
In fiscal 2020, our major products delivered contributed to the reductions of CO_2 emissions by a total of 44,741,000 tons, of which the Energy & Lifeline sectors comprised 98%. We will work to improve our contributions in other sectors as well, while developing technologies and other solutions based on our commitment to addressing climate change as an important business issue.

● Product-Related Contribution Amount to CO_2 Emission Reduction (Major products delivered in FY2020)

(Unit: 10,000 t-CO_2)

Segment	Contribution to CO_2 emission reduction over product life cycles (Based on design standards)	Calculation base	Product
Mechatronics	31.6	Energy savings, and higher efficiency due to model upgrades, etc.	Power transmission and control equipment, motors, etc.
Industrial Machinery	21.0	Energy savings, and higher efficiency due to model upgrades, etc.	Plastics, injection molding machines, precision vacuum pumps, etc.
Logistics & Construction	36.0	Improved fuel efficiency, use of regenerative energy and higher efficiency due to model upgrades, etc.	Hydraulic excavators, forklifts, etc.
Energy & Lifeline	4,398.0	Emission reduction and improved efficiency due to biomass power generation; improved fuel efficiency and propulsion due to model upgrades, etc.	CFB boilers, Aframax tankers, stirring devices, etc.
Total	4,486.5		

● Life Cycle (Based on Design Standards) Contributions to CO_2 Reductions



● Contribution to CO_2 Emission Reduction due to Biomass Power Generation (Cumulative from FY1999 to FY2020)

(Unit: 10,000 t-CO_2)

Energy-related products	606.7

Acquisition of Third-Party Certification of Environmental Data (Scope 1 and 2)

The SHI Group has obtained third-party certification from Bureau Veritas Japan Co., Ltd. for environmental data associated with its business activities in Japan*1, including energy usage (crude oil equivalent)*2 and CO_2 emissions from energy use*3 in fiscal 2019.

*1 Excludes Tanashi Works, which already has certification under Tokyo ordinances

*2 Energy usage (crude oil equivalent): Electricity, city gas, LPG, heavy fuel oil A, gasoline, light oil, kerosene, hot water, cold water

*3 CO_2 emissions from energy use: CO_2 emissions from energy used by the Company*2

[Contribution to CO_2 Reduction by Products]
Amount of CO_2 Generation by CFB Boilers and Average CO_2 Emission Intensity

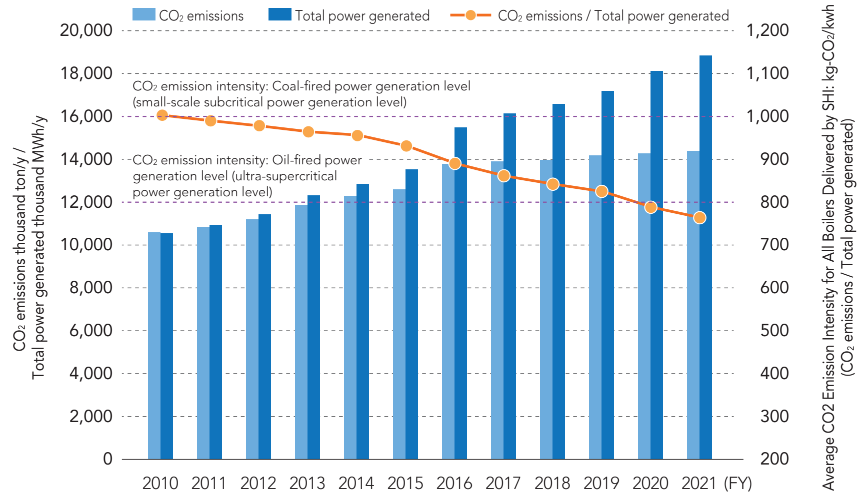
The reduction of CO_2 emissions through the use of biomass accounts for a large proportion with regard to the Group's CO_2 reduction activities for its products.

In the past, boilers fueled by low-grade coal and waste materials were manufactured and sold to save fossil fuel energy. However, since around 2010, biomass boilers, which are low-carbon power generators, have become mainstream. This has led to a substantial reduction in CO_2 emissions relative to the amount of power generated. In the cumulative total of all boilers we have delivered to date, the CO_2 emission intensity (the amount of CO_2 emitted when generating 1 kWh of electricity) relative to the total amount of electricity generated is lower than the CO_2 emission intensity of coal-fired power generation used for large-scale commercial thermal power generation.

The Energy & Lifeline segment accounted for 98% of the CO_2 reduction contribution by major products delivered in fiscal 2020. We are pursuing activities to improve our contributions and develop technologies that will lead other sectors of the Group based on our commitment to addressing climate change as an important business issue.

See also "Product-Related Contribution to CO_2 Emissions Reduction" → P50

● CO_2 Generation of CFB Boiler and Boiler Average CO_2 Emission Intensity



Capital Investment in Environmental and Energy-Saving Equipment

In fiscal 2020, the ratio of capital investment in environmental and energy-saving equipment inside and outside Japan was 0.43% of net sales. SHI is taking a systematic and 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.

Percentage of net sales	Ratio of capital investment in fiscal 2020		
	Environment-related	Energy conservation-related	Total
Domestic	0.06%	0.44%	0.50%
Overseas	0.10%	0.02%	0.11%
Total	0.07%	0.36%	0.43%

Continuation of Unified ISO 14001 Certification

The SHI Group engages in environmental activities in accordance with its Group environmental principles and policy, and each works in Japan has made efforts to obtain certification since 1998. With the aims of integrating rules for environmental management operation and of increasing the efficiency of maintaining certification, the SHI Group obtained ISO 14001 multi-site certification in 2018 covering 13 sites. Through the fiscal 2021 assessment, Sumitomo Heavy Industries Gearbox Co., Ltd., a Group affiliate, became the first manufacturing site outside of the Company's manufacturing facilities to receive unified certification. Accordingly, the number of unified organizations has reached 50 in total. All the Group-affiliated companies in Japan that are not included in the scope of unified certification are individually certified.

With respect to overseas sites, main manufacturing plants started obtaining the certification in 1998, and 21 sites have already been certified as of fiscal 2020. Today, the percentage of certified sites in the entire Group is 80.6%. Going forward, we will especially encourage overseas bases to obtain certification and continue promoting Group-wide activities in addressing business issues through environmental activities.

* Details of the certified sites are published on our website.

S: Human Resources

Bringing First-Class Products to the World

The utilization of human resources is a particularly significant theme for the SHI Group in order to accelerate globalization and to continue providing first-class products and services that meet the changing needs of society. "Our Business Is the People." These words express a truth that runs throughout the SHI Group. The SHI Group has declared its human resources management policy as the SHI Group Human Resource Policy, and is promoting initiatives for employees to grow alongside the Company. In addition, from management's perspective, we believe that employee health management is key to the sustainable growth of the Group, and we are taking a strategic approach to implement this idea while also striving to provide work environments with zero accidents that are healthy for both mind and body. In our diversity promotion activities, we are focusing on creating a workplace where diverse human resources can play an active role by empowering women in the workplace and encouraging work-life balance.

SHI Group Human Resource Policy

We have created the SHI Group Human Resource Policy to codify our fundamental approach to all aspects of human resource management and encourage all employees to always be aware of and follow the Sumitomo Business Philosophy and the SHI Group Business Principle.

SHI Group Human Resource Policy

Our Business Is the People. Based on the notion that our most important management resource is our human capital, we at the SHI Group will achieve human resource (HR) management that will contribute to sustainable business growth.

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.

Human Resources

1 Training Personnel Able to Create New Value

Starting with on-the-job training focused on target management, we provide opportunities for employees to learn necessary skills and knowledge through level-specific education and specialized field training, while establishing frameworks so employees can grow by learning and putting into practice their newfound knowledge. We also provide career training based on promotion tracks in order to facilitate the steady growth of all employees in line with their own career visions. For management positions, we have programs for learning management skills to encourage the personal growth of colleagues. In addition, we launched the SHI Open College from fiscal 2021, where employees can proactively choose the courses they take. We continue to train personnel with the objective of sustaining growth for the SHI Group, as personal growth for employees translates into new customer value.

■ Training future management personnel

Group companies select candidates for key management positions to attend the SHI Group Business School (SBS) and the Management School, which provide intensive training that lasts 1–2 years with the objective of training future management personnel.

■ Specialized human resource development

In terms of human resource development by field, various online courses in specialized technical education for development, design, and production engineers have been enhanced recently, including courses that emphasize practical applications such as experimental measurement, and courses for digital transformation (DX) human resource development, such as computer aided engineering (CAE) technology and machine learning and deep learning. In addition, the Group's specialized technical education selection course is a unique curriculum that aims to develop first-class engineers as a core competency by solving technical issues in each business division through individual guidance by highly specialized outside instructors and tutors from our technical research institute.

2 Becoming an Organization Comprised of Self-driven Individuals that Takes on Challenges—Organizational Development Activities

We believe that the key to realizing long-term strategies is not limited to the substance of the strategies but also the human resources and organizational capabilities that can overcome difficulties through execution, challenge, and failure. Based on this idea, the Group has positioned organizational development as the core of its human resources strategy. We aim to develop self-driven individuals and become an organization that takes on challenges by drawing out the desires and powers that innately exist within people and organizations, thereby promoting business growth and self-realization.

We have named this organizational development of the SHI Group the PRIDE PJ (Pride Project), with the message of creating a work environment where each and every employee can work with pride in the SHI Group. The goal of the PRIDE PJ is to create a state in which the people involved in the organization are able to think and act on their own initiative for organizational growth and improvement. In order to achieve this, we have established practical systems in each division and within each company, with the Human Resources Department acting as the Company-wide secretariat to promote organizational development activities.

3 Promoting Diversity as a Corporate Strength

It is essential for us to nurture an organizational foundation where diverse personnel can work to the best of their abilities. In 2016, top management declared the promotion of diversity a priority, and began to advance three important business measures to empower women in the workplace, namely raising awareness, changing systems and improving environments. While promoting work-life balance, we are discouraging employees from working long hours and promoting more flexible work styles.

We received Platinum Kurumin Certification in October 2020 as a company that is committed to a high standard of childcare support. We also received three stars in the 4th Nikkei Smart Work Management Survey.

Targets

1. Increase the number of newly employed women
   (Raise the ratio of women among new graduate hires above 20%)
2. Double the number of female managers
   Double the number of female managers as of April 1, 2023 (compared to April 2015)
3. Work-life Balance (Reduce long work hours)
   (Target: 1,900 total annual working hours in all business divisions and affiliated companies)

■ Results of diversity promotion initiatives

We are making steady improvements while implementing various initiatives.

	As of April 2020	As of April 2021
1. Increase the number of newly employed women	14.4%	25.0%
2. Ratio of female managers	1.9%	2.3%
3. Total annual working hours (results for the previous fiscal year)	1988.6 h	1975.0 h

■ Initiatives

- Dispatch of employees to a group for women's management training
- Holding of leadership seminars for women at Sumitomo Group
- Implementation of internships for women
- Formulation and follow-up on plans for shortening working hours, reporting monthly to the Board of Directors, etc.

■ Deploying diverse human resources

- For foreign nationals working in Japan, we offer assistance in the form of education about understanding foreign cultures and Japanese language courses
- We have various initiatives to hire and retain people who have disabilities
  - · Cleaning and greening teams are in charge of cleaning areas around manufacturing sites (Yokosuka Works)
  - · SHI Iki-Iki Farm

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4 Aiming for a Well-Being Workplace – Approaches to Health Management

We promote ongoing activities under our Health Declaration, which we created to spread awareness of health management initiatives inside and outside the SHI Group.

■ Health Declaration

Based on "respecting people" as stated in the Corporate 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. Although there are a wide range of health management issues, Sumitomo Heavy Industries, Ltd. received the 2021 Health Management Excellent Corporation Certification through its continuous efforts to implement specific measures. We will continue to steadily implement the measures listed on the right.

- Promotion of the use of health management support systems
- Provision of training tailored to individual business divisions to prevent mental health problems
- Expansion of health promotion programs to address cardiovascular diseases

2021
健康経営優良法人
Health and productivity

5 Safety Initiatives for Creating Safe and Secure Workplaces

■ Safety and health initiatives

We strive 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 have a "safety first" policy covering all work activities as part of our basic safety and health philosophy. We formulated our Fourth Action Plan in fiscal 2020 as a medium-term plan related to safety and health reforms, and we pursue activities according to this policy. In fiscal 2021, we are working to achieve our plan with a focus on the activities listed on the right.

- Project activities to protect inexperienced workers
- Increasing the number of ISO 45001 certified business locations
- Introduction of business vehicles with driving support functions such as automatic braking

Roundtable Discussion with Young Employees

Young employees' views on work styles and job satisfaction

Asako Mori (Facilitator)
Organization Development Section, Human Resources Dept.

Kei Saito
Machining Group Division, Production Engineering Department, Power Transmission & Controls Group

Motoko Matsuo
Engineering Department Water & Sewage Engineering Div. Sumitomo Heavy Industries Environment, Co., Ltd.

Ryohei Nishijima
Cryocooler Group Marketing & Sales Department, Cryogenics Division

Ayako Tachikawa
Research Planning Department Technology Research Center, Corporate Technology Management Group

Mikiya Yoshikawa
Planning & Control Department, Plastics Machinery Division

Recognizing human resources as its most valuable management asset, the SHI Group engages in human resource management aimed at fostering sustainable growth. In this section, five young employees active in various Group departments gathered to discuss their current work environment, as well as its rewards and challenges.

(Conducted on July 19, 2021 at the Head Office conference room)

Mori With the increasing mobility of people in recent years, creating an organization where young employees want to continue working is one of our key management priorities. Today, we will hear from several young employees, who will be responsible for the future of the Group, about how they feel about their work, why they chose their current jobs, and what they find rewarding about their work. We will then hear about their expectations of the Group and any request they would like to make.

Nishijima I joined as a new graduate in 2011 and now work as a sales representative in the Cryogenics Division of the Precision Equipment Group. I used to work as a sales representative for cryopumps, but I was recently transferred to the Cryocooler Group. I am currently in charge of the Chinese market for cryocoolers used in medical magnetic resonance imaging (MRI) machines.

The reason why I joined the Group is because I wanted to be involved in manufacturing and was longing to make big things, such as ships. During my pre-employment interview, I realized that I really wanted to work in a prominent field as a sales representative. So I hoped for a position in the Precision Equipment Group, where I can be active in the world. In the SHI Group, each business division does its own hiring. This gives us the advantage of working in the same workplace as the person who interviewed us when we were hired. During the interview, I was told about advancements made by young employees. I realized this is actually true. I also find my current job rewarding because of the dynamic aspect of being able to compete globally with a small group of elite people.

We were a late entrant in the Chinese cryopump market and struggled at first. It took approximately six years to develop the market, but we eventually received the President's Award for our achievements, which was a great honor. Perhaps it's the culture of the Precision Equipment Group, but I feel I have a wide scope of self-discretion in my work, which I find rewarding. However, those who prefer to perform only predetermined tasks might find this too challenging.

Tachikawa I joined the Company as a mid-career recruit in September 2018. Previously, I was an engineer at a manufacturer and then worked as a consultant before joining the Company.

Due to the wide range of businesses the Company is involved in, I feel it is difficult to envisage its overall strategy. At the same time, I recognize that each division operates its business at its own discretion.

The reason I chose the Company was because I had a strong desire to make large products. Currently, I work in the Research Planning Department of the Technology Research Center. My job entails planning and making proposals about technologies to reduce CO_2 emissions. Being able to devote myself to decarbonization-related initiatives is rewarding for me.

I place great importance on job satisfaction and I am very happy with my current work environment, which provides systems and frameworks that allow me to balance work and family life while doing the work I like.

One of the important roles of the Technology Research Center is to address the problem-solving needs of the business divisions. In recent years, however, we have introduced mechanisms aimed at realizing our employees' aspirations from a long-term perspective. These include our Challenge System and R&D theme creation initiatives . Therefore, I feel that opportunities to feel rewarded are increasing.

Saito I joined the Company as a new graduate in 2016 and am currently in charge of machining in the Machining Group of the Production Engineering Department in the Power Transmission & Controls Group. I love manufacturing, so I majored in mechanical engineering at university and focused my job search on heavy industry-related companies. I decided to join the Company because it allows me to do significant projects with discretion from an early stage. From the time of the interview, I wanted to work in the Production Engineering Department and was assigned to it immediately after joining.

Production engineering requires good communication and knowledge of machining. Immediately after joining the Company, I was assigned to be in charge of introducing the Toyota Production System. As a newcomer to the field, it was difficult to get cooperation at first. After carefully explaining the benefits of the system without giving up, however, I eventually gained everyone's understanding and cooperation, which gave me a sense of accomplishment and satisfaction. Frontline workers have a reputation for being strict, but I believe we won their trust due to our frequent communication. I feel the Company provides an environment where even young people can take on a variety of challenges and be entrusted with important tasks.

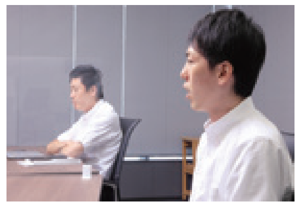
Matsuo I joined the Company as a new graduate in 2016, the same time as Mr. Saito. I currently work in the Engineering Department of the Water & Sewage Engineering Division at Sumitomo Heavy Industries Environment Co., Ltd. (SHI-EV). Our main task is to provide technical support for the maintenance of sewage treatment plants for government agencies. When I was searching for a job, I was hoping for plant design work. At the same time, I wanted to join a company with work-friendly systems and environments that also allowed me to work in Tokyo. In fact, I feel that my company, SHI-EV, has not only a variety of benefit programs, but also a culture that allows us to use such programs without hesitation and with the understanding of people around us.

At SHI-EV, employees are entrusted with one project at a time, regardless of their age. Even if you are young, you can be entrusted with what you want to do. However, you will never be left totally alone because your supervisor will provide proper back-up. That's why we can take on bold challenges, which boosts our motivation. I think it's a good place to work because I can leave work on time and take paid vacations as I wish. There is an impression that SHI-EV is a male-dominated workplace, but I think women will have more opportunities to play active roles in the future.

Yoshikawa I joined the Company as a new graduate in 2012 and I now work in the Administration Group of the Planning & Control Department in the Plastics Machinery Division. My responsibilities include developing budgets, monthly performance management, and business strategies. When I joined the Company, I was in charge of taxation in the Accounting Department at Head Office, and I moved to my current department in 2017. As a student I majored in accounting and finance. Not many manufacturers recruit for the accounting department at the hiring stage, and I was attracted to the fact that SHI was expanding its business globally, so I joined.

In the plastics machinery business, where demand fluctuates rapidly, I find enjoyment in analyzing figures in a practical manner. In my first year with the Company, I was tasked with preparing the entire Group for the impact of the consumption tax hike and for laying the groundwork. It was tough work, but was very rewarding because I started to look at figures from a business perspective.

Mori From what you all have said so far, it seems that you have been given important responsibilities from the time you joined the Company. Now, please tell us about your expectations of the Company. For example, does it enable you to achieve what you want to accomplish? Do you feel it is attractive for young workers seeking long-term employment?



Yoshikawa In accounting, assignments are made on a rotational basis, so there is relatively high cross-lateral interaction. Due to our organizational structure and personnel composition, however, we are not always able to rotate at our preferred timing. Some of my seniors felt a gap between their career aspirations and reality in terms of speed, and so changed jobs. It would be nice if we could bridge this gap. At our company, you are allowed to have discretion while you are young, so you can think for yourself and gain skills. However, some people quit when they cannot do what they want. I think it would be more rewarding if we had a system where the voices of young people could reach management.

Tachikawa I am able to engage in the work I like, but I would like to know more about the Company's business divisions. At my first company, I had to spend at least six months in another department for training, which allowed me to learn about other operations. Some people I worked with there later helped me out in times of need.

It would be good if we could deepen such exchanges and expand them cross-laterally between divisions. This would enable us to find out what each division is seeking and whether or not its technologies can be applied to other divisions.

Also, I think it would be good to introduce a large-scale return-to-work system for rehiring people who have left the Company and want to come back. I think our company provides job satisfaction and lets us work in our own style. Some former employees may recognize these good points after working at other companies and decide they wish to return.

Nishijima I'm responsible for sales, so I have cross-lateral interaction with people in relatively similar markets, but I think the lack of transfers between business divisions is an issue. Rather than formal reassignments, such transfers should be aimed at fostering personal growth, I feel. Our company has many business divisions, but because we often stay in the same division for a long time, I feel that we have become a collection of small companies. However, I think our company is best suited for people who want to think for themselves and seize the initiative, because they can do big jobs with discretion from an early stage. When talented employees leave the Company, we should have a system for hearing their true feelings about why they are leaving. This would make us a better organization, I feel.

Matsuo I would also really like to interact with other business divisions. At SHI-EV, we work in project units, so there is a sense of teamwork, but the number of fields where we can excel is limited. It would be good to have a system that allows talented people to be transferred to other divisions so they can play even more active roles. I'd also like to engage in projects that allow interaction across divisions.

Saito I agree with the others. I feel the Company delegates a lot of individual tasks and assignments, but not so many than can be accomplished as a team. However, the number of people in my division has recently been increasing and a sense of teamwork is beginning to emerge. And with the recent downturn in business performance and quality issues, I truly feel that the division is becoming more proactive about change. Regarding the increasing mobility of young employees, I don't think we need to be concerned since the job market has become so active. However, some of my peers persistently expressed their desire to work with overseas customers during job interviews. Eventually, they were assigned to overseas sales positions and decided to stay with the Company. If there were more opportunities for young employees to express their thoughts and ideas, I think we could create a vibrant organization and find opportunities for them to play active roles.

In this round-table discussion, employees who have been with the Company for around 10 years frankly describe their impressions of the Company before joining, what they have realized since joining, and their thoughts on work styles and what they find rewarding. There are as many views about work styles and job satisfaction as there are people. Nevertheless, I believe that providing maximum possible options will help us transition into a worker-friendly company, which is one of the basic policies of Medium-Term Management Plan 2023.

G: Corporate Governance

The Sumitomo Heavy Industries Group has formulated the "Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd." as a basis for improving its corporate governance to establish an efficient and transparent management structure, with a view to further increasing its corporate value and enhancing the evaluation and trust of all stakeholders.

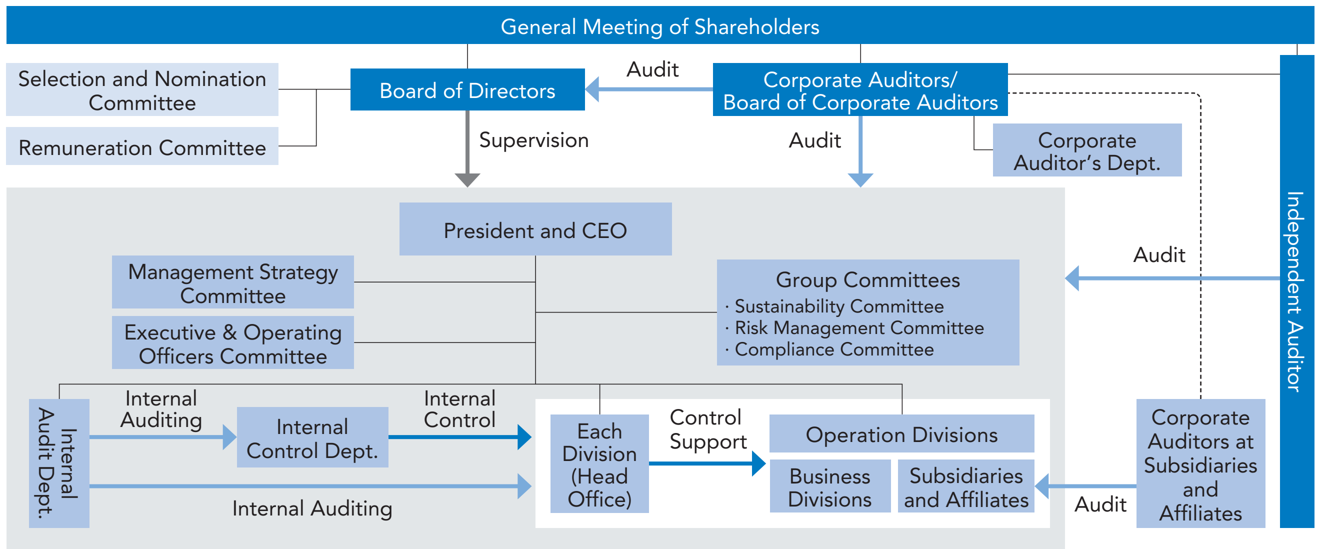
Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. (Summary)

Chapter 1	**General Provisions** ▶ Business Principles ▶ Our Basic Views on Corporate Governance
Chapter 2	**Securing the Rights and Equal Treatment of Shareholders** ▶ Securing the equal treatment of shareholders ▶ General Meeting of Shareholders ▶ Basic strategy for capital policy ▶ Strategic shareholdings ▶ Related party transactions
Chapter 3	**Appropriate Cooperation with Stakeholders Other Than Shareholders** ▶ Ethics code ▶ Approach to environmental problems ▶ Whistleblowing ▶ Ensuring diversity in the Company, including the active participation of women
Chapter 4	**Ensuring Appropriate Information Disclosure and Transparency** ▶ Basic policy on information disclosure
Chapter 5	**Responsibilities of the Board of Directors, etc.** ▶ Roles and responsibilities of the Board of Directors ▶ Effectiveness of the Board of Directors ▶ Roles and responsibilities of corporate auditors and the Board of Corporate Auditors ▶ External officers ▶ The Selection and Nomination Committee and the Remuneration Committee ▶ Training for directors and corporate auditors
Chapter 6	**Dialogue with Shareholders** ▶ Policies on constructive dialogue with shareholders

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.



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.

● 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.

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 chaired respectively by an external director with a view to ensuring objectivity.

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 FY2020, 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 FY2020, the committee met twice to report on the revision of executive compensation for FY2020 and discussed a desirable executive compensation system for the future.

● 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.

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 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.

Title	Name	Reason for Appointment
External Director	Susumu Takahashi	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 to offer useful advice for promotion of its sustainable growth and enhancement of its corporate value, and to supervise the management of the Company.
External Director	Hideo Kojima	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 to offer useful advice for promotion of its sustainable growth and enhancement of its corporate value, and to supervise the management of the Company based on his abundant experience and outstanding insight.
External Director	Akio Hamaji	Akio Hamaji possesses detailed knowledge on corporate management gained through abundant experience and outstanding insight based on his years in a career as a corporate manager. The Company therefore expects him to offer useful advice for promotion of its sustainable growth and enhancement of its corporate value, and to supervise the management of the Company.
External Corporate Auditor	Takeo Wakae	Masaichi Nakamura is an expert in finance and accounting with many years of practical experience as a certified public accountant and was committed to corporate 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.
External Corporate Auditor	Yaeko Hodaka	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.

Description of Executive Compensation

Compensation for the Company's directors and executive officers comprises basic remuneration, performance-linked remuneration and stock purchase 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 remuneration of directors, 85% of which is fixed remuneration.

Performance-linked remuneration comprises dividend-based remuneration that fluctuates in response to the Company's annual dividend, and 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 determined according to 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 determined according to each position by a coefficient determined according to the rank of A to E as determined by the President and CEO as the final decision maker, based on the four indicators of ROIC, net income before tax adjustments, orders and free cash flows, with additional consideration for factors such as safety records and status of compliance. 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 remuneration.

Stock purchase remuneration is defined as remuneration for the purpose of purchasing SHI shares. An amount of remuneration over a certain level determined according to each position is used for purchasing SHI shares through the officers' shareholding association. Holders of the shares are obliged to retain them during their term of office.

SHI discontinued its executive retirement bonus system at the conclusion of the 109th Ordinary General Meeting of Shareholders held on June 29, 2005.

Compensation of corporate auditors is determined by mutual consultation between 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 at the Ordinary General Meeting of Shareholders held in June 2006. The maximum aggregate amount of compensation paid to corporate auditors shall not exceed ¥7.5 million per month, pursuant to the resolution at the Ordinary General Meeting of Shareholders held in June 2005.

Classification	Amount of Compensation (¥ million)	Amount by Type of Compensation (¥ million)			Number of Eligible Officers
		Basic Remuneration	Performance-Linked Remuneration	Stock Purchase Remuneration	
Directors (excluding external directors)	357	219	104	34	8
Corporate auditors (excluding external corporate auditors)	69	69	—	—	2
External officers	46	46	—	—	5

Compliance

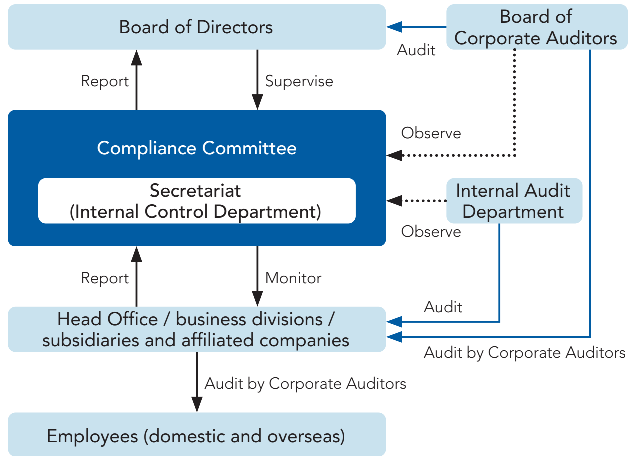
Basic Concept

Based on the Basic Compliance Policy, the Group requires its officers and employees to ensure they comply with laws, regulations, and corporate ethics and to always act with a high degree of discernment. The basic behavioral guidelines to be followed by the directors and employees of the Group are summarized in the SHI Group's Ethics Code, and we encourage them to put them into practice.

● Promotion System

The Compliance Committee, chaired by the president, formulates the Group's Basic Compliance Policy, monitors the occurrence of compliance violations, takes action against violations, and formulates preventive measures. Under the supervision of the Board of Directors, the Compliance Committee regularly reports the status of its activities to the Board of Directors.

The Internal Control Department, which serves as the secretariat for the Compliance Committee, promotes compliance in the Group in cooperation with the internal control promotion organizations established in each business division, manufacturing site, and subsidiary and affiliated company.



Initiatives to Strengthen Compliance

● Creation of Compliance Tools

Ethics cards containing the Sumitomo Business Philosophy, Business Principle, ethical rules, and the Ethics Hotline whistleblowing channel are distributed to all officers and employees of the Group. In addition, we have compiled a Compliance Manual that outlines specific behavioral guidelines, such as the various rules to be followed by the officers and employees of the Group, and we conduct regular readings of the Compliance Manual at each workplace to ensure thorough compliance.

● Compliance Awareness Survey

In order to ascertain employees' level of understanding of compliance, potential risks, and other problems at the workplace, we conduct an annual compliance awareness survey of employees of our domestic affiliated companies and major affiliates in China, which leads to the implementation of measures.

● Obtaining a Pledge of Compliance

In order to ensure that our business activities are conducted with an awareness of compliance, we require managers of the Group and directors of our subsidiaries to submit a pledge of compliance.

Anti-bribery Measures

We have established the SHI Group Anti-bribery Basic Policy with the aim of clarifying the anti-bribery rules to be observed by directors and employees and to prevent bribery, and we are working to strengthen global anti-bribery measures. This policy applies to all Group companies, as well as to all directors and employees, and in addition to the dissemination of this policy, we are implementing initiatives that respond to the characteristics and risks of each country and region.

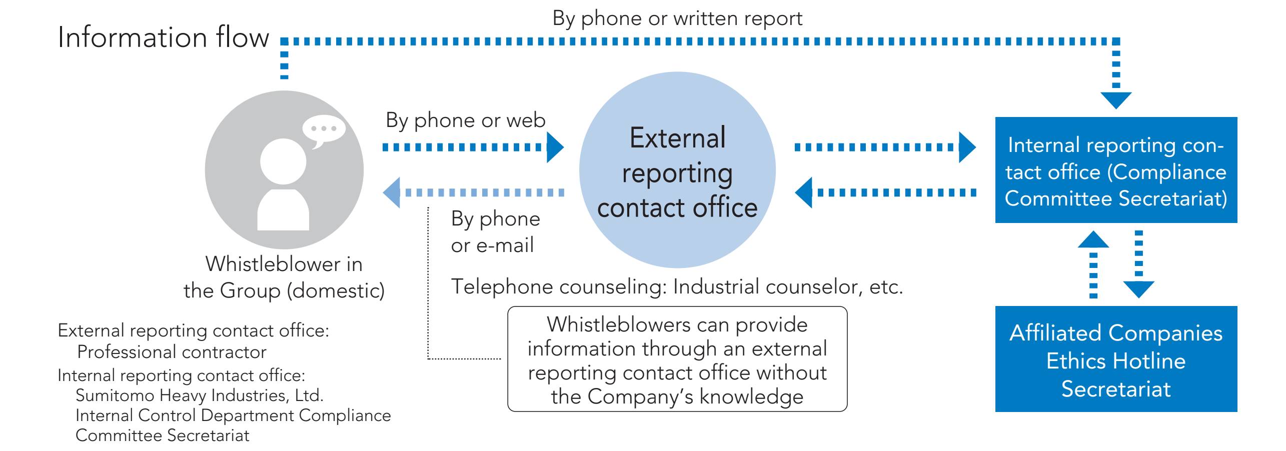
Establishment of Systems for Reporting and Consulting

We have established the SHI Group Ethics Hotline, a whistleblowing system that allows the Group's employees to anonymously report and consult with the Compliance Committee Secretariat about violations of laws, regulations, and internal rules, or things that may lead to such violations. In Japan, we established an external contact point for all Group companies in 2017 to make it easier to report and consult. In addition, in China, we established an external contact point for all major affiliates in 2019.

In 2020, we opened an external consultation service dedicated to workplace harassment issues in order to maintain a healthy work environment. This is a contact point where employees can consult with us on issues of harassment that are bothering them or problems with human relations in the workplace, no matter how trivial the issues may seem. Anonymous consultations are available, and support is provided to sort out and solve problems based on the wishes of those seeking consultation.

▶ For the number of violations identified by the Ethics Hotline, please refer to Non-Financial Information → P77

SHI Group Ethics Hotline (Whistleblowing System)



Compliance Education

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

Name of training	Target participants	Outline	Frequency
Level-specific education	New hires, mid-career hires, newly appointed assistant managers, managers, executive directors and officers	Deepen the knowledge of compliance required for each job level	Upon hiring and promotions
Workplace-specific education	Group companies' employees	Deepen the basic understanding of compliance through regular reading of the Compliance Manual in the workplace	Conducted at department meetings, etc.
		Education and training using the case method, in which participants are divided into groups to discuss and present compliance cases	Once per year
E-learning	Group companies' employees	Test-based education and training on compliance, safety, harassment, and sustainability	Once per year
Function-specific education	Non-managerial employees in sales departments	Gain an understanding of the basics of contracts and sustainability as well as the compliance risks encountered by sales representatives	At the time of assignment as a sales representative

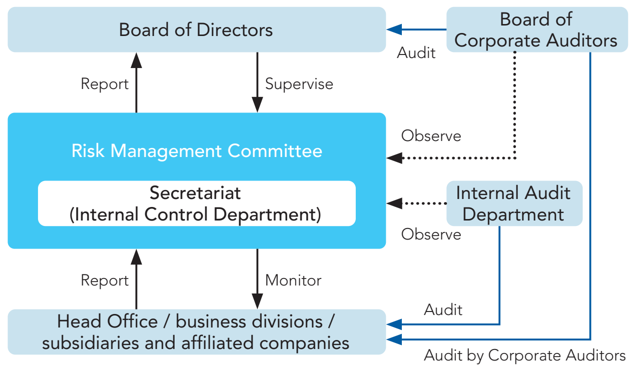
Risk Management

Basic Concept

The Group strives to ensure management stability by identifying risks that may impede the Group's sustainable growth at an early stage and by promoting Company-wide and comprehensive risk management.

Promotion System

Under the supervision of the Board of Directors, the Risk Management Committee has been established to promote risk management for the entire Group. In order to avoid or reduce risks, we identify, evaluate, and take measures against risks and monitor risk management in each business division. Over the long term, we are working to establish an optimal Company-wide risk management system, including appropriate risk-taking, in order to enhance the Group's corporate value in the medium to long term.



▶ See also Addressing Climate Change Risks → P44

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, a Risk Evaluation Subcommittee has been established under the Risk Management Committee to evaluate risks for the entire Group. The Risk Management Committee implements risk reduction measures and follows up on significant Group risks.

Business risks		Operational risks
Management-level risks	Business-level risks	
• Group governance • Responding to medium- to long-term management issues [Delays in addressing climate change and next-generation research and development] • Information disclosure	• External environment • Sales and services • Research, development and design • Production, procurement, and logistics • Quality • Information systems • Human resources • Management of large projects • BCP	• Work environment • Competition and trading • Finance and accounting • Business operations • Facilities and properties • Environmental management • Community and social relations • Internal reporting

Response to Inappropriate Conduct in Quality Control

Regarding inappropriate inspections of products and services at the Company and Group companies that were announced in January 2019, based on the report of the Special Investigation Committee that was established at the time, we are working to ensure the continuous implementation of measures to prevent a reoccurrence, such as strengthening our quality control process, enhancing our quality audit system, and reinforcing compliance promotion, including compliance education.

Directors, Corporate Auditors, and Executive Officers (As of June 30, 2021)

Board of Directors

Shunsuke Betsukawa
Representative Director, Chairman of the Board

- Apr. 1978 Joined the Company
- Apr. 2007 Senior Vice President, General Manager of Corporate Finance, Accounting & Administration Group
- Apr. 2009 General Manager of Corporate Planning and Development Department
- Jun. 2009 Director, Senior Vice President
- Apr. 2010 Director, Executive Vice President
- Apr. 2011 Representative Director, CFO and General Manager of Export Administration Department
- Apr. 2012 Senior Executive Vice President
- Apr. 2013 Representative Director, President and CEO
- Apr. 2019 Representative Director, Chairman of the Board (current)

Shinji Shimomura
Representative Director, President and CEO

- Apr. 1982 Joined the Company
- Apr. 2012 Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
- Apr. 2013 Executive Managing Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
- Apr. 2014 Senior Executive Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Vice President of the Company
- Apr. 2015 Senior Vice President, Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
- Apr. 2016 Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
- Jun. 2016 Director of the Company
- Apr. 2018 Executive Vice President
- Apr. 2019 Representative Director, President and CEO (current)

Tetsuya Okamura
Representative Director,
Senior Executive Vice President

- Apr. 1980 Joined the Company
- Mar. 2008 Managing Director & CEO of Demag Ergotech GmbH
- Apr. 2012 Senior Vice President of the Company
- Apr. 2017 General Manager of Industrial Equipment Division
- Apr. 2018 Executive Vice President
- Jun. 2018 Director
- Apr. 2020 Representative Director, Senior Executive Vice President, General Manager of Export Administration Department (current)
- Jan. 2021 General Manager of Corporate ICT Group (current)
- Apr. 2021 CIO (current)

Eiji Kojima
Director, Executive Vice President

- Apr. 1984 Joined the Company
- Nov. 2013 General Manager of Mechatronics Division
- Apr. 2016 Senior Vice President (current)
- Jul. 2016 General Manager of Energy & Environment Group (current)
- Jun. 2017 Director (current)
- Apr. 2021 Executive Vice President (current)
  General Manager of Corporate Planning Group (current)

Hideo Suzuki
Director, Executive Vice President

- Apr. 1982 Joined the Company
- Jun. 2005 Director of SHI Financial Services Co., Ltd. (currently Sumitomo Heavy Industries Business Associates, Ltd.)
- Mar. 2006 Representative Director and President of SHI Financial Services Co., Ltd.
- Apr. 2012 General Manager of Corporate Finance, Accounting & Administration Group
- Apr. 2014 Senior Vice President
- Apr. 2018 Executive Vice President (current)
- Jun. 2018 Director (current)
- Apr. 2019 CFO (current)

Kazuo Hiraoka
Director, Executive Vice President

- Apr. 1985 Joined the Company
- Apr. 2012 General Manager of Plastics Machinery Division (current)
- Apr. 2015 Vice President
- Apr. 2016 Senior Vice President
- Apr. 2020 Director, Executive Vice President (current)
- Jun. 2020 Director (current)
- Apr. 2021 General Manager of Precision Equipment Group (current)

Susumu Takahashi
External Director

- Feb. 2004 Counselor of The Japan Research Institute, Limited
- Aug. 2007 Vice Chairman of The Japan Research Institute, Limited
- Jun. 2011 Chairman of The Japan Research Institute, Limited
- Jun. 2014 External Director of the Company (current)
- Apr. 2018 Chairman Emeritus of The Japan Research Institute, Limited (current)

Hideo Kojima
External Director

- Mar. 1980 Registered as a certified public accountant
- May 1995 Representative Partner of Ota-Showa Auditors Office
- May 2000 Vice Chairman of Century Ota Showa & Co.
- May 2004 General Manager of International Division, Tokyo Office, Shin Nihon & Co.
- May 2006 Deputy Chief Executive Officer of Shin Nihon & Co.
- Sep. 2010 Senior Advisor of Ernst & Young ShinNihon LLC
- Jun. 2011 External Corporate Auditor of Alpine Electronics, Inc.
  External Corporate Auditor of the Company
  Established Hideo Kojima CPA Office
- Jun. 2013 External Corporate Auditor of Mitsubishi UFJ Financial Group, Inc.
- Jun. 2015 External Director of the Company (current)
- Jun. 2016 External Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.

Akio Hamaji
External Director

- Apr. 1979 Joined Mitsubishi Mining & Cement Co., Ltd. (currently Mitsubishi Materials Corporation)
- Jun. 2007 Operating Officer of Mitsubishi Materials Corporation
- Jun. 2010 Executive Officer of Mitsubishi Materials Corporation
- Jun. 2012 Managing Executive Officer of Mitsubishi Materials Corporation
- Apr. 2015 Vice President of Mitsubishi Materials Corporation
- Apr. 2016 Director, Chief Executive Officer of Mitsubishi Aluminum Co., Ltd.
- Dec. 2019 External Director of JAPAN BEST RESCUE SYSTEM Co., Ltd. (current)
- Jun. 2020 External Director of the Company (current)

Corporate Auditors

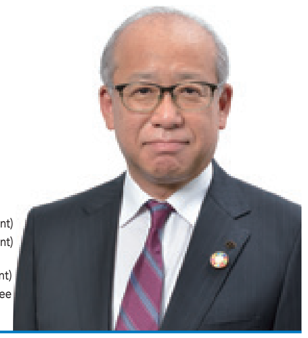
Yuji Takaishi
Standing Corporate Auditor

- Apr. 1977 Joined the Company
- Apr. 2007 Senior Vice President, General Manager of Human Resources Department
- Jun. 2007 Director
- Apr. 2010 Executive Vice President, General Manager of Plastics Machinery Division
- Apr. 2012 General Manager of Corporate Planning & Development Department
- Apr. 2013 Representative Director, General Manager of Export Administration Department
- Apr. 2014 General Manager of Corporate Planning Group
- Apr. 2015 Regional General Manager of Kansai Office
- Jun. 2016 Standing Corporate Auditor (current)

Jun Nogusa
Standing Corporate Auditor

- Apr. 1979 Joined the Company
- Apr. 2014 General Manager of Internal Control Department
- Jun. 2018 Standing Corporate Auditor (current)

Masaichi Nakamura
External Corporate Auditor



- Mar. 1987 Registered as a certified public accountant
- Aug. 2008 Managing Director of Ernst & Young ShinNihon LLC
- Jul. 2014 Representative Partner and Vice President of Ernst & Young ShinNihon LLC
  Representative Director of Ernst & Young Business Initiative Co., Ltd.
- Sep. 2016 Established Masaichi Nakamura CPA Office
- Jun. 2017 External Corporate Auditor of the Company (current)
- Jun. 2017 External Corporate Auditor of the Company (current)
  External Director (Audit and Supervisory Committee Member) of SCSK Corporation (current)
- Jun. 2019 External Director Audit and Supervisory Committee Member of Terumo Corporation (current)

Yaeko Hodaka
External Corporate Auditor

- Apr. 1992 Registered as a lawyer
- Jan. 2011 Partner, Baker & Mckenzie (current)
- Sep. 2020 Fellow, Centre for the Fourth Industrial Revolution Japan, World Economic Forum (current)
- Jun. 2021 External Audit and Supervisory Committee Member of the Company (current)

Directors, Corporate Auditors, and Executive Officers

Name	Current position	Tenure (Years)	Selection and Nomination Committee	Remuneration Committee	Management Strategy Committee	Sustainability Committee	Risk Management Committee	Compliance Committee	Attendance at Meetings of the Board of Directors/ Board of Corporate Auditors
Shunsuke Betsukawa	Representative Director, Chairman of the Board	12	○	○	○	○			Attendance at Meetings of the Board of Directors: 13/13
Shinji Shimomura	Representative Director, President and CEO	5	○	○	◎	◎	◎	◎	Attendance at Meetings of the Board of Directors: 13/13
Tetsuya Okamura	Representative Director	3			○	○	○	○	Attendance at Meetings of the Board of Directors: 13/13
Eiji Kojima	Director	4			○	○	○	○	Attendance at Meetings of the Board of Directors: 13/13
Hideo Suzuki	Director	3			○	○	○	○	Attendance at Meetings of the Board of Directors: 13/13
Kazuo Hiraoka	Director	1				○			Attendance at Meetings of the Board of Directors: 10/10 * Appointed in Jun. 2020
★ Susumu Takahashi	External Director	7	○	○		○			Attendance at Meetings of the Board of Directors: 13/13
★ Hideo Kojima	External Director	6	◎	◎		○			Attendance at Meetings of the Board of Directors: 13/13
★ Akio Hamaji	External Director	1	○	○		○			Attendance at Meetings of the Board of Directors: 10/10 * Appointed in Jun. 2020
Yuji Takaishi	Standing Corporate Auditor				△	△	△	○	Attendance at Meetings of the Board of Directors: 13/13 Attendance at Meetings of the Board of Corporate Auditors: 11/11
Jun Nogusa	Standing Corporate Auditor				△	△	△	○	Attendance at Meetings of the Board of Directors: 13/13 Attendance at Meetings of the Board of Corporate Auditors: 11/11
★ Masaichi Nakamura	External Corporate Auditor		△	○		○			Attendance at Meetings of the Board of Directors: 12/13 Attendance at Meetings of the Board of Corporate Auditors: 11/11
★ Yaeko Hodaka	External Corporate Auditor			○		○			— * Appointed in Jun. 2021

◎: Chairperson ○: Committee member △:Observer ★:Independent committee member

Executive Officers (■ designates concurrent position as a director)

President	■ Shinji Shimomura	CEO
Senior Executive Vice President	■ Tetsuya Okamura	CIO, General Manager of Export Administration Department and Corporate ICT Group
Executive Vice President	Toshiharu Tanaka	Assistant to the President on Promoting Globalization
Executive Vice President	■ Eiji Kojima	General Manager of Corporate Planning Group
Executive Vice President	■ Hideo Suzuki	CFO
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
Senior Vice President	Hiroo Morita	Head of Kansai Office, Chairman of the Board of Sumitomo Heavy Industries (China), Ltd.; Representative Director, President & CEO of Sumitomo Heavy Industries Business Associates, Ltd.
Senior Vice President	Hideshi Shimamoto	General Manager of Ship & Marine Division; Representative Director and President & CEO of Sumitomo Heavy Industries Marine & Engineering Co., 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	Toshihiko Chijiiwa	General Manager of Corporate Technology Management Group
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 Control Division, Power Transmission & Controls Group, Representative Director, President & CEO of Sumitomo Heavy Industries Gearbox Co., Ltd.
Vice President	Sadahiko Kimura	General Manager of Mechatronics Division
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	Toshiro Watanabe	General Manager of Corporate Finance, Accounting & Administration 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.

Roundtable Discussion with External Directors

Strengthening corporate governance is essential for the SHI Group to achieve sustainable growth and increase corporate value over the medium and long terms. In this section, we held a discussion with our three external directors about the content of Japan's revised Corporate Governance Code (CGC) and other points they believe to be important for investors.
(The discussion was held at the Company's Head Office meeting room on June 29, 2021.)

Governance and Business Strategies

Q The revised CGC calls for institutional changes related to such areas as the ratio of external directors, the ratio of female directors, and nomination and compensation committees. In addition to institutional aspects, however, we need to address substantive matters in order to help increase corporate value. What are your thoughts on this? Please also talk about your business management strategies and ideas for empowering the executive divisions.

Takahashi "We need to increase the pace of digital and green-related transformation more than ever before."

Kojima "We are steadily implementing measures to demonstrate resilience, but we need to strengthen our responsiveness to agility."

Hamaji "We need to create a corporate culture where employees feel that change provides business opportunities and that they can freely make suggestions."

Kojima Regarding the composition of the Board of Directors, we have been discussing the ratio of those who concurrently serve as executive officers and non-executive officers, as well as the optimal ratio of external directors among the non-executive officers, in the course of our effectiveness evaluations. Since we are a conglomerate engaged in multiple businesses, we need to have a certain number of executive officers on the Board of Directors, and we concluded that monitoring would help us be most effective. Although this is a so-called hybrid structure, we believe the Board of Directors currently operates with a good balance of executive and non-executive members.

Recently, the CGC changed its emphasis to a monitoring-oriented model, and we are concerned about how to make this consistent with our own ideas. Although we already meet the external criteria, we will need to discuss whether we should continue with the hybrid model or move to the monitoring-oriented one. We also have a social environment that is conscious of the need to strengthen the monitoring and governance functions, so we will need to reinforce our capabilities in these areas in order to conduct business in the future.

With regard to diversity, some people have suggested that we should appoint non-Japanese directors, but COVID-19 has made it difficult to create a database of overseas human resources and evaluate their performance. While our overseas sales ratio and overseas human resources ratio are both increasing, we see this as a challenge for the future. Today, companies are being asked to address globalization in an optimal manner, and I don't think this trend can be stopped in the future.

With respect to the fact that our incumbent CEO is a member of the Selection and Nomination Committee and the Remuneration Committee, the most pressing current issue for the Selection and Nomination Committee is succession planning and nomination. For this reason, I think it is better to have the CEO on the committee even though it consists mainly of external directors. Indeed, the presence of external committee members serves to prevent the CEO from serving only his own interest. The Compensation Committee relies heavily on the CEO's evaluation of the performance-based portion of executive compensation, thus it is effective for the CEO to explain his or her thinking. The Compensation Committee has seven members, five of whom are from outside the company, so there are no governance issues.

Previously, I had the impression we were weak in the empowerment aspect. However, external officers got involved in monitoring the content of Medium-Term Management Plan 2023 (hereafter, "MTMP23") during its preparation and offered their opinions, which has alleviated my concern. We also established a Risk Management Committee in fiscal 2020, and its activities are regularly monitored by external directors. I am therefore satisfied that our monitoring capabilities have been enhanced compared with before.

Hamaji I gave advice on the creation of management strategies from an external perspective. In formulating MTMP23, first we received an explanation at a Board of Directors meeting in November 2020. We subsequently commented on the plan at monthly Board meetings, so our external views have been properly reflected in the plan. Mr. Takahashi has actively commented on digital transformation-related issues, while I have been explaining the need for intangible assets and product development capabilities.

Regarding the need to strengthen our product development capabilities, our R&D expenses account for less than 3% of net sales, which is not high compared with other companies. Internally, we are taking advanced initiatives, mainly in the semiconductor manufacturing equipment and medical device businesses, both of which are growing. In order to make hit products that are competitive, however, we should invest more aggressively in product development. I believe we need to strengthen our product development capabilities and create one-of-a-kind products while leveraging our advantages and synergies as a conglomerate.

Takahashi The need to step up digital transformation is explained in MTMP23. In the meantime, the spread of COVID-19 has led to increased demand for physical distancing around the world and accelerated digitalization in society. Digitalization has emerged as a key theme in corporate management, and companies need to use digital technology to not only improve management efficiency but also generate new business and enhance its high added value. In addition to business continuity measures, we need to embrace dynamism in order to respond quickly and accurately to unexpected changes in the environment.

Under these circumstances, we appointed a Chief Information Officer (CIO), which is symbolic for our company and represents a statement of intent by top management to promote digital transformation across the Group. Together with greening, we need to pursue digitalization laterally across the entire company. In formulating MTMP23, we engaged in discussions using a backcasting method based on a future scenario. We also revised our business segmentation in order to capture growth areas with a view to changing our business structure while embracing digital transformation and greening. I think these actions were correct.

Companies are expected to satisfy the CGC rules externally and be accountable when they are unable to do so even if they have tried hard. Financial information is the result of corporate activities, but it is non-financial information that will be the future focus of attention for accountability. It is important to explain this information to investors. With regard to diversity, the key point is not only hiring female directors from outside the Company but also how many female directors can be promoted from within. The appointment of non-Japanese employees is another issue, as well as the need to discuss the external director ratio. But first of all, we need to emphasize diversity within the Company.

In order to increase our agility, we need to strengthen our constitution. M&As are about buying time with money, while open innovation is about reducing time by borrowing outside help. We have been doing both things, but from now on the key to agility will be how we reinforce our people and organization for medium- and long-term growth.

Hamaji By elevating the experience gained in each business within the Group to formal knowledge status, we can better achieve digital transformation and attract customers. Our policy is to strengthen our service businesses, and to this end we need to expedite digital transformation because we can use it to improve the content of our services. For example, we can use digital transformation to monitor machines shipped overseas to reinforce our maintenance and inspection services.

As we have seen with COVID-19, meanwhile, we need to refine our supply chain management by finding alternative methods of procurement, including transportation.

Q With regard to the speed of addressing change, what specific areas are you working on and what areas are lagging behind? Also, what are your ideas on how to increase the speed?

Takahashi It is said that Japanese companies are generally slower to move than those in Europe and the United States, and I believe our company is no exception. In addressing the COVID-19 pandemic, we successfully ensured the safety and security of our employees. On the other hand, we need to increase the speed of management innovation more than ever before in response to structural changes in the fields of digitalization and greening. We have increased the pace of M&As over the past few years, but I feel we need to step it up another gear.

Kojima With respect to matters for concern, I feel we have issues in the way we disclose information and express our intentions for the future of management. In the past few years, there has been a lot of talk about sustainability-related investments, but a greater sense of speed is required to address new businesses and changes in business models that may emerge in the future. If we do not clearly state important goals, such as CO_2 emission reduction, I think it will be difficult for investors to envisage our future. We are steadily implementing measures to demonstrate resilience, but agility will require us to enhance our response capability.

Hamaji Regarding our ability to link changing events to business opportunities, we are involved in cutting-edge fields, such as semiconductor-related businesses, so we have some capability. It would be good if we could smoothly connect the feelings of frontline workers to our business. In the future, I think core frontline employees should speak up and senior management should support them. We need to create a corporate culture in which employees feel that change provides business opportunities and express their ideas accordingly.

Addressing Sustainability Issues

Q It is important to see social issues as business opportunities and turn business risks into opportunities, and investors are looking to see how these can lead to future profits for companies. What are our challenges in terms of sustainability? Also, please let us know how this connects to corporate strategy and corporate value improvement and how you disseminate information.

Takahashi "To realize our long-term vision, it is important that we harness our human and organizational power."

Kojima "Appropriate ROIC management and proactive R&D investments are key priorities for achieving sustainability."

Hamaji "We will explain our commitment to addressing sustainability issues through dialogue with investors."

Hamaji In MTMP23, we have defined promoting sustainability as a core management priority. Our management team is aware of the need to achieve the SDGs by 2030 and carbon neutrality by 2050, and we are committed to becoming a company that can provide social value as we tackle these challenges.

By backcasting from 2030, we formulated our MTMP23 through a process of deciding what we need to do in the first three years (ending in 2023), and we also defined sustainability as a core management priority. In addition to decarbonization, we have identified seven key issues, such as improving labor productivity and applying advanced technologies, and restructured our organization to achieve them.

While our company engages in many businesses, I think our top management had a sense of crisis that each business may become self-contained and unable to address major changes in the environment. For this reason, we undertook a reorganization and changed our business segments from the perspective of realizing social value. Going forward, we will need to set SDG-related items as central themes in our product development goals, and to closely link the environment, energy, automation, and digitalization with our business strategies.

In the meantime, the Board of Directors needs to monitor the Group's progress on addressing the key sustainability issues. While managing such progress, we also must strive to disclose information to society and investors in an easy-to-understand manner. Taking decarbonization as an example, we should formally announce our support for the Task Force on Climate-Related Financial Disclosures (TCFD) as soon as possible.

In terms of organization, in April 2021 we reorganized the existing CSR Department into the Sustainability Department—by adding personnel from the Environmental Management Department of the General Administration Group, as well as from the Corporate Technology Management Group—and placed it under the umbrella of the Corporate Planning Group. We now have a flag-bearing entity that is closer to top management. External perspectives are also important in managing our progress, and accordingly we were evaluated by Vigeo Eiris, an international ESG evaluation organization, in 2020. This has enabled us to monitor our progress from a global perspective.

The revised CGC emphasizes the importance of clearly stating and communicating sustainability initiatives, and our president, CFO, and external directors want to fulfill this responsibility through dialogue with investors.

Kojima We now need to engage in ROIC management more appropriately although we have already practiced it traditionally. Rather than looking at the Group as a whole, this means, for example, reviewing our business formats to determine which ones should receive priority investments for further development. We have decided to invest aggressively in potential growth, with ¥74 billion in R&D spending planned under MTMP23. We should also consider spending more as we monitor future conditions. This is the key to sustainability.

As the objective of returning profits to shareholders, we aim to increase the dividend payout ratio, but in order to achieve this goal we need to increase profits. It is important to know how to ensure profits while practicing ROIC management and investing in R&D.

We also expect that our TCFD-related information will eventually be disclosed based on the financial information we disclose. So we should respond quickly. From the perspective of ESG, value evaluation scoring is now being used for listed companies, and we have to keep this in mind as well.

Takahashi We are also discussing CO_2 emission reduction targets. However, a look at the individual businesses of our Group reveals that we engage in activities that emit zero CO_2, such as businesses that utilize biomass as fuel. In addition, we are developing technologies and new energy sources to fill the gap. In this context, we are discussing how to develop technologies and identify the "seeds" of new technologies and businesses. It would be interesting if we could nurture these "seeds" to achieve product commercialization and differentiation.

We are now able to create scenarios for addressing long-term social issues and engage in discussion on how to link such scenarios to our own businesses. The next step is to consider how to realize our vision, which will require R&D capabilities. In other words, it is important that we harness our human and organizational power.

In the future, we need to disclose our progress in developing new energy sources and at the same time set non-financial performance targets to show what kind of progress we are making. Over the long term, we must understand that contributing to society through our core businesses will lead to increased corporate value, and to achieve this need to further strengthen our people and organization.

Intangible Assets and Corporate Value

Q Our intangible assets, such as human resources, intellectual property, and customer base, represent future business opportunities. Accordingly, we need to know how best to disclose information about those assets and connect them to corporate value. This also needs to be consistent with the management and problem-solving strategies of MTMP23. In conclusion, what are your thoughts on using intangible assets to increase corporate value?

Takahashi "It would be good if we could visualize our R&D status as much as possible and disseminate related information more effectively."

Kojima "We should disclose information that shows we are diverse and rich in talent in an easy-to-understand way for the outside world."

Hamaji "To help investors calculate our future cash flows, we need to explain the positioning of our Company in relation to our competitors."

Kojima I feel that our intangible assets are not properly reflected in our current corporate value. One reason may be inadequate disclosure of information. The Company engages in a wide range of businesses, making it difficult to get an accurate overall picture. This also makes it hard to evaluate its intangible assets and envisage how things will evolve over the next 10 years. In addition, we tend to be conservative when make earnings forecasts and explanations to investors, which may dampen their expectations for future dividend increases.

The revised CGC states that the Board of Directors should monitor the effectiveness of intellectual property. External directors receive reports on development investments and intellectual property, but we also need to step up monitoring of future-oriented investments in potential growth, intellectual property, and human resources. Deploying global human resources is another important challenge. I presume that these are also the reasons why intangible assets have not been evaluated effectively to date. We should create a system showing the outside world that this company is diverse and rich in talent.

Hamaji We are certainly investing in intangible assets, but if investors are unable to calculate our future cash flows, we need to address this. In discussing MTMP23, we (the three external directors) asked several questions to help us envisage the path ahead. For example, who are the competitors in this new segment? What strategies will be used to generate profits? This kind of explanation is necessary because investors will not be willing to invest in this company if they cannot see our competitive positioning and strategies.

Our target is to raise the ratio of female recruits to 20% or higher in each year of MTMP23. A breakdown shows that we are opening our doors to women because we have more of them in technical positions than in administrative ones. We also focus on childcare support to make it easier for women to work, and received "Platinum Kurumin" certification in 2020 for these efforts. As for overseas human resources, we are currently examining the treatment of executives of companies acquired via M&As, but we also need to create a system to evaluate local human resources, including those from regions other than Europe and the United States.

Takahashi The disclosure of information using non-financial indicators is indispensable for explaining future corporate value. We need to disseminate information on the value of our intangible assets and how they can be enhanced. Here, companies are being asked to create growth scenarios and stories for the future.

For example, one of our divisions is conducting R&D with an eye to determining whether to replace materials with new ones in the future or focus on reusing materials, as well as what kind of technology will be required for those purposes. I think it would be a good idea to visualize these scenarios as much as possible and disseminate information externally. If this leads to the birth of a one-of-a-kind product that becomes a profitable business, it will be reflected in increased corporate value.

B-to-B customers, the main buyers of our products, understand and appreciate the quality and performance of our offerings. If these customers find that using our products helps reduce CO_2 emissions and enhance efficiency compared with using products of competitors, they can raise their own corporate value. Disclosure is also important in this regard.

Eleven-Year Summary and Key Financial Data

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

(¥ million)

FY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Summary of Income (for the year):											
Net sales	¥548,015	¥624,100	¥585,871	¥615,271	¥667,099	¥700,838	¥674,328	¥ 791,025	¥ 903,051	¥ 864,490	¥ 849,065
R&D expenses	7,445	9,343	9,835	10,718	11,415	12,299	11,276	14,805	16,836	18,753	19,434
Operating profit	45,803	47,135	31,288	34,329	45,998	50,568	48,431	69,921	75,244	56,806	51,342
EBITDA (Note 1)	63,744	64,955	49,570	52,946	62,279	70,289	68,742	92,925	101,219	84,759	81,088
Ordinary profit	44,253	44,619	30,997	33,000	45,113	49,131	48,274	67,466	72,623	52,642	49,544
Profit attributable to owners of parent	27,926	19,492	5,865	17,891	24,348	33,133	33,613	34,660	45,650	32,807	26,764
Cash Flows (for the year):											
Cash flows from operating activities	¥ 36,521	¥ 23,309	¥ 2,660	¥ 63,661	¥ 62,170	¥ 18,315	¥ 38,158	¥ 71,111	¥ 55,173	¥ 36,263	¥ 64,131
Cash flows from investing activities	(23,513)	(22,672)	(19,660)	(27,622)	(14,112)	(15,350)	(25,852)	(37,810)	(54,973)	(57,752)	(43,729)
Free cash flows (Note 2)	13,008	638	(17,000)	36,039	48,058	2,965	12,306	33,301	199	(21,489)	20,402
Cash flows from financing activities	(22,020)	19,879	(11,428)	(9,498)	(36,889)	(23,789)	(17,809)	(10,146)	(13,314)	35,964	(7,959)
Cash and cash equivalents at the end of the period	51,700	72,376	46,476	76,418	90,324	68,625	61,017	85,503	69,776	83,630	96,242
Financial Position (at year-end):											
Total assets	¥626,829	¥691,841	¥647,724	¥724,182	¥786,027	¥782,859	¥796,484	¥ 894,835	¥ 954,051	¥ 996,111	¥1,030,684
Interest-bearing debt	67,833	96,522	98,547	107,433	83,644	68,232	60,460	64,181	73,311	124,669	124,439
Net interest-bearing debt (Note 3)	15,347	23,149	50,732	29,607	(8,779)	(2,572)	(3,360)	(24,052)	(278)	37,602	24,921
Total net assets	269,380	282,145	292,826	331,059	365,101	382,817	409,171	444,964	465,001	477,648	504,928
Amounts per Share of Common Stock: (unit: yen) (Note 4)											
Earnings (Note 5)	¥ 45.87	¥ 31.75	¥ 9.56	¥ 29.17	¥ 39.71	¥ 54.06	¥ 54.85	¥ 282.83	¥ 372.56	¥ 267.77	¥ 218.46
Net assets	435.10	454.43	470.69	532.28	587.37	614.51	650.47	3,517.33	3,701.01	3,790.99	4,005.43
Cash dividends	8.00	10.00	8.00	7.00	12.00	16.00	16.00	85.00	112.00	91.00	65.00
Financial Indexes: (unit: %)											
Operating profit ratio	8.4	7.6	5.3	5.6	6.9	7.2	7.2	8.8	8.3	6.6	6.0
EBITDA ratio	11.6	10.4	8.5	8.6	9.3	10.0	10.2	11.7	11.2	9.8	9.6
R&D expenses ratio to net sales	1.4	1.5	1.7	1.7	1.7	1.8	1.7	1.9	1.9	2.2	2.3
Return on assets (ROA)	4.5	3.0	0.9	2.5	3.1	4.2	4.2	3.9	4.8	3.3	2.6
Return on equity (ROE)	10.9	7.1	2.1	5.8	7.1	9.0	8.7	8.4	10.3	7.1	5.6
Stockholders' equity ratio	42.6	40.3	44.6	45.1	45.8	48.1	50.0	48.2	47.5	46.6	47.6
Interest-bearing debt ratio	10.8	14.0	15.2	14.8	10.6	8.7	7.6	7.2	7.7	12.5	12.1
D/E ratio (times)	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.3	0.3
ROIC (Note 6)	7.8	7.4	4.9	4.8	6.5	7.6	7.3	10.3	10.5	7.3	6.1
Investment in Plant and Equipment and Others:											
Capital expenditures (Note 7)	¥ 14,292	¥ 19,682	¥ 29,888	¥ 20,329	¥ 20,670	¥ 23,721	¥ 27,539	¥ 30,432	¥ 33,713	¥ 39,435	¥ 39,885
Depreciation	17,941	17,820	18,282	18,617	16,281	19,720	20,311	23,003	25,975	27,953	29,746

Notes: 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 calculated, 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) = $\frac{\text{(Operating profit + Interest and dividend income) x (1 – Effective tax rate*)}}{\text{(FY average of stockholders' equity + FY average of interest-bearing debt)}}$ * Effective tax rate = 45% until FY2013, 40% for FY2014, 35% from FY2015
7. Capital expenditures are capitalized and recorded as assets.

Non-Financial Key Data

Scope of coverage	This report covers Sumitomo Heavy Industries, Ltd. and its 142 consolidated subsidiaries (39 in Japan and 103 overseas) and 6 equity-method affiliates (1 in Japan and 5 overseas). If the scope of coverage is different, it is indicated accordingly.

Environment

Addressing Climate Change

		Unit	2016	2017	2018	2019	2020
GHG Emissions (Scope 1)	Total	t-CO_2	34,239.10	36,115.00	38,558.90	40,904.60	37,664.20
	Data Coverage	%	86.0	81.2	80.1	85.9	85.9
GHG Emissions (Scope 2)	Total (Note 1)	t-CO_2	128,883.10	135,705.46	149,158.73	151,535.28	147,797.45
	Data Coverage	%	86.0	81.2	80.1	85.9	85.9
GHG Emissions (Scope 1, 2 total)	Total (Note 1)	t-CO_2	163,122.24	171,820.47	187,717.62	192,439.89	185,461.64
	Data Coverage	%	86.0	81.2	80.1	85.9	85.9
GHG Emissions (Scope 3)	Cat-01 Raw Materials	t-CO_2	258,127	313,671	312,242	313,670	356,805
	Cat-02 Capital Goods	t-CO_2	—	—	143,234	165,751	128,805
	Cat-03 Energy Usage	t-CO_2	—	—	9,949	20,162	20,280
	Cat-04 Logistics (upstream)	t-CO_2	9,113	9,841	10,192	10,179	9,970
	Cat-05 Waste Treatment	t-CO_2	9,576	8,405	8,679	6,958	5,767
	Cat-06 Business Trips	t-CO_2	—	—	1,962	2,120	2,171
	Cat-07 Employee Commuting	t-CO_2	—	—	5,723	6,006	6,179
	Cat-08 Lease Asset (upstream)	t-CO_2	0	0	0	0	0
	Cat-09 Logistics (downstream)	t-CO_2	0	0	0	0	0
	Cat-10 Processing of Products to Be Sold	t-CO_2	0	0	0	0	0
	Cat-11 Use of Sold Products	t-CO_2	—	—	59,453,115	58,937,343	135,254,436
	Cat-12 Disposal of Unsold Products	t-CO_2	0	0	0	0	0
	Cat-13 Lease asset (downstream)	t-CO_2	0	0	0	0	0
	Total	t-CO_2	276,816	331,917	59,945,096	59,462,189	135,784,414
	Data Coverage	%	64.6	68.9	68.0	73.6	76.2
CO_2 Emission Intensity	Results	¥ million/ t-CO_2	4.48	5.00	5.20	4.80	4.90
	Data Coverage	%	86.0	81.2	80.1	85.9	85.9
Energy Consumption	Fuel Consumption	MWh	173,424.00	184,876.20	197,824.00	211,209.80	195,359.20
	Electricity Usage	MWh	253,102.80	263,450.20	290,486.20	295,637.40	289,252.90
	Water Chilling/Heating	MWh	1,065.00	1,195.00	11,192.70	6,581.90	9,306.90
	Total	MWh	427,591.90	449,521.40	499,502.90	513,429.00	493,919.00
	Data Coverage	%	86.0	81.2	80.1	85.9	85.9
Renewable Energy Consumption	Total	MWh	347.10	323.40	335.60	323.40	1,223.30
	Data Coverage	%	86.0	81.2	80.1	85.9	85.9

Note 1: Emissions data for Japan included in Scope 2 is calculated on a market basis.

Environmental Management

		Unit	2016	2017	2018	2019	2020
ISO 14001 Certification Status	Number of Certifications Acquired		55	55	55	56	58
	Acquisition Rate	%	84.2	77.9	80.0	80.1	80.6
Serious Violations of Environmental Laws and Regulations *	Number of Cases *		0	0	0	0	0
	Data Coverage	%	84.2	77.9	80.0	80.1	80.6

* Cases with fines and penalties of US$10,000 or higher

Water Resources Preservation

		Unit	2016	2017	2018	2019	2020
Water Consumption	Total	thousand m^3	1,385.90	1,378.30	1,527.30	1,557.60	1,514.20
	Data Coverage	%	79.6	76.4	79.9	80.6	77.1

Waste Management

			Unit	2016	2017	2018	2019	2020
Volume of Waste Disposed	Waste Generation		t	45,213.00	47,434.40	54,956.50	64,165.10	60,866.40
	Final Disposal Volume		t	436.34	704.50	760.30	8,234.10	1,234.70
	Data Coverage		%	85.7	81.0	83.6	85.6	85.5
Volume of Harmful Waste Disposed	Total		t	325.59	287.27	4079.37	303.21	817.65
	Target			SHI Group (domestic)				SHI Group (domestic)
Volume of Volatile Organic Compounds (VOC)	Total		t	650.53	643.38	735.63	684.35	691.20
	Data Coverage		%	85.7	81.0	83.6	83.9	83.9
	Breakdown of Waste Disposed (domestic)	Toluene	t	129.12	125.33	167.08	150.14	153.35
		Xylene	t	286.48	321.59	351.20	304.88	267.09
		Ethylbenzene	t	125.63	111.69	128.93	121.36	100.03

Social

Employee Data

		Unit	2016	2017	2018	2019	2020
Employees (consolidated)	Total	Number of employees	19,321	21,017	22,543	23,635	24,050
Employees (non-consolidated)	Male	Number of employees	2,526	2,568	2,675	2,719	2,960
	Ratio	%	91.1	89.8	89.1	88.6	88.2
	Female	Number of employees	246	289	327	349	396
	Ratio	%	8.9	10.1	10.9	11.4	11.8
	Total	Number of employees	2,772	2,857	3,002	3,068	3,356
Executive Officers	Male	Number of employees	20	20	20	19	20
	Ratio	%	100	100	100	100	100
	Female	Number of employees	0	0	0	0	0
	Ratio	%	0	0	0	0	0
	Total	Number of employees	20	20	20	19	20
Managers	Male	Number of employees	755	802	817	835	904
	Ratio	%	98.6	98.5	98.4	98.4	98.2
	Female	Number of employees	11	12	13	14	17
	Ratio	%	1.4	1.5	1.6	1.6	1.8
	Total	Number of employees	766	814	830	849	921
	Target		Non-consolidated				Non-consolidated
Employees by Age Group	Under 30	Number of employees	450	488	527	523	551
	30–39		614	697	738	777	889
	40–49		788	740	757	778	831
	50–59		668	706	770	777	852
	Above 60		252	226	210	213	233
	Target		Non-consolidated				Non-consolidated

Employee Data

		Unit	2016	2017	2018	2019	2020
Average Length of Service by Gender	Male	Years	16.7	16.9	17	16.8	16.6
	Female		12.4	12	12	11.9	11.9
	Total		16.3	16.4	16.4	16.2	16.1
	Target		Non-consolidated				Non-consolidated
Employment Ratio of Disabled People	Total	%	1.97	2.44	2.32	2.39	2.32
	Target		Non-consolidated				Non-consolidated
Percentage of Employees Covered by Collective Bargaining Agreements	Total	%	59.4	60.7	60.3	63.4	64.2
	Target		Non-consolidated				Non-consolidated
New Graduate Hires	Male	Number of employees	113	107	124	129	139
	Ratio	%	92.6	77.5	81.6	81.1	86.3
	Female	Number of employees	9	31	28	30	22
	Ratio	%	7.4	22.5	18.4	18.9	13.7
	Total	Number of employees	122	138	152	159	161
	Target		Non-consolidated				Non-consolidated
Career Hires	Total	Number of employees	69	92	101	108	66
	Ratio of Mid-career Hires to Full-time Workers	%	36.1	40.0	39.9	40.4	29.1
	Target		Non-consolidated				Non-consolidated
Total Turnover Rate	Total	%	2.0	2.4	2.7	2.5	2.4
	Target		Non-consolidated				Non-consolidated
Retirement Rate for Personal Reasons	Total	%	0.9	1.5	1.7	2.2	1.6
	Target		Non-consolidated				Non-consolidated
Employee Awareness Survey Results	Percentage of Highly Engaged Employees	%	48	—	48	—	49
	Target		SHI and 30 consolidated subsidiaries	—	SHI and 30 consolidated subsidiaries	—	SHI and 30 consolidated subsidiaries
Percentage of Employees Taking Paid Vacations	Total	%	71.4	72.3	74.1	75.9	73.6
	Target		Non-consolidated				Non-consolidated
Return-to-Work Ratio after Taking Childcare Leave	Total	%	100	100	100	100	100
	Target		Non-consolidated				Non-consolidated
Expenditures for Training	Total	¥ million	—	217	233	326	225
	Target		Non-consolidated				Non-consolidated

Occupational Health and Safety

		Unit	2016	2017	2018	2019	2020
Work-Related Deaths	Total	Number of employees	0	0	0	0	0
	Target		Non-consolidated				Non-consolidated
Occupational Accident Frequency Rate (employees and contract workers)	Frequency rate	%	—	0.1	0.3	0.2	0.2
	Target		—	Non-consolidated			Non-consolidated
Working Hours Per Year	Total	Hours	2,054	2,039	2,029	1,989	1,975
	Target		Non-consolidated				Non-consolidated
Percentage of Companies with ISO 45001 Certification		%	0	0	0	0	33.3
	Target		—	—	—	—	Domestic Main Offices

CSR Activities

		Unit	2016	2017	2018	2019	2020
Social Contribution Expenditures	Total	¥ million	86	69	82	35	301
	Target		Non-consolidated				Non-consolidated

Supply Chain Management

		Unit	2018	2019	2020
Supplier Status by Region (procurement amount ratio)	Japan	%	69.2	69.7	72.7
	China		10.7	10.7	10.9
	South Korea		2.6	2.8	2.5
	Taiwan		0.3	0.2	0.2
	Asia, etc.		5.3	5.1	4.7
	North America and Latin America		5.8	6.0	3.5
	Europe		5.9	5.5	5.5
	Other Areas		0.2	0.0	0.0
Main Suppliers	Number of Tier 1 Suppliers	Companies	7,755	7,559	7,537
	Number of Key Tier 1 Suppliers		288	288	288
Supplier Survey	Number of Surveys	Companies	288	288	288
	Implementation Rate	%	3.7	3.8	3.8

Governance

Corporate Governance

		Unit	2016	2017	2018	2019	2020
Composition of Directors	Total Number	Number of directors	10	10	10	9	10
	Directors in Charge of Business Execution		8	8	8	7	7
	Non-executive Directors		2	2	2	2	3
	External Directors		2	2	2	2	3
	Female Directors		0	0	0	0	0
	Non-Japanese Directors		0	0	0	0	0
Attendance Rate at Board Meetings	Average	%	99.3	99.3	99.3	100	99.2
	Minimum Attendance Rate	%	93.3	93.3	92.9	100	92.3
Average Tenure of Directors		Years	5.9	4.3	4.3	4.0	4.7

Business Ethics

		Unit	2016	2017	2018	2019	2020
Compliance Education by E-learning	Employees Completing Compliance Education	Number of employees	10,668	10,874	12,231	12,838	14,599
	Implementation Rate (% of all employees who have completed the program)	%	55.2	51.7	54.3	54.3	60.7
Employees Who Submitted the Compliance Pledge	Total	Number of employees	2,490	2,436	2,748	2,745	2,852
	Submission Rate (% of all employees who submitted the pledge)	%	12.9	11.6	12.2	11.6	11.9
Number of Cases Reported to Ethics Hotline	Total		67	70	83	125	143
	Of which, Number of Non-compliance Cases		—	—	—	—	6
Amount of Political Donations	Total	¥ million	—	—	—	—	1.5
	Target		—	—	—	—	Non-consolidated

Consolidated Financial Statements

[Financial Section]

1 Methods for Preparing the Consolidated Financial Statements
The consolidated financial statements of Sumitomo Heavy Industries, Ltd. (SHI) have been prepared in accordance with the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976; hereinafter the "Consolidated Financial Statements Regulation")

2 Audit Certification
The consolidated financial statements of SHI for the current fiscal year (from April 1, 2020 to March 31, 2021) have been audited by KPMG AZSA LLC pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

3 Efforts to Ensure the Adequacy of the Consolidated Financial Statements
SHI has been making efforts to ensure the adequacy of the consolidated financial statements. More concretely, SHI joined the Financial Accounting Standards Foundation and attends seminars in order to enhance the understanding of the accounting standards and develop a system that enables it to adapt to changes in accounting standards.

Consolidated Balance Sheets

Millions of yen

	March 31, 2020	March 31, 2021
ASSETS		
Current assets		
Cash and deposits	¥ 87,067	¥ 99,518
Notes and accounts receivable—trade	271,406	282,928
Finished goods	81,573	80,272
Work in process	*2 76,565	*2 77,721
Raw materials and supplies	42,840	42,163
Others	*1 36,673	34,276
Allowance for doubtful accounts	(3,341)	(3,258)
Total current assets	592,784	613,620
Non-current assets		
Property, plant and equipment		
Buildings and structures	178,188	183,375
Accumulated depreciation	(115,971)	(118,975)
Buildings and structures, net	*1 62,217	*1 64,400
Machinery, equipment and vehicles	212,697	221,183
Accumulated depreciation	(148,108)	(155,723)
Machinery, equipment and vehicles, net	*1 64,589	*1 65,461
Land	*1, *3 107,535	*1, *3 108,305
Construction in progress	9,250	13,825
Others	66,653	69,111
Accumulated depreciation	(42,179)	(45,298)
Others, net	24,474	23,813
Total property, plant and equipment	268,066	275,804
Intangible assets		
Goodwill	28,831	29,364
Others	45,280	47,432
Total intangible assets	74,111	76,796
Investments and other assets		
Investment securities	*4 19,771	*4 22,812
Long-term loans receivable	3,213	2,658
Deferred tax assets	26,928	25,456
Defined benefit asset	2,936	4,591
Others	*4 12,600	*4 12,505
Allowance for doubtful accounts	(4,297)	(3,556)
Total investments and other assets	61,151	64,465
Total non-current assets	403,327	417,064
Total assets	¥ 996,111	¥1,030,684

Millions of yen

	March 31, 2020	March 31, 2021
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	¥158,489	¥ 160,260
Short-term loans payable	28,139	31,698
Current portion of long-term loans payable	*1 4,499	*1 3,270
Commercial papers	35,000	—
Income taxes payable	5,921	6,615
Advances received	57,523	57,676
Provision for construction warranties	13,742	18,192
Provision for loss on construction contracts	*2 4,233	*2 2,857
Others	58,111	60,595
Total current liabilities	365,657	341,162
Non-current liabilities		
Bonds payable	30,000	50,000
Long-term loans payable	*1 27,032	*1 39,471
Provision for loss on business transfers	115	115
Provision for loss on product liability claims	38	36
Defined benefit liability	53,628	51,662
Deferred tax liabilities for land revaluation	*3 20,628	*3 20,437
Others	21,365	22,873
Total non-current liabilities	152,806	184,594
Total liabilities	518,463	525,756
NET ASSETS		
Shareholders' equity		
Share capital	30,872	30,872
Capital surplus	26,070	26,071
Retained earnings	367,229	390,336
Treasury shares	(1,080)	(1,100)
Total shareholders' equity	423,091	446,179
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,410	5,030
Deferred gains or losses on hedges	(532)	(834)
Revaluation reserve for land	*3 40,626	*3 40,342
Foreign currency translation adjustments	4,911	1,016
Remeasurements of defined benefit plans	(6,049)	(1,035)
Total accumulated other comprehensive income	41,366	44,518
Non-controlling interests	13,191	14,230
Total net assets	477,648	504,928
Total liabilities and net assets	¥996,111	¥1,030,684

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Net sales	¥864,490	¥849,065
Cost of sales	*1, *2 670,199	*1, *2 663,616
Gross profit	194,291	185,449
Selling, general and administrative expenses	*2, *3 137,485	*2, *3 134,106
Operating profit	56,806	51,342
Non-operating income		
Interest income	1,017	899
Dividend income	594	640
Insurance claim income	—	*4 1,076
Others	3,462	2,295
Total non-operating income	5,073	4,910
Non-operating expenses		
Interest expenses	1,184	954
Foreign exchange losses	1,807	575
Patent related expenses	904	1,012
Others	5,342	4,167
Total non-operating expenses	9,237	6,708
Ordinary profit	52,642	49,544
Extraordinary losses		
Impairment loss	—	*5 5,769
Total extraordinary losses	—	5,769
Profit before income taxes	52,642	43,775
Income taxes—current	17,008	16,399
Income taxes—deferred	815	(1,265)
Total income taxes	17,823	15,133
Profit	34,819	28,642
Profit attributable to non-controlling interests	2,012	1,877
Profit attributable to owners of parent	¥ 32,807	¥ 26,764

Consolidated Statements of Comprehensive Income

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Profit	¥34,819	¥28,642
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,465)	2,617
Deferred gains or losses on hedges	(215)	(306)
Foreign currency translation adjustments	(4,272)	(3,806)
Remeasurements of defined benefit plans	(1,509)	5,004
Share of other comprehensive income of entities accounted for using equity method	7	10
Total other comprehensive income	*1 (7,453)	*1 3,520
Comprehensive income	¥27,365	¥32,162
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	¥25,657	¥30,201
Comprehensive income attributable to non-controlling interests	1,709	1,961

Consolidated Statements of Changes in Equity

For the year ended March 31, 2020

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	¥30,872	¥26,071	¥348,863	¥(1,048)	¥404,757
Cumulative effects of changes in accounting policies			(178)		(178)
Restated balance at the beginning of the period	30,872	26,071	348,685	(1,048)	404,580
Changes during period					
Dividends of surplus			(14,458)		(14,458)
Profit attributable to owners of parent			32,807		32,807
Purchase of treasury shares				(34)	(34)
Disposal of treasury shares		(0)	(0)	2	2
Reversal of revaluation reserve for land			194		194
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(0)	18,544	(32)	18,512
Balance at the end of the period	¥30,872	¥26,070	¥367,229	¥(1,080)	¥423,091

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥ 3,871	¥(318)	¥40,820	¥ 8,879	¥(4,542)	¥48,711	¥11,533	¥465,001
Cumulative effects of changes in accounting policies								(178)
Restated balance at the beginning of the period	3,871	(318)	40,820	8,879	(4,542)	48,711	11,533	464,823
Changes during period								
Dividends of surplus								(14,458)
Profit attributable to owners of parent								32,807
Purchase of treasury shares								(34)
Disposal of treasury shares								2
Reversal of revaluation reserve for land								194
Net changes of items other than shareholders' equity	(1,462)	(213)	(194)	(3,968)	(1,507)	(7,344)	1,658	(5,686)
Total changes of items during the period	(1,462)	(213)	(194)	(3,968)	(1,507)	(7,344)	1,658	12,825
Balance at the end of the period	¥ 2,410	¥(532)	¥40,626	¥ 4,911	¥(6,049)	¥41,366	¥13,191	¥477,648

For the year ended March 31, 2021

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	¥30,872	¥26,070	¥367,229	¥(1,080)	¥423,091
Changes during period					
Dividends of surplus			(5,391)		(5,391)
Profit attributable to owners of parent			26,764		26,764
Purchase of treasury shares				(21)	(21)
Disposal of treasury shares			(0)	1	1
Reversal of revaluation reserve for land			284		284
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Change in scope of consolidation			1,450		1,450
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	23,107	(20)	23,088
Balance at the end of the period	¥30,872	¥26,071	¥390,336	¥(1,100)	¥446,179

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other com-prehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥2,410	¥(532)	¥40,626	¥ 4,911	¥(6,049)	¥41,366	¥13,191	¥477,648
Changes during period								
Dividends of surplus								(5,391)
Profit attributable to owners of parent								26,764
Purchase of treasury shares								(21)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								284
Change in ownership interest of parent due to transactions with non-controlling interests								0
Change in scope of consolidation								1,450
Net changes of items other than shareholders' equity	2,620	(303)	(284)	(3,895)	5,014	3,152	1,040	4,192
Total changes of items during the period	2,620	(303)	(284)	(3,895)	5,014	3,152	1,040	27,280
Balance at the end of the period	¥5,030	¥(834)	¥40,342	¥ 1,016	¥(1,035)	¥44,518	¥14,230	¥504,928

Consolidated Statements of Cash Flows

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	¥ 52,642	¥ 43,775
Depreciation	27,953	29,746
Impairment loss	—	5,769
Interest and dividend income	(1,611)	(1,539)
Interest expenses	1,184	954
Increase (decrease) in provision	(2,856)	3,096
Decrease (increase) in notes and accounts receivable—trade	21,221	(10,942)
Decrease (increase) in inventories	(17,759)	(4,093)
Increase (decrease) in notes and accounts payable—trade	(27,859)	966
Others	5,032	11,343
Subtotal	57,946	79,077
Interest and dividend income received	1,582	1,557
Interest expenses paid	(1,189)	(969)
Income taxes paid	(22,076)	(15,534)
Net cash provided by (used in) operating activities	36,263	64,131
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(41,316)	(39,841)
Proceeds from sale of property, plant and equipment and intangible assets	934	490
Purchase of shares of subsidiaries and investments in capital resulting in change in the scope of consolidation	*2 (12,864)	(2,112)
Purchase of shares of subsidiaries and associates	(5,211)	(18)
Proceeds from sale of investment securities	839	864
Net decrease (increase) in short-term loans receivable	325	96
Payments of loans receivable	(543)	(944)
Collection of loans receivable	190	509
Payments for acquisition of businesses	—	(2,300)
Others	(106)	474
Net cash provided by (used in) investing activities	(57,752)	(43,729)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	5,135	3,410
Net increase (decrease) in commercial papers	18,000	(35,000)
Proceeds from long-term loans payable	21,415	16,067
Repayments of long-term loans payable	(2,730)	(5,291)
Proceeds from issuance of bonds	20,000	20,000
Payments for redemption of bonds	(10,000)	—
Cash dividends paid	(14,451)	(5,403)
Dividends paid to non-controlling interests	(1,078)	(921)
Others	(325)	(821)
Net cash provided by (used in) financing activities	35,964	(7,959)
Effect of exchange rate change on cash and cash equivalents	(621)	(734)
Net increase (decrease) in cash and cash equivalents	13,854	11,709
Cash and cash equivalents at the beginning of the period	69,776	83,630
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	903
Cash and cash equivalents at the end of the period	*1 ¥ 83,630	*1 ¥ 96,242

Notes to the Consolidated Financial Statements

(Basis of Preparation)

1 Basis of presenting consolidated financial statements

(1) Basis of accounting

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain aspects in terms of application and disclosure requirements of International Financial Reporting Standards.

The accounts of foreign consolidated subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. However, Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements" issued by the Accounting Standards Board of Japan (ASBJ) requires making adjustments for the following five specific items, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) canceling revaluation model or fair value model of accounting for property, plant and equipment, and investment properties, as well as applying the cost model of accounting; and (e) subsequent changes in fair value of equity instruments presented as other comprehensive income.

The accompanying consolidated financial statements for Sumitomo Heavy Industries, Ltd. (SHI) and its subsidiaries (collectively, the Company) have been reformatted and translated into English from the ones prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act.

(2) Transactions eliminated on consolidation

All significant intercompany accounts and transactions have been eliminated in consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of SHI's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2 The scope of consolidation

(1) Number of consolidated subsidiaries—142 companies

Major consolidated subsidiaries: Shin Nippon Machinery Co., Ltd.
Sumitomo Heavy Industries Gearbox Co., Ltd.
Sumitomo Construction Machinery Co., Ltd.
Sumitomo Construction Machinery Sales Co., Ltd.
Sumitomo Heavy Industries Ion Technology Co., Ltd.
Sumitomo Heavy Industries Environment Co., Ltd.
Sumitomo Heavy Industries PTC Sales Co., Ltd.
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
Sumitomo Heavy Industries Process Equipment Co., Ltd.
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Nihon Spindle Manufacturing Co., Ltd.
Sumitomo Heavy Industries Construction Crane Co., Ltd.
LBCE Holdings, Inc.
PT Sumitomo S.H.I. Construction Machinery Indonesia
SCM (America), Inc.
Sumitomo Heavy Industries (Vietnam) Co., Ltd.
Sumitomo Industrias Pesadas do Brasil Ltda.
SUMITOMO MACHINERY CORPORATION OF AMERICA
Sumitomo (SHI) Cryogenics of America, Inc.
Sumitomo (SHI) Cyclo Drive Germany GmbH
Sumitomo (SHI) Demag Plastics Machinery GmbH
Sumitomo SHI FW Energie B.V.
Lafert S.p.A
Invertek Drives Ltd.
Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
Sumitomo Heavy Industries (China), Ltd.
Sumitomo Heavy Industries (Tangshan), Ltd.
Sumitomo (SHI) Cyclo Drive China, Ltd.

From the current fiscal year, Leifeld Metal Spinning GmbH whose shares were newly acquired by SHI, as well as SHI Ion Technology Taiwan Co., Ltd. that has become material to SHI, are included in the scope of consolidation. In addition, Sumiju Plant Engineering Co., Ltd. and another subsidiary that were dissolved upon the merger, and Sumitomo SHI FW International Trading (Shanghai) Co., Ltd. whose liquidation had been completed, were excluded from the scope of consolidation.

(2) Name of major non-consolidated subsidiaries

Major non-consolidated subsidiary: Sumitomo (SHI) Cryogenics Taiwan Co., Ltd.
(Reasons for exclusion from the scope of consolidation)
All of the non-consolidated subsidiaries are small-scale companies and their aggregated total assets, net sales, and profit or loss (amount commensurate with equity interests) and retained earnings (amount commensurate with equity interests) do not have a material effect on SHI's consolidated financial statements.

3 The application of the equity method

(1) The number of non-consolidated subsidiaries accounted for using the equity method: nil

(2) The number of affiliated companies accounted for using the equity method: 6

Name of the major company: Sumitomo NACCO Forklift Co., Ltd.

(3) The non-consolidated subsidiaries (including Sumitomo (SHI) Cryogenics Taiwan Co., Ltd.) and affiliated companies (including Krones-Izumi Processing Pte. Ltd.) not accounted for using the equity method are excluded from the scope of application of the equity method because their respective profits or losses and retained earnings have an immaterial effect on SHI's consolidated financial statements and are insignificant as a whole.

4 The fiscal years of consolidated subsidiaries

Among the consolidated subsidiaries, the closing date of 101 overseas subsidiaries (other than Nihon Spindle Cooling Towers Sdn. Bhd. and one more company) is December 31, and their financial statements prepared as of December 31 or for the year ended December 31 are used for the preparation of SHI's consolidated financial statements.

Material transactions that arose during the period between their closing date and the closing date of SHI's consolidated financial statements have been adjusted as necessary for the purposes of the consolidated financial statements.

The closing date of other consolidated subsidiaries is March 31, which is consistent with SHI.

5 Accounting policies

(1) Basis of and methods for valuation of significant assets

(i) Securities

(a) Bonds held to maturity
The amortized cost method (The straight-line depreciation method)

(b) Available-for-sale securities
Securities with market value
The market value method, for example, based on market prices at the end of the consolidated fiscal year (Valuation difference is reported as a component of shareholders' equity, and the cost of sales is calculated using the moving-average method.)
Securities without market value
The cost method based on the moving-average method

(ii) Derivatives
The market value method

(iii) Inventories

(a) Works in process
Mainly the cost method based on the specific identification method
(Carrying amounts in the balance sheet are measured after the consideration of write-down to reflect decreased profitability.)

(b) Finished goods, raw materials and supplies
Mainly the cost method based on the weighted average method
(Carrying amounts in the balance sheet are measured after the consideration of write-down to reflect decreased profitability.)

(2) Methods for depreciation of significant depreciable assets
(i) Property, plant and equipment (excluding leased assets)
The straight-line method is adopted.
Depreciable lives of major assets are as shown below:
Buildings and structures: 10 to 50 years
Machinery, equipment and vehicles: 5 to 12 years

(ii) Intangible assets (excluding leased assets)
The straight-line method is adopted.
Depreciable lives of in-house software are based on the useful life estimated by the Company (5 years).

(iii) Leased assets
The straight-line method is adopted for leased assets for financial lease transactions without the transfer of ownership, in which the lease period is considered as the depreciable life and the residual value is zero.
For the finance lease transactions without the transfer of ownership, the lease transactions that are immaterial and were commenced on or prior to March 31, 2008 are accounted for as ordinary rental transactions.

(3) Basis of accounting for significant provisions
(i) Allowance for doubtful accounts
The allowance is provided based on historical bad debts losses from general accounts receivables. For doubtful accounts receivable, and claims provable in bankruptcy, claims provable in rehabilitation and other, the required allowance is determined at the amount estimated to be uncollectible on an individual basis.

(ii) Provision for construction warranties
In order to provide for free repair work expenditures after the delivery of finished goods, the required allowance is provided for based on historical data.

(iii) Provision for loss on construction contracts
For undelivered construction works at the end of the consolidated fiscal year that are highly likely to generate losses subsequent to the fiscal year, if the losses can be reliably estimated, the estimated amount of losses is recognized as provision for loss on construction contracts.

(iv) Provision for loss on business transfers
The estimated amount of losses that is expected to be generated in the future as a result of transferring the resort development business is recognized as provision for loss on business transfers.

(v) Provision for loss on product liability claims
The estimated amount of losses on product liability claims that is expected to be generated in the future from the crane business of overseas subsidiaries is recognized as a provision for loss on product liability claims.

(4) Methods for accounting retirement benefits
(i) Method of attributing expected retirement benefits
For retirement benefit obligations, the benefit formula basis is used to calculate the expected retirement benefits up to the term elapsed for the end of the consolidated fiscal year.

(ii) Method of amortization of actuarial difference and past service costs
Past service costs are amortized following the straight-line method over a period within the historical average remaining service period of employees when those costs are incurred.
Actuarial difference is amortized proportionally from the following year of incurrence of actuarial difference using the straight-line method over a period within the average remaining service period of employees at the time of incurrence of actuarial difference.

(5) Method of significant hedge accounting
(i) Method of hedge accounting
The Company adopts deferred hedge accounting. However, for interest swap transactions that meet the requirements for simplified accounting treatment, the Company adopts such simplified accounting treatment.
If forward exchange contracts meet the requirements for allocation, the Company adopts the allocation accounting method.

(ii) Hedge instruments and hedged items

Forward exchange contracts:	Foreign currency-denominated accounts receivable, foreign currency-denominated accounts payable and forecast transactions
Interest swap transactions:	Loans

(iii) Hedge policy
Under the "Market Risk Management Policy" stipulated by the Board of Directors, the Company's objective for hedging transactions is to mitigate foreign currency and interest rate fluctuation risks, and not to execute speculative transactions.

(iv) Method of assessing hedge effectiveness
The Company compares the aggregated fluctuation in the cash flow or market condition of the hedged items against the aggregated fluctuation in the cash flow or market condition of the hedged instruments every six months, and assesses hedge effectiveness based on the fluctuations. The Company, however, does not assess the hedge effectiveness of interest swap transactions for which it is subject to simplified accounting treatment.

(6) Basis of recognition of material revenues and expenses
For construction works, for which the progress can be reliably estimated by the end of the consolidated fiscal year, the Company adopts the percentage-of-completion method (with the output method by compositely aggregating the estimated total man-hours required for each stage of project construction and man-hours consumed during the estimated construction period to estimate a progress rate or the cost-to-cost method). For other construction works, the Company adopts the completed-contract method.

(7) Method and period of amortization of goodwill
Goodwill is amortized using the straight-line method over a period of up to 20 years. However, any insignificant amount of goodwill is amortized in full upon its recognition.

(8) Cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents consist of cash on hand, immediately available cash, and short-term investments that are highly liquid, have an insignificant risk of changes in value with maturities of three months or less.

(9) Other significant matters for preparation of consolidated financial statements
(i) Accounting for the consumption taxes
The consumption tax and local consumption tax are accounted for on a tax-exclusive basis.

(ii) Application of the consolidated tax payment system
SHI and some of its consolidated subsidiaries follow the consolidated tax payment system.

(iii) Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system
Regarding paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (Practical Issues Task Force (PITF) No. 39, March 31, 2020), SHI and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, March 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

(iv) Net assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common share. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of the common share over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, generally legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting.

Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount allowed to be distributed as dividend is determined based on SHI's non-consolidated financial statements in accordance with the Japanese laws and regulations.

(v) Research and development ("R&D") expense

R&D expenditures are expensed as incurred.

(Significant Accounting Estimates)

1 Valuation of goodwill

(1) Carrying amounts in the current fiscal year's financial statements

The Company recognized goodwill of ¥29,364 million in the consolidated balance sheet as of March 31, 2021, which includes the balance of goodwill as following that was considered to find out whether to recognize any impairment at the end of the same fiscal year.

	Millions of yen March 31, 2021
Goodwill of Sumitomo SHI FW Energie B.V.	¥10,670
Goodwill of Lafert S.p.A.	10,369

(2) Information that assists in understanding the nature of the estimates

The Company groups its assets into units for the determination of whether to recognize and measure impairment losses on fixed assets on the basis of this grouping, determines whether to actually recognize impairment losses on assets or asset groups whenever there is an impairment indicator. With respect to goodwill, each business unit to which goodwill belongs is tested for impairment. The impairment test is performed by comparing the total amount of undiscounted future cash flows of each business unit with the aggregated amount of carrying amount of asset groups related to the business unit and the carrying amount of goodwill. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulted decrease in the carrying amount is recognized as an impairment loss.

As Sumitomo SHI FW Energie B.V. and Lafert S.p.A. have recognized recurring operating losses after deducting amortization of goodwill for some consecutive years, there are impairment indicators. Accordingly, the Group performed impairment tests during the current fiscal year; however, it determined that the recognitions of an impairment loss were not necessary as the total amount of the estimated undiscounted future cash flows exceeded the carrying amount of the asset group including goodwill for each business unit. While the undiscounted future cash flows used for the impairment tests were estimated based on the business plans prepared by management, the future trends and the Group's plan to prospect of the shares in the market of boiler for power generation for Sumitomo SHI FW Energie B.V. and in the industrial motor market for Lafert S.p.A.. Therefore, the relevant estimates may potentially be impacted by such factors as unforeseeable changes in the business environment in the future. Consequently, if the estimated future cash flows deteriorate, it may be necessary to recognize impairment losses in the consolidated financial statements for the subsequent fiscal year.

2 Estimate of total construction costs in applying the percentage-of-completion method

(1) Carrying amounts in the current fiscal year's financial statements

The Company recognized net sales of ¥849,065 million in the Consolidated Statement of Income for the year ended March 31, 2021, which include the following construction revenue (sales) recognized using the percentage-of-completion method.

	Millions of yen For the year ended March 31, 2021
Construction revenue (sales) using the percentage-of-completion method	¥165,481

(2) Information that assists in understanding the nature of the estimates

In each segment of "Industrial Machinery," "Ships," and "Environmental Facilities & Plants" the Company adopts the percentage-of-completion method for construction works for which the realization of the completed portion by the end of the current fiscal year is assured. In applying the method, construction revenue (sales) is recognized based on the percentage of completion, which is measured by the cost-to-cost method or output method. In applying the cost-to-cost method, the percentage of costs incurred for construction works to estimated total construction costs is used to determine the progress toward the completion of construction. The preparation and revision of a project budget, which provided the basis for estimating the total construction costs, involved estimation uncertainty since construction works are significantly different in nature depending on their contracts.

Specifically, the determination whether all the work necessary to complete the construction contract was identified and the estimated costs were included in the project budget, and whether various factors such as unexpected changes in economic environment, actual costs incurred exceeding the initially estimated costs due to design or process disruption or penalty payment resulting from problems with product function or delivery date were reflected within the project budget in a timely and appropriate manner, has a significant effect on the estimated total construction costs.

For that reason, the estimate of total construction costs constitutes significant accounting estimates, which are reviewed, in principle, quarterly. Nonetheless, if there is a revision in the estimate of total construction cost due to an event that affects the Company's judgments, such as those events mentioned above, it may have an impact on the amount of construction revenue (sales) to be recognized for the subsequent fiscal year.

(Standards and Guidance not yet Adopted)

SHI and its domestic subsidiaries

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

(1) Overview

These are comprehensive accounting standards for revenue recognition. The following five steps are applied in the recognition of revenues.

Step 1: Identify the contract(s) with customers
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when or as the entity satisfies a performance obligation

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

SHI and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(Changes of Presentation Methods)

(Consolidated Statements of Income)

Presentation method for "Loss on valuation of investment securities"
"Loss on valuation of investment securities" of "Non-operating expenses," which was separately presented in the previous fiscal year, has been presented in "Other" of "Non-operating expenses" for the current fiscal year because it has become immaterial in terms of amount. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change.

As a result, ¥1,041 million presented in "Loss on valuation of investment securities" and ¥4,301 million presented in "Others" of "Non-operating expenses" in the Consolidated Statement of Income for the previous fiscal year have been reclassified into ¥5,342 million of "Others."

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

The Company adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the consolidated financial statements for the current fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

(Consolidated Balance Sheets)

*1 Collateralized assets and secured obligations

The assets offered as collateral are presented below.

Millions of yen

	March 31, 2020	March 31, 2021
Land	¥1,308	¥101
Buildings and structures	1,117	800
Machinery, equipment and vehicles	99	74
Others	2	—
Total	¥2,526	¥975

Secured obligations are presented below.

Millions of yen

	March 31, 2020	March 31, 2021
Current portion of long-term loans payable	¥ 76	¥144
Long-term loans payable	513	759
Total	¥589	¥903

*2 Presentation of inventories and provision for loss on construction contracts

Inventories and the provision for loss on construction contracts relating to construction contracts that are highly likely to incur losses have been presented separately and have not been offset. The amount of the provision for loss on construction contracts that relate to inventories resulting from construction contracts which are likely to generate losses is presented below.

Millions of yen

	March 31, 2020	March 31, 2021
Provision for loss on construction contracts related to inventories	¥613	¥459

*3 Revaluation of land

Land for business use is revalued pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Amendment of the Act on Revaluation of Land (Act No. 19 of March 31, 2001).

For revaluation difference, the amount corresponding to the tax on such revaluation difference has been recognized as "Deferred tax liabilities for land revaluation" under the Act for Partial Amendment of the Act on Revaluation of Land (Act No. 24 of March 31, 1999), and the amount from which deferred tax liabilities for land revaluation are deducted has been recognized as "Revaluation reserve for land" in net assets.

• Method of revaluation
While revaluation has been done by making reasonable adjustments to the value of the property tax stipulated in Article 2, item (iii) of the Order for Enforcement of the Act of on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998), revaluation has at times been done based on the appraised values by real estate appraisers stipulated in item (v) of the said Article.

• Date of revaluation
March 31, 2002

Millions of yen

	March 31, 2020	March 31, 2021
Difference between the market value of revalued land at the end of the year and the book value after revaluation	¥(18,119)	¥(16,666)

*4 Securities of non-consolidated subsidiaries and affiliated companies are as follows.

Millions of yen

	March 31, 2020	March 31, 2021
Investment securities (equity)	¥9,212	¥9,277
Investments in capital	745	747

For presentation purposes, investments in capital have been included in "Others" of "Investments and other assets."

5 Loan commitment line agreements

SHI has the loan commitment line agreements with 12 banks to finance operating funds efficiently.

Balances of undrawn loan commitment lines under those agreements are presented below.

Millions of yen

	March 31, 2020	March 31, 2021
Total loan commitment lines	¥45,000	¥70,000
Balance of drawn loan commitment lines	—	—
Undrawn loan commitment lines	¥45,000	¥70,000

6 Contingent liabilities

(1) Guaranteed liabilities

The Company guarantees loans and other liabilities of companies other than the consolidated companies from banks and financial institutions as shown below.

Millions of yen

	March 31, 2020		March 31, 2021
Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	¥11,715	Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	¥12,252
Mizuho Leasing Company, Limited (Purchase guarantee, etc. in connection with the lease agreement)	2,724	Mizuho Leasing Company, Limited (Purchase guarantee, etc. in connection with the lease agreement)	2,318
Fuyo General Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	723	Fuyo General Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	525
Diamond Construction Equipment Corp. (Purchase guarantee, etc. in connection with the lease agreement)	338	Diamond Construction Equipment Corp. (Purchase guarantee, etc. in connection with the lease agreement)	479
Itochu TC Construction Machinery Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	74	Itochu TC Construction Machinery Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	70
Other 12 transactions (Purchase guarantee, etc. in connection with the lease agreement)	210	Other 7 transactions (Purchase guarantee, etc. in connection with the lease agreement)	138
Total	¥15,784	Total	¥15,782

The amounts for the previous fiscal year include foreign currency-denominated liabilities of CNY728 million (¥11,413 million) and NTD10 million (¥35 million), and the amounts for the current fiscal year include foreign currency-denominated liabilities of CNY725 million (¥11,527 million) and NTD7 million (¥28 million).

(2) Repurchase obligation following the securitization of notes receivable

Millions of yen

March 31, 2020	March 31, 2021
¥—	¥1,025

(Consolidated Statements of Income)

*1 Provision for loss on construction contracts included in the cost of sales

Millions of yen

For the year ended March 31, 2020	For the year ended March 31, 2021
¥2,915	¥2,756

*2 R&D expenses included in general and administrative expenses and production cost for the period

Millions of yen

For the year ended March 31, 2020	For the year ended March 31, 2021
¥18,775	¥19,470

*3 Major items of selling, general and administrative expenses

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Salaries and allowances	¥48,733	¥49,895
R&D expenses	18,753	19,434
Retirement benefit expenses	3,994	3,361
Provision of allowance for doubtful accounts and bad debts expenses	(219)	(92)

*4 Insurance claim income

For the year ended March 31, 2020

Not applicable

For the year ended March 31, 2021

This is the insurance income received in connection with losses caused by disasters.

*5 Impairment loss

For the year ended March 31, 2020

Not applicable

For the year ended March 31, 2021

The Company recognized impairment loss for the following groups of assets.

Purpose of use	Category	Location	Amount (Millions of yen)
Business assets	Buildings and others	Yokosuka City, Kanagawa	¥4,991
Business assets	Intangible assets	United States	404
Business assets	Buildings and others	Nishi Tokyo City, Tokyo, and others	368
Idle assets	Buildings and others	Takatsuki City, Osaka	6

For the above-mentioned assets, the Company recognized impairment loss because it was not possible to recover the investments due to decreased profitability.

The Company determined recognition of impairment loss basically by each business unit and idle assets except for idle assets not expected to be used in the future, which are determined recognition of impairment by individual property.

Recoverable amounts are calculated based on the underlying net selling value or value in use. Net selling value has been calculated based on the amount of disposal values less costs of disposal. Furthermore, although value in use has been calculated by discounting future cash flows by 17.5%, some assets were determined to have no fair value since the estimated future cash flows are negative.

(Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustment and tax effect relating to other comprehensive income

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Valuation difference on available-for-sale securities		
Amount accrued during the year	¥(3,174)	¥ 3,888
Reclassification adjustment	1,238	(247)
Before tax effect adjustment	(1,936)	3,641
Tax effect	471	(1,023)
Valuation difference on available-for-sale securities	(1,465)	2,617
Deferred gains or losses on hedges		
Amount accrued during the year	347	243
Reclassification adjustment	(577)	(521)
Before tax effect adjustment	(230)	(278)
Tax effect	16	(27)
Deferred gains or losses on hedges	(215)	(306)
Foreign currency translation adjustments		
Amount accrued during the year	(4,248)	(3,807)
Reclassification adjustment	(23)	1
Foreign currency translation adjustments	(4,272)	(3,806)
Remeasurements of defined benefit plans		
Amount accrued during the year	(5,107)	5,280
Reclassification adjustment	3,136	1,358
Before tax effect adjustment	(1,971)	6,639
Tax effect	462	(1,634)
Remeasurements of defined benefit plans	(1,509)	5,004
Share of other comprehensive income of entities accounted for using the equity method		
Amount accrued during the year	(4)	(4)
Reclassification adjustment	11	14
Share of other comprehensive income of entities accounted for using the equity method	7	10
Total other comprehensive income	¥(7,453)	¥ 3,520

(Consolidated Statements of Changes in Equity)

For the year ended March 31, 2020

1 Type and total number of issued shares and treasury shares

Thousand shares

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Issued shares				
Common share	122,905	—	—	122,905
Total	122,905	—	—	122,905
Treasury shares				
Common share	380	10	1	389
Total	380	10	1	389

Notes: 1 The increase in common share of treasury shares by 10 thousand shares was due to requests for the repurchase of shares less than one unit.
2 The decrease in common share of treasury shares by 1 thousand shares was due to the sale of shares less than one unit.

2 Dividends

(1) Cash dividends paid

(Resolution)	Type of share	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 27, 2019 Annual general meeting of shareholders	Common share	¥ 7,597	¥62	March 31, 2019	June 28, 2019
October 31, 2019 Meeting of the Board of Directors	Common share	6,861	56	September 30, 2019	December 2, 2019
Total		¥14,458	¥—		

(2) Dividends recorded during the year, but effective in the next fiscal year

(Resolution)	Type of share	Source for payment of dividends	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 26, 2020 Annual general meeting of shareholders	Common share	Retained earnings	¥4,288	¥35	March 31, 2020	June 29, 2020

For the year ended March 31, 2021

1 Type and total number of issued shares and treasury shares

Thousand shares

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Issued shares				
Common share	122,905	—	—	122,905
Total	122,905	—	—	122,905
Treasury shares				
Common share	389	8	0	397
Total	389	8	0	397

Notes: 1 The increase in common share of treasury shares by 8 thousand shares was due to requests for the repurchase of shares less than one unit.
2 The decrease in common share of treasury shares by less than 1 thousand shares was due to the sale of shares less than one unit.

2 Dividends

(1) Cash dividends paid

(Resolution)	Type of share	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 26, 2020 Annual general meeting of shareholders	Common share	¥4,288	¥35	March 31, 2020	June 29, 2020
October 30, 2020 Meeting of the Board of Directors	Common share	1,103	9	September 30, 2020	December 1, 2020
Total		¥5,391	¥—		

(2) Dividends recorded during the year, but effective in the next fiscal year

(Resolution)	Type of share	Source for payment of dividends	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 29, 2021 Annual general meeting of shareholders	Common share	Retained earnings	¥6,860	¥56	March 31, 2021	June 30, 2021

(Consolidated Statements of Cash Flows)

*1 Reconciliations between the cash and cash equivalents and cash and deposits presented in the Consolidated Balance Sheets

Millions of yen

	March 31, 2020	March 31, 2021
Cash and deposits	¥87,067	¥99,518
Time deposits with term of over 3 months to maturity	(3,437)	(3,276)
Cash and cash equivalents	¥83,630	¥96,242

*2 Major components of assets and liabilities of the companies newly included in the scope of consolidation as a result of acquisition of shares

For the year ended March 31, 2020

SHI consolidated the newly acquired subsidiary, Invertek Drives Ltd. The following summarizes the recognized amount of assets acquired and liabilities assumed, and net cash outflow arising from the acquisition of the subsidiary at the acquisition date.

	Millions of yen
Current assets	¥ 2,290
Non-current assets	6,308
Goodwill	5,930
Current liabilities	(736)
Non-current liabilities	(1,475)
Foreign currency translation adjustments	315
Price at which SHI acquired shares	12,631
Cash and cash equivalents	(212)
Net of acquisition cost	¥12,420

Note: These amounts were revised to reflect the resulting adjustments to the provisional allocation of acquisition costs initially recognized in a business combination.

For the year ended March 31, 2021

No disclosure is made as further descriptions are immaterial in terms of amount.

(Lease Transactions)

1 As lessee

(1) Finance lease transactions without the transfer of ownership

Although finance lease transactions without the transfer of ownership carried out before March 31, 2008 have been accounted for by using the accounting treatment for ordinary lease transactions, no further disclosure has been made because those transactions are immaterial.

(2) Operating lease transactions

Lease payments

Millions of yen

	March 31, 2020	March 31, 2021
Within 1 year	¥ 984	¥1,420
Over 1 year	1,466	1,690
Total	¥2,450	¥3,110

2 As lessor

(1) Finance lease transactions without the transfer of ownership

Although finance lease transactions without the transfer of ownership carried out before March 31, 2008 have been accounted for by using the accounting treatment for ordinary lease transactions, no further disclosure has been made because those transactions are immaterial.

(2) Operating lease transactions

For operating lease transactions, no further disclosure has been made because those transactions are immaterial.

(Financial Instruments)

1 Financial instruments

(1) Policy to cope with financial instruments

As a general machinery manufacturer, the Company manufactures, sells, and distributes various machines and systems including gear reducers and transmissions, as well as finances necessary operating and equipment funds through bank loans and issue of corporate bonds. Temporary surplus funds are limited to investment in highly stable and short-term financial assets. Derivatives are used to hedge the risks described below and the Company has a policy to refrain from entering into any speculative transactions.

(2) Details of financial instruments and their risks

Notes and accounts receivable—trade, and long-term loans receivable are exposed to customers' credit risks. Although foreign currency-denominated trade accounts receivable generated from the global expansion of business operations are exposed to foreign exchange fluctuation risks, the Company hedges the net positions of foreign currency-denominated trade accounts receivables and trade accounts payable by utilizing forward exchange contracts to maintain those positions at a certain range of percentages. Reports on hedge ratios and unhedged positions are submitted to the Board of Directors in a timely manner.

Investment securities consist of shares in the companies with which the Company has a business relationship and which are exposed to market price fluctuation risks.

Most notes and accounts payable—trade are due within one year. Some of them, which relate to imports of raw materials and are denominated in foreign currencies, are exposed to foreign exchange fluctuation risks and are hedged by utilizing forward exchange contracts.

Loans and bonds are principally intended to finance operating funds and equipment funds necessary for business transactions. For some of the long-term loans payable, the Company utilizes derivative transactions (interest rate swap transactions) as hedge instruments for each individual contract. As interest swap transaction satisfies the requirements for simplified accounting treatment, assessment of the effectiveness is not carried out. Foreign currency-denominated loans are exposed to foreign exchange fluctuation risks.

Derivative transactions consist of forward exchange contracts designed for hedge transactions in preparation for foreign exchange fluctuation risks for foreign currency-denominated trade accounts receivable and payable, and interest rate swap transactions designed to hedge fluctuation risks involving interests payable on loans and foreign exchanges. For details of hedge accounting instruments and hedged transactions, hedge policy, and methods of assessment of the effectiveness, please refer to "Method of significant hedge accounting" in "Accounting policies" above.

(3) Risk management structure for financial instruments

(i) Management of credit risk (risk from the default, etc. of counterparties)

For domestic transactions and export transactions in excess of certain levels of amounts, the Company endeavors to mitigate its concerns about the recoverability of trade accounts receivable, for example, by conducting credit examinations prior to accepting orders. In addition, each business division manages due dates and balances of trade accounts receivable for each counterparty in accordance with the credit management regulations, thereby trying to identify concerns about recoverability as early as practicable.

In using derivative transactions, the Company enters into transactions only with highly rated financial institutions to mitigate counterparty risks.

The Company maintains term deposits only with highly rated financial institutions with which the Company has loan transactions to mitigate repayment risks. Therefore, the Company is subject to an insignificant level of credit risks.

(ii) Management of market risk (risk from the fluctuation of foreign currency exchange rates, interest rates or other factors)

SHI hedges the net positions of foreign currency-denominated trade accounts receivable and payable in accordance with the Market Risk Management Policy which stipulates, among others, hedge ratios and unhedged volumes of foreign exchange transactions, and submits a report on how those positions are hedged to the Board of Directors on a monthly basis. Major consolidated subsidiaries with foreign currency-denominated trade accounts receivable and payable also manage their foreign exchange fluctuation risks through currency hedging in accordance with the exchange hedging policy which stipulates, among others, hedge ratios or unhedged volumes of foreign exchange transactions.

Moreover, SHI monitors interest expenses on loans and submits a report to the Board of Directors in a timely manner. The Company utilizes interest rate swap transactions to control interest expense fluctuation risks.

For investment securities, the Company monitors market values and financial conditions of issuers in a timely manner. The Company also reviews its holdings position considering its relationships with business partners.

SHI and its major consolidated subsidiaries have a policy to utilize derivative transactions for the sole purpose of hedging the foreign exchange and interest fluctuation risks mentioned above and reconciles balances with each counterparty on a monthly basis.

(iii) Management of liquidity risk for financing (risk of becoming unable to pay debts when they become due and payable)

The Company has introduced the cash management systems for major consolidated subsidiaries, under which SHI centrally manages the Company's funds. The Company prepares and updates financing plans on a timely basis based on reports from the business divisions and major affiliated companies and manages the liquidity risk.

2 Market values for financial instruments

The carrying amounts and market values of financial instruments on the consolidated balance sheets and their difference are presented below. The following table does not include financial instruments that are not practicable to identify market value (see Note 2).

March 31, 2020

Millions of yen

	Carrying amount	Market value	Difference
(1) Cash and deposits	¥ 87,067	¥ 87,067	¥ —
(2) Notes and accounts receivable—trade	271,406	268,826	(2,580)
(3) Investment securities	8,258	8,258	—
(4) Long-term loans receivable	3,213	2,974	(239)
Total	¥369,944	¥367,125	¥(2,819)
(1) Notes and accounts payable—trade	¥158,489	¥158,489	¥ —
(2) Short-term loans payable	28,139	28,139	—
(3) Bonds payable	30,000	30,037	37
(4) Long-term loans payable	31,531	31,677	147
Total	¥248,159	¥248,343	¥ 184
Derivative transactions (*1)	¥ (824)	¥ (890)	¥ (66)

(*1) Receivables and payables generated from derivative transactions are presented on a net basis, and net payables are presented in brackets.

March 31, 2021

Millions of yen

	Carrying amount	Market value	Difference
(1) Cash and deposits	¥ 99,518	¥ 99,518	¥ —
(2) Notes and accounts receivable—trade	282,928	280,345	(2,583)
(3) Investment securities	11,238	11,238	—
(4) Long-term loans receivable	2,658	2,586	(71)
Total	¥396,342	¥393,688	¥(2,654)
(1) Notes and accounts payable—trade	¥160,260	¥160,260	¥ —
(2) Short-term loans payable	31,698	31,698	—
(3) Bonds payable	50,000	50,182	182
(4) Long-term loans payable	42,741	42,937	196
Total	284,699	285,077	378
Derivative transactions (*1)	¥ (1,773)	¥ (1,814)	¥ (41)

(*1) Receivables and payables generated from derivative transactions are presented on a net basis, and net payables are presented in brackets.

Note 1: Method of calculation of the market values of financial instruments and matters regarding securities and derivative transactions

Assets

(1) Cash and deposits

The carrying amount of the cash and deposits approximates the market value because of its short-term nature.

(2) Notes and accounts receivable—trade

The market value of notes and accounts receivable is calculated at present value obtained by discounting the amounts of receivables after categorizing each receivable by duration, by interest rate that reflects the duration to maturity and credit risk.

(3) Investment securities

Investment securities consist of shares, and their market value is based on prices on the exchanges they are listed or traded on.

(4) Long-term loans receivable

The market value of long-term loans receivable is calculated at present value obtained by discounting future cash flows by interest rates, such as yields on government bonds/notes or other appropriate indices, plus credit spread.

Liabilities
(1) Notes and accounts payable—trade, and (2) Short-term loans payable
The carrying amounts of the notes and accounts payable – trade and short-term loans payable approximate the market values because of their short-term nature.
(3) Bonds payable
The market value of bonds issued by SHI is calculated at present value obtained by discounting total amount of principal and interest by interest rate that reflects the durations of those bonds to maturity and credit risk.
(4) Long-term loans payable
The market value of long-term loans payable is calculated at present value obtained by discounting the total amount of principal and interest by interest rates assumed at the time of new similar borrowing.

Derivative transactions
Refer to notes to "Derivative transactions."

Note 2: The carrying amounts of financial instruments on the consolidated balance sheets that are not practicable to identify market value are shown as below.

Millions of yen

Category	March 31, 2020	March 31, 2021
Shares of subsidiaries and associates	¥9,212	¥9,277
Unlisted shares	2,296	2,292
Equity securities	5	5

Those financial instruments have not been included in "(3) Investment securities" because they have no active market price and it is not practicable to identify their market values.

Note 3: Amounts of financial assets expected to be redeemed after the end of the year

March 31, 2020

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥ 87,067	¥ —	¥ —
Notes and accounts receivable—trade	261,787	9,484	136
Long-term loans receivable	134	3,068	11
Total	¥348,988	¥12,551	¥147

March 31, 2021

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥ 99,518	¥ —	¥ —
Notes and accounts receivable—trade	277,451	5,377	101
Long-term loans receivable	265	2,387	6
Total	¥377,234	¥7,764	¥106

Note 4: Amounts of bonds payable and long-term loans payable to be repaid after the end of the year

March 31, 2020

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥ —	¥ —	¥10,000	¥ —	¥10,000	¥10,000
Long-term loans payable	4,499	1,408	4,612	19,308	1,475	228
Total	¥4,499	¥1,408	¥14,612	¥19,308	¥11,475	¥10,228

March 31, 2021

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥ —	¥10,000	¥ —	¥10,000	¥20,000	¥10,000
Long-term loans payable	3,270	11,758	22,268	3,511	1,672	261
Total	¥3,270	¥21,758	¥22,268	¥13,511	¥21,672	¥10,261

(Securities)

1 Available-for-sale securities

March 31, 2020

Millions of yen

Category	Carrying amount on the consolidated balance sheets	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheets is in excess of the acquisition cost			
Shares	¥6,900	¥3,316	¥3,585
Securities for which the carrying amount on the consolidated balance sheets is not in excess of the acquisition cost			
Shares	1,358	1,654	(296)
Total	¥8,258	¥4,969	¥3,289

Note: The shares of subsidiaries and associates (carrying amount on the consolidated balance sheets: ¥9,212 million), unlisted shares (carrying amount on the consolidated balance sheets: ¥2,296 million) and equity securities (carrying amount on the consolidated balance sheets: ¥5 million) are not included in "Available-for-sale securities" in the table above, as those shares and securities have no active market price and it is not practicable to identify their market values.

March 31, 2021

Millions of yen

Category	Carrying amount on the consolidated balance sheets	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheets is in excess of the acquisition cost			
Shares	¥11,224	¥4,363	¥6,861
Securities for which the carrying amount on the consolidated balance sheets is not in excess of the acquisition cost			
Shares	14	14	(0)
Total	¥11,238	¥4,377	¥6,861

Note: The shares of subsidiaries and associates (carrying amount on the consolidated balance sheets: ¥9,277 million), unlisted shares (carrying amount on the consolidated balance sheets: ¥2,292 million) and equity securities (carrying amount on the consolidated balance sheets: ¥5 million) are not included in "Available-for-sale securities" in the table above, as those shares and securities have no active market price and it is not practicable to identify their market values.

2 Available-for-sale securities sold during the year

For the year ended March 31, 2020

Millions of yen

Type	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥829	¥144	¥306

For the year ended March 31, 2021

Millions of yen

Type	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥864	¥256	¥—

3 Recognition of impairment loss on securities

For the year ended March 31, 2020

An impairment loss of ¥1,041 million on securities (shares of ¥1,041 million among available-for-sale securities) has been recognized in the year ended March 31, 2020.

For the year ended March 31, 2021

No disclosure is made as further descriptions are immaterial in terms of amount.

Impairment loss on investment securities is recognized when there has been a significant decline in the market value. Investment securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be impaired. Investment securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors.

(Derivative Transactions)

1 Derivative transactions to which hedge accounting is not applied

Foreign currency-related transactions

March 31, 2020

Millions of yen

Category	Type	Contract amount	Over 1 year	Market value	Valuation gains (losses)
Off-market transactions	Forward exchange contracts				
	Selling				
	USD	¥29,914	¥—	¥(189)	¥(189)
	EUR	9,316	—	23	23
	CNY	1,671	—	28	28
	NTD	133	—	(15)	(15)
	THB	59	—	(4)	(4)
	GBP	52	—	(2)	(2)
	Buying				
	USD	515	—	1	1
	Total	¥41,660	¥—	¥(159)	¥(159)

Note: Method of calculation of market values
Forward exchange contracts: calculated using forward exchange rates.

March 31, 2021

Millions of yen

Category	Type	Contract amount	Over 1 year	Market value	Valuation gains (losses)
Off-market transactions	Forward exchange contracts				
	Selling				
	USD	¥14,452	¥ —	¥(615)	¥(615)
	EUR	11,160	—	(140)	(140)
	CNY	5,967	—	(346)	(346)
	THB	42	—	1	1
	GBP	28	—	(1)	(1)
	Buying				
	USD	5,082	1,861	277	277
	JPY	1,294	—	(20)	(20)
	EUR	334	143	10	10
	CNY	12	—	1	1
	Total	¥38,370	¥2,005	¥(833)	¥(833)

Note: Method of calculation of market values
Forward exchange contracts: calculated using forward exchange rates.

2 Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related transactions

March 31, 2020

Millions of yen

Method of hedge accounting	Type	Major hedged items	Contract amount	Over 1 year	Market value
Basic accounting method	Forward exchange contracts				
	Selling				
	USD	Accounts receivable—trade	¥27,755	¥ 9,030	¥(880)
	SEK		579	—	5
	EUR		634	—	2
	Buying				
	USD	Accounts payable—trade	7,949	4,007	273
	EUR		3,710	212	(39)
	PLN		740	—	(21)
	CNY		237	—	2
Allocation of forward exchange contracts	Forward exchange contracts				
	Selling				
	USD	Accounts receivable—trade	22	—	(1)
	EUR		1	—	(0)
	Total		¥41,627	¥13,249	¥(660)

Note: Method of calculation of market values
Forward exchange contracts: calculated using forward exchange rates.

March 31, 2021

Millions of yen

Method of hedge accounting	Type	Major hedged items	Contract amount	Over 1 year	Market value
Basic accounting method	Forward exchange contracts				
	Selling	Accounts receivable—trade			
	USD		¥22,530	¥5,326	¥(824)
	EUR		1,836	—	(93)
	Buying	Accounts payable—trade			
	USD		1,582	—	(32)
	EUR		535	—	36
	PLN		869	—	(25)
	ZAR		60	—	1
Allocation of forward exchange contracts	Forward exchange contracts				
	Selling	Accounts receivable—trade			
	USD		782	—	(26)
	EUR		54	—	(6)
	Total		¥28,248	¥5,326	¥(968)

Note: Method of calculation of market values
Forward exchange contracts: calculated using forward exchange rates.

(2) Interest-related transactions

March 31, 2020

Millions of yen

Method of hedge accounting	Type	Major hedged items	Contract amount	Over 1 year	Market value
Simplified accounting treatment of interest swaps	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	¥2,710	¥2,220	¥(72)
	Total		¥2,710	¥2,220	¥(72)

Note: Method of calculation of market values
Swap transactions: calculated using the amounts presented by financial institutions with which the Company has a swap contract.

March 31, 2021

Millions of yen

Method of hedge accounting	Type	Major hedged items	Contract amount	Over 1 year	Market value
Simplified accounting treatment of interest swaps	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	¥2,554	¥2,220	¥(12)
	Total		¥2,554	¥2,220	¥(12)

Note: Method of calculation of market values
Swap transactions: calculated using the amounts presented by financial institutions with which the Company has a swap contract.

(Retirement Benefits)

1 Outline of the retirement benefit plans adopted

SHI and its major domestic consolidated subsidiaries have adopted a combination of the lump-sum retirement allowance plan and the defined contribution pension plan, while certain overseas consolidated subsidiaries have defined benefit-type plans.

A retirement benefit trust has been created for SHI's lump-sum retirement allowance plans.

Some consolidated subsidiaries with the lump-sum retirement allowance plans calculate net defined benefit liability and retirement benefit costs based on the simplified method.

2 Defined benefit plans (excluding the plans to which the simplified method is applied)

(1) Movements in retirement benefit obligations

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Balance at the beginning of the year	¥85,189	¥89,828
Service cost	3,502	3,523
Interest cost	1,059	891
Actuarial loss (gain)	4,086	4,157
Benefit paid	(3,593)	(3,582)
Increase due to change from the simplified method to the principle method	—	94
Increase due to newly consolidated subsidiaries	—	40
Others	(414)	(847)
Balance at the end of the year	¥89,828	¥94,104

(2) Movements in plan assets

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Balance at the beginning of the year	¥43,800	¥42,936
Expected return on plan assets	1,429	1,694
Actuarial loss (gain)	(1,006)	9,208
Contributions paid by the employer	61	1,121
Benefit paid	(1,218)	(2,344)
Others	(132)	(1,425)
Balance at the end of the year	¥42,936	¥51,189

(3) Reconciliations from retirement benefit obligations and plan assets to net defined benefit liability (asset)

Millions of yen

	March 31, 2020	March 31, 2021
Funded retirement benefit obligations	¥ 63,348	¥ 66,177
Plan assets	(42,936)	(51,189)
	20,413	14,988
Unfunded retirement benefit obligations	26,479	27,927
Total net defined benefit liability	¥ 46,892	¥ 42,915
Defined benefit asset	¥ (2,911)	¥ (4,536)
Defined benefit liability	49,803	47,451
Total net defined benefit liability	¥ 46,892	¥ 42,915

(4) Retirement benefit expenses

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Service cost	¥ 3,502	¥ 3,523
Interest cost	1,059	891
Expected return on plan assets	(1,429)	(1,694)
Net actuarial loss amortization	3,099	1,247
Past service costs amortization	37	112
Increase due to transition from the simplified method to the principle method	—	55
Others	20	39
Total retirement benefit expenses	¥ 6,287	¥ 4,173

(5) Remeasurements of defined benefit plans

Items recognized in remeasurements of defined benefit plans (before tax effect) are as follows.

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Past service costs	¥ 37	¥ 112
Actuarial gains and losses	(1,992)	6,298
Others	(16)	229
Total	¥(1,971)	¥6,639

(6) Accumulated remeasurements of defined benefit plans

Items recognized in accumulated remeasurements of defined benefit plans (before tax effect) are as follows.

Millions of yen

	March 31, 2020	March 31, 2021
Past service costs that are yet to be recognized	¥ (144)	¥ (121)
Actuarial gains and losses that are yet to be recognized	(7,953)	(1,338)
Total	¥(8,097)	¥(1,458)

(7) Plan assets

(i) Major components of plan assets

Percentages by major category of total plan assets are as follows.

%

	March 31, 2020	March 31, 2021
Shares	73	75
Cash and deposits	1	1
Others	26	24
Total	100	100

Note: Total plan assets include the retirement benefit trust created for SHI's lump-sum retirement allowance plan. The retirement benefit trust has been included as a percentage of total plan assets, which was 44% (¥18,851 million) at the end of the previous fiscal year and is 47% (¥23,814 million) at the end of the current fiscal year.

(ii) Method of setting a long-term expected rate of return on plan assets

In order to determine a long-term expected rate of return on plan assets, the present and predicted allocation of plan assets, and the present and expected long-term rate of return on various assets comprising plan assets are considered.

(8) The basis of actuarial assumptions

Basis for major actuarial assumptions

%

	For the year ended March 31, 2020	For the year ended March 31, 2021
Discount rate	0.0 to 7.8	0.0 to 4.0
Long-term expected rate of return on plan assets	0.0 to 8.0	0.0 to 8.0

3 Defined benefit plans to which the simplified method is applied

(1) Movements in net defined benefit liability

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Balance at the beginning of the year	¥3,479	¥3,800
Decrease due to change from the simplified method to the principle method	—	(38)
Retirement benefit expenses	631	793
Benefit paid	(241)	(347)
Contributions paid by the employer	(69)	(51)
Balance at the end of the year	¥3,800	¥4,157

(2) Reconciliations from retirement benefit obligations and plan assets to net defined benefit liability

Millions of yen

	March 31, 2020	March 31, 2021
Funded retirement benefit obligations	¥ 882	¥ 862
Plan assets	(908)	(916)
	(26)	(55)
Unfunded retirement benefit obligations	3,825	4,211
Total net defined benefit liability	¥3,800	¥4,157
Defined benefit asset	¥ (26)	¥ (55)
Defined benefit liability	3,825	4,211
Total net defined benefit liability	¥3,800	¥4,157

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method: ¥631 million for the precious year and ¥793 million for the current fiscal year

4 Defined contribution plans

The amounts required to be contributed to the defined contribution plans of the Company are ¥931 million for the previous fiscal year and ¥1,019 million for the current fiscal year.

(Tax Effect Accounting)

1 Major components of deferred tax assets and deferred tax liabilities

Millions of yen

	March 31, 2020	March 31, 2021
Deferred tax assets		
Accrued bonuses	¥ 3,693	¥ 3,706
Amount exceeding the limit on deductible allowance for doubtful accounts	898	924
Provision for construction warranties	3,612	4,974
Defined benefit liability	15,937	15,112
Unrealized profit on inventories	1,833	1,814
Loss on valuation of investment securities	949	717
Excess of depreciation	1,945	2,129
Tax loss carryforward	5,439	5,593
Loss on valuation of inventories	2,619	2,791
Impairment loss	1,919	3,371
Provision for loss on construction contracts	1,417	870
Others	8,345	8,784
Subtotal	48,606	50,786
Valuation allowance for tax loss carryforward (Note 2)	(4,367)	(5,015)
Valuation allowance for deductible temporary differences	(7,406)	(8,860)
Subtotal of valuation allowance (Note 1)	(11,773)	(13,875)
Total	36,833	36,911
Deferred tax liabilities		
Unrealized gains on full market value valuation of consolidated subsidiaries	(3,270)	(3,286)
Extra depreciation in overseas subsidiaries	(3,101)	(3,016)
Retained earnings of overseas subsidiaries	(4,650)	(5,332)
Intangible assets identified by business combinations	(5,381)	(5,549)
Valuation difference on available-for-sale securities	(802)	(1,801)
Others	(1,080)	(996)
Total	(18,284)	(19,979)
Net deferred tax assets	¥ 18,548	¥ 16,932

Notes: 1 There is no material change in the valuation allowance.
2 Tax loss carryforward and its deferred tax assets by expiration periods

March 31, 2020

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforward (a)	¥109	¥ 396	¥229	¥ 120	¥160	¥ 4,425	¥ 5,439
Valuation allowance	(56)	(353)	(79)	(120)	(40)	(3,718)	(4,367)
Deferred tax assets	¥ 53	¥ 43	¥149	¥ —	¥120	¥ 707	(b) ¥ 1,073

(a) Tax loss carryforward shown in the above table is after multiplying the statutory tax rate.
(b) The Company recognizes deferred tax assets of ¥1,073 million in relation to tax loss carryforward of ¥5,439 million (amount multiplied by the statutory tax rate). These deferred tax assets were recognized mainly for tax loss carryforward at SHI's consolidated subsidiaries. The tax loss carryforward which resulted in the recognition of such deferred tax assets was generated from previously recognized loss before income taxes; however, no valuation allowance was recognized for the portions that were determined to be recoverable based on expected future taxable income and other factors.

March 31, 2021

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforward (a)	¥ 318	¥103	¥ 271	¥ 37	¥46	¥ 4,818	¥ 5,593
Valuation allowance	(303)	(68)	(149)	(37)	(3)	(4,456)	(5,015)
Deferred tax assets	¥ 15	¥ 35	¥ 123	¥ —	¥44	¥ 362	(b) ¥ 578

(a) Tax loss carryforward shown in the above table is after multiplying the statutory tax rate.
(b) The Company recognizes deferred tax assets of ¥578 million in relation to tax loss carryforward of ¥5,593 million (amount multiplied by the statutory tax rate). These deferred tax assets were recognized mainly for tax loss carryforward at SHI's consolidated subsidiaries. The tax loss carryforward which resulted in the recognition of such deferred tax assets was generated from previously recognized loss before income taxes; however, no valuation allowance was recognized for the portions that were determined to be recoverable based on expected future taxable income and other factors.

3 During the year ended March 31, 2021, the provisional accounting treatment of business combination has been finalized. Accordingly, the shown major components of deferred tax assets and deferred tax liabilities for the previous fiscal year were revised to reflect the resulting adjustments.

2 SHI and its consolidated domestic companies are subject to corporate, inhabitants' and enterprise taxes, which constitute, in the aggregate, a statutory tax rate in Japan of approximately 30.6% for the years ended March 31, 2020 and 2021, respectively. Major items causing the differences between the statutory effective tax rate and the effective income tax rate after application of tax effect accounting are as follows.

%

	March 31, 2020	March 31, 2021
Statutory effective tax rates	30.6	30.6
(adjustments)		
Items not deductible permanently, such as entertainment expenses	1.1	0.9
Inhabitant tax on a per capita basis	0.5	0.6
Items not taxable permanently, such as dividend income	(0.4)	(0.2)
Valuation allowance	3.2	4.6
Tax credit	(3.2)	(4.9)
Share of profit of entities accounted for using the equity method	(0.1)	(0.1)
Retained earnings of overseas subsidiaries	1.0	1.6
Tax rate differences of overseas subsidiaries	(1.8)	(1.4)
Amortization of goodwill	1.3	1.5
Others	1.7	1.3
Effective income tax rates after application of tax effect accounting	33.9	34.6

(Business Combination)

Finalization of the provisional accounting treatment of business combination

The provisional accounting treatment applied during the previous fiscal year to the business combination with Invertek Drives Ltd. on November 7, 2019 has been finalized during the current fiscal year.

Following the finalization of this accounting treatment, comparative information included in the consolidated financial statements for the current fiscal year reflects the significant revision of the initially allocated amounts of the acquisition costs. As a result of the finalization of the accounting treatment, ¥10,320 million of goodwill, which was the provisionally calculated amount, has been reduced by ¥4,390 million to ¥5,930 million. The decline in goodwill is attributable to an increase of ¥4,326 million in patent-related assets, ¥964 million in customer-related assets, and ¥899 million in deferred tax liabilities, respectively. Furthermore, as of the end of the previous fiscal year, the amount of goodwill decreased by ¥4,674 million and the amounts of patent-related assets, customer-related assets and deferred tax liabilities increased by ¥4,605 million, ¥1,026 million and ¥957 million, respectively.

(Asset Retirement Obligations)

No further disclosure is made as those obligations are immaterial in terms of amount.

(Segment Information)

[Segment Information]

1 Summary of reporting segments

(1) Method for determining reporting segments

The reporting segments of the Company are based on the business units for which financial information is separately available and are periodically reviewed by the Board of Directors to determine the allocation of management resources and assess their operating performance.

(2) Type of finished goods and services belonging to each reporting segment

The Company formulates comprehensive domestic and global strategies for its products and services handled by the head office and each consolidated subsidiary and develops business activities. Thus, the reporting segments consist of the following six segments for each of the products and services handled by the head office and each consolidated subsidiary: "Machinery Components," "Precision Machinery," "Construction Machinery," "Industrial Machinery," "Ships," and "Environmental Facilities & Plants."

Businesses	Main finished goods
Machinery Components	Power transmissions, control equipment, inverters
Precision Machinery	Plastics machinery, film forming machines, semiconductor production equipment, laser processing systems, cryogenic equipment, precision positioning equipment, precision forgings, control components, defense equipment, machine tools
Construction Machinery	Hydraulic excavators, mobile cranes, road machinery
Industrial Machinery	Ion accelerators, medical machines and equipment, forging press machines, material handling systems, logistics systems, automated parking systems, turbines, pumps
Ships	Ships
Environmental Facilities & Plants	Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, mixing vessels, air-conditioning equipment, food processing machinery

2 Method of calculating net sales, profits or losses, assets and other items of each reporting segment

The method of accounting treatment of the business segments reported is almost identical to the descriptions in "Notes to the Consolidated Financial Statements."

Internal sales and transfers among the segments are based on market prices in effect.

3 Information on the amounts of sales, profits or losses, assets and other items by reporting segment

For the year ended March 31, 2020

Millions of yen

	Reporting Segments										
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others (Note 1)	Total	Adjustments (Note 2)	Carrying amount on the consolidated financial statements (Note 3)
Sales											
Sales to external customers	¥130,501	¥185,010	¥272,805	¥86,981	¥32,946	¥149,009	¥857,252	¥ 7,238	¥864,490	¥ —	¥864,490
Inter-segment sales	2,061	232	33	1,601	6	1,262	5,197	3,655	8,851	(8,851)	—
Total	132,562	185,243	272,839	88,582	32,952	150,271	862,449	10,892	873,341	(8,851)	864,490
Segment profit or loss	5,507	14,931	17,144	7,073	(2,102)	11,862	54,415	2,391	56,806	0	56,806
Segment assets	190,890	187,526	258,542	77,383	63,880	131,933	910,154	63,053	973,207	22,904	996,111
Other categories											
Depreciation	6,676	5,553	9,192	1,632	1,283	2,965	27,300	652	27,953	—	27,953
Amortization of goodwill	912	32	414	134	—	621	2,114	—	2,114	—	2,114
Investments in companies accounting for using the equity method	256	2,495	—	—	—	—	2,751	—	2,751	—	2,751
Increase in tangible and intangible assets	28,827	6,032	10,234	1,967	1,451	2,816	51,327	803	52,130	—	52,130

Notes: 1 "Others" is a business segment which is not included in the reporting segments, and contains real estate business, software-related business and other businesses.

2 Adjustments are as follows.

(1) Adjustments of segment profit or loss (¥0 million) include inter-segment eliminations of ¥0 million.

(2) Adjustments of segment assets (¥22,904 million) include assets of ¥22,904 million relating to surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.

3 Segment profit or loss has been adjusted in relation to operating profit in the consolidated statements of income.

4 During the year ended March 31, 2021, the provisional accounting treatment of business combination has been finalized. Accordingly, "Machinery Components" for the year ended March 31, 2020 were revised to reflect the resulting adjustments.

For the year ended March 31, 2021

Millions of yen

	Reporting Segments										
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others (Note 1)	Total	Adjustments (Note 2)	Carrying amount on the consolidated financial statements (Note 3)
Sales											
Sales to external customers	¥122,156	¥176,902	¥248,701	¥93,238	¥34,045	¥167,980	¥843,022	¥ 6,043	¥ 849,065	¥ —	¥ 849,065
Inter-segment sales	2,068	109	17	2,041	30	908	5,173	3,485	8,658	(8,658)	—
Total	124,224	177,011	248,718	95,279	34,075	168,888	848,195	9,528	857,723	(8,658)	849,065
Segment profit or loss	2,228	17,105	6,119	8,473	(2,737)	18,083	49,271	1,978	51,250	92	51,342
Segment assets	194,818	193,804	263,567	84,788	55,259	148,346	940,582	60,996	1,001,578	29,106	1,030,684
Other categories											
Depreciation	7,704	5,809	9,397	1,753	1,298	3,125	29,085	661	29,746	—	29,746
Amortization of goodwill	1,304	31	—	67	—	736	2,137	—	2,137	—	2,137
Investments in companies accounting for using the equity method	278	2,609	—	—	—	—	2,888	—	2,888	—	2,888
Increase in tangible and intangible assets	10,417	7,838	13,387	2,993	1,423	5,793	41,851	1,738	43,589	—	43,589

Notes: 1 "Others" is a business segment which is not included in the reporting segments, and contains real estate business, software-related business and other businesses.

2 Adjustments are as follows.

(1) Adjustments of segment profit or loss (¥92 million) are attributable to inter-segment eliminations.

(2) Adjustments of segment assets (¥29,106 million) are attributable to assets relating to surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.

3 Segment profit or loss has been adjusted in relation to operating profit in the consolidated statements of income.

[Related Information]

For the year ended March 31, 2020

1 Information by finished goods and services

No further disclosure is made because the finished goods and services categories are identical to those of the reporting segments.

2 Information by region

(1) Sales

Millions of yen

Japan	United States	China	Others	Total
¥402,426	¥126,654	¥87,034	¥248,376	¥864,490

Note: Sales are based on the locations of customers and are divided into countries or regions.

(2) Property, plant and equipment

Millions of yen

Japan	Others	Total
¥197,189	¥70,877	¥268,066

3 Information by major customer

There is no description because the Company has no single external customer that accounts for at least 10% of the net sales in the consolidated statements of income.

For the year ended March 31, 2021

1 Information by finished goods and services

No further disclosure is made because the finished goods and services categories are identical to those of the reporting segments.

2 Information by region

(1) Sales

Millions of yen

Japan	United States	China	Others	Total
¥411,880	¥115,614	¥90,412	¥231,159	¥849,065

Note: Sales are based on the locations of customers and are divided into countries or regions.

(2) Property, plant and equipment

Millions of yen

Japan	Others	Total
¥200,780	¥75,024	¥275,804

3 Information by major customer

There is no description because the Company has no single external customer that accounts for at least 10% of the net sales in the consolidated statements of income.

[Information on Impairment Loss of Non-current Assets by Reporting Segment]

For the year ended March 31, 2020

Not applicable

For the year ended March 31, 2021

Millions of yen

	Reporting segments									
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations (Note)	Total
Total	¥—	¥772	¥—	¥—	¥4,991	¥—	¥5,763	¥—	¥6	¥5,769

Note: All the amounts of corporate/eliminations relate to idle assets such as residential land or corporate assets.

[Amortization and Unamortized Balance of Goodwill by Reporting Segment]

For the year ended March 31, 2020

Millions of yen

	Reporting segments									
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations	Total
Amortization during the year	¥ 912	¥ 32	¥414	¥134	¥—	¥ 621	¥ 2,114	¥—	¥—	¥ 2,114
Balance at the end of the current period	17,623	220	—	67	—	10,921	28,831	—	—	28,831

For the year ended March 31, 2021

Millions of yen

	Reporting segments									
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations	Total
Amortization during the year	¥ 1,304	¥ 31	¥—	¥67	¥—	¥ 736	¥ 2,137	¥—	¥—	¥ 2,137
Balance at the end of the current period	17,047	178	—	—	¥—	12,139	29,364	—	—	29,364

[Information on Gain on Negative Goodwill by Reporting Segment]

Not applicable

[Information on Related Parties]

Not applicable

(Per-share Information)

Yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Net assets per share	¥3,790.99	¥4,005.43
Earnings per share	267.77	218.46

Notes: 1 There is no disclosure for diluted earnings per share information after adjustments of dilutive potential shares, because there are no dilutive potential shares.
2 The basis for calculation of earnings per share is presented below.

Millions of yen

	For the year ended March 31, 2020	For the year ended March 31, 2021
Profit attributable to owners of parent	¥32,807	¥26,764
Value not attributable to common shareholders	—	—
Profit attributable to common shareholders of parent	32,807	26,764
Average number of outstanding shares for the term (in thousand shares)	122,520	122,512

(Significant Subsequent Events)

Change in reporting segments

The Board of Directors of SHI, at its meeting held on May 10, 2021, resolved adoption of the "Medium-term Management Plan 2023" formulated for a three-year period from the fiscal year 2021. In accordance with the policy of the medium-term management plan, the Company has changed its reporting segments since the beginning of the fiscal year ending March 31, 2022. The purposes of this change are to review the aggregation of the business segments on the basis of their commonalities in terms of business operations with the aim of working toward solving social issues, and to improve the corporate value of the Company through synergy among new segments.

Based on this change, the reporting segments of the Company have been changed from "Machinery Components," "Precision Machinery," "Construction Machinery," "Industrial Machinery," "Ships" and "Environmental Facilities & Plants" to "Mechatronics," "Industrial Machinery," "Logistics & Construction" and "Energy & Lifeline."

Additionally, information on the amounts of sales and profits by new reporting segment for the consolidated fiscal year ended March 31, 2021 is as follows.

For the year ended March 31, 2021

Millions of yen

	Reporting Segments								
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline	Total	Others (Note 1)	Total	Adjustments (Note 2)	Carrying amount on the consolidated financial statements (Note 3)
Sales									
Sales to external customers	¥133,446	¥204,177	¥301,870	¥203,529	¥843,022	¥ 6,043	¥ 849,065	¥ —	¥ 849,065
Inter-segment sales	2,069	1,036	894	922	4,920	3,485	8,406	(8,406)	—
Total	135,515	205,213	302,764	204,451	847,943	9,528	857,471	(8,406)	849,065
Segment profit	3,106	15,869	13,577	16,710	49,263	1,978	51,241	101	51,342
Segment assets	209,050	225,683	310,342	198,008	943,082	60,996	1,004,079	26,605	1,030,684
Other categories									
Depreciation	8,217	6,633	9,932	4,304	29,085	661	29,746	—	29,746
Amortization of goodwill	1,304	146	67	621	2,137	—	2,137	—	2,137
Investments in companies accounting for using the equity method	278	—	2,609	—	2,888	—	2,888	—	2,888
Increase in tangible and intangible assets	11,010	12,850	13,826	4,166	41,851	1,738	43,589	—	43,589

Notes: 1 "Others" is a business segment which is not included in the reporting segments, and contains real estate business, software-related business and other businesses.
2 Adjustments are as follows.
(1) Adjustments of segment profit (¥101 million) are attributable to inter-segment eliminations.
(2) Adjustments of segment assets (¥26,605 million) include assets relating to surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.
3 Segment profit has been adjusted in relation to operating profit in the consolidated statements of income.

(Consolidated Supplementary Schedules)

[Bonds Schedule]

Millions of yen

Company name	Name of issue	Issue date	Balance at the beginning of the current period	Balance at the end of the current period	Interest rate (%)	Security	Redemption date
Sumitomo Heavy Industries, Ltd.	4th unsecured bond	March 15, 2018	¥10,000	¥10,000	0.17	Unsecured	March 15, 2023
Sumitomo Heavy Industries, Ltd.	5th unsecured bond	July 24, 2019	10,000	10,000	0.13	Unsecured	July 24, 2024
Sumitomo Heavy Industries, Ltd.	6th unsecured bond	January 24, 2020	10,000	10,000	0.29	Unsecured	January 24, 2030
Sumitomo Heavy Industries, Ltd.	7th unsecured bond	September 23, 2020	—	20,000	0.17	Unsecured	September 22, 2025
Total	—	—	¥30,000	¥50,000	—	—	—

Note: Annualized amounts to be redeemed within five years after the end of the current fiscal year are as follows.

Millions of yen

Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
¥—	¥10,000	¥—	¥10,000	¥20,000

[Loans Schedule]

Millions of yen

Category	Balance at the beginning of the current period	Balance at the end of the current period	Average interest rate (%)	Repayment date
Short-term loans payable	¥28,139	¥31,698	0.76	—
Current portion of long-term loans payable	4,499	3,270	4.10	—
Lease obligations due within 1 year	3,607	3,084	—	—
Long-term loans payable (excluding long-term debts due within 1 year)	27,032	39,471	0.45	From September 30, 2022 to June 30, 2031
Lease obligations (excluding lease obligations due within 1 year)	8,440	9,018	—	—
Total	¥71,717	¥86,540	—	—

Notes: 1 For "Average interest rate," a weighted average interest rate to the balance of the loan at the end of the year is presented.
2 The table below is the maturity profile of long-term loans payable and lease obligations at the end of the current fiscal year, which are due after one year.

Millions of yen

Category	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
Long-term loans payable	¥11,758	¥22,268	¥3,511	¥1,672
Lease obligations (long-term)	2,635	1,654	1,943	1,294

3 No interest rate information is available because lease obligations are measured by including interest expenses, except for certain consolidated subsidiaries.

[Asset Retirement Obligations Schedule]

No further disclosure has been made because the amount of asset retirement obligations was 1% or less of the total balance of the liabilities and net assets at the beginning of the current fiscal year and at the end of the current fiscal year, respectively.

Independent auditor's report

To the Board of Directors of Sumitomo Heavy Industries, Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the judgment as to whether an impairment loss should be recognized on the goodwill that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. and Lafert S.p.A.

The key audit matter	How the matter was addressed in our audit
As described in Note "Significant Accounting Estimates, 1. Valuation of goodwill" to the consolidated financial statements, Sumitomo Heavy Industries, Ltd. and its subsidiaries (collectively referred to as "the Group")	The primary procedures we performed to assess whether the judgment as to whether an impairment loss should be recognized on goodwill that arose when the Group acquired controls of Sumitomo

recognized goodwill of ¥29,364 million in the consolidated balance sheet as of March 31, 2021, which included the balance of goodwill that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. amounting to ¥10,670 million and the balance of goodwill that arose when the Group acquired control of Lafert S.p.A. amounting to ¥10,369 million. As described in Note "Basis of Preparation, 5. Accounting policies, (7) Method and period of amortization of goodwill" to the consolidated financial statements, goodwill is amortized using the straight-line method over a period of up to 20 years. However, each business unit to which goodwill belongs is tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the total amount of undiscounted future cash flows of each business unit with the aggregated amount of carrying amount of asset groups related to the business and the carrying amount of goodwill. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulted decrease in the carrying amount is recognized as an impairment loss. As Sumitomo SHI FW Energie B.V. and Lafert S.p.A. have recognized recurring operating losses after deducting amortization of goodwill for some consecutive years, there are impairment indicators. Accordingly, the Group performed impairment tests during the current fiscal year; however, it determined that the recognitions of an impairment loss were not necessary as the total amount of the estimated undiscounted future cash flows exceeded the carrying amount of the asset group including goodwill for each business unit. While the undiscounted future cash flows used for the impairment tests were estimated based on the business plans prepared by management, the future trends and the Group's plan to prospect of the shares in the market of boiler for power generation for Sumitomo SHI FW Energie B.V. and in the industrial motor market for Lafert S.p.A. involved a high degree of uncertainty as they were developed based on the long-term	SHI FW Energie B.V. and Lafert S.p.A. was appropriate included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to determining whether an impairment loss on goodwill should be recognized. In this assessment, we focused our testing on controls to assess the reasonableness of the business plan and the estimated undiscounted future cash flows prepared based on the business plan, as well as controls relevant to the approval process. (2) Assessment of the reasonableness of the estimated undiscounted future cash flows In order to assess the reasonableness of key assumptions adopted in preparing the estimated undiscounted future cash flows and the business plans of Sumitomo SHI FW Energie B.V. and Lafert S.p.A. which were used as the basis for estimating undiscounted future cash flows, we inquired of management and the personnel responsible for the related business unit about the rationale, and inspected reporting materials submitted to the Board of Directors. In addition, we: ● compared market trends of the boiler for power generation and the industrial motor, which were adopted by management as key assumptions, with market forecast data prepared by external research organizations; ● inquired of management and the personnel responsible for the related business unit regarding forecasts for market share to understand details of the forecasts and how they were reflected into the business plans, and assessed the reasonableness of the forecasts by comparing them with past actual results; ● evaluated the accuracy of the estimated profit and loss as at the end of previous years by analyzing the causes of any variances between estimated profits and actual results; and ● based on the results of our assessment of the reasonableness of key assumptions, evaluated whether there was any potential effect on the

forecasts. Accordingly, management's judgment thereon had a significant effect on the estimated undiscounted future cash flows. We, therefore, determined that our assessments of the appropriateness of the judgment as to whether an impairment loss should be recognized on goodwill that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. and Lafert S.p.A. was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	determination of an impairment loss to be recognized in case of reflecting specific estimation uncertainties to the business plans.

Reasonableness of the estimate of total construction costs in applying the percentage-of-completion method

The key audit matter	How the matter was addressed in our audit
As described in Note, "Significant Accounting Estimates, 2. Estimate of total construction costs in applying the percentage-of-completion method" to the consolidated financial statements, the Group adopts the percentage-of-completion method for construction works for which the realization of the completed portion by the end of the current fiscal year is assured. In applying the method, construction revenue (sales) is recognized based on the percentage of completion, which is measured by the cost-to-cost method or output method. In applying the cost-to-cost method, the percentage of costs incurred for construction works to estimated total construction costs is used to determine the progress toward the completion of construction. The construction revenue recognized using the percentage-of-completion method amounted to ¥165,481 million for the current fiscal year, representing approximately 19% of net sales in the consolidated financial statements. The percentage-of-completion method is applied to each substantial transaction unit based on construction contracts individually received by the segments of "Industrial Machinery," "Ships" and "Environmental Facilities & Plants," and the construction works are significantly different in nature depending on their contracts. Therefore,	The primary procedures we performed to assess whether the Group's estimate of total construction costs in applying the percentage-of-completion method was reasonable included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of preparing and updating a project budget for construction, with a particular focus on the following: ● controls to ensure the appropriateness of a project budget for construction by comparing it with the specification sheet and confirming the completeness of the estimated total construction costs; and ● controls to revise a project budget for construction in a timely manner based on changes in the specification and progress status of the process. (2) Assessment of the reasonableness of the estimated total construction costs The primary procedures we performed with respect to the large-scale construction work to assess the reasonableness of the estimate of total construction cost included the following:

the preparation and revision of a project budget, which provided the basis for estimating the total construction costs, involved estimation uncertainty. Specifically, management's determination of the following aspects of construction had a significant effect on the estimated total construction costs. ● whether all the work necessary to complete the construction contract was identified and the estimated costs were included in the project budget; and ● whether various factors such as unexpected changes in economic environment, actual costs incurred exceeding the initially estimated costs due to design or process disruption or penalty payment resulting from problems with product function or delivery date were reflected within the project budget in a timely and appropriate manner. We, therefore, determined that our assessment of the reasonableness of the estimate of total construction costs in applying the percentage-of-completion method was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	● We assessed whether there are any projects with a significant difference between the actual results and estimates by comparing the progress toward completion of a project with expected progress toward completion based on the cost occurrence patterns of the previous similar projects. ● With consideration of terms and conditions or the nature of construction contracts, we selected projects that involve a higher degree of uncertainty in the estimated total construction costs, and performed the following procedures; ・We assessed accuracy in preparing a project budget for construction by comparing the preliminary estimates of the total construction costs with the re-estimated amount. We also assessed the reasonableness of the revised project budget for construction after considering the details of variances recognized in its comparison. ・In addition to inquiry of a personnel responsible for the construction project about the overview and progress status of the construction, we assessed differences between the planned progress toward completion described in the materials of the process management for the construction sites and actual progress, and questioned the personnel regarding the basis for the judgment on revise of the project budget. We also observed certain of the construction sites that made higher degree of progress. ・We compared the estimated total construction costs with materials for cost accumulation that was used as the basis for the estimate and assessed whether significant estimated costs necessary to complete the construction contracts were included in the project budget.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Takemitsu Nemoto

Designated Engagement Partner

Certified Public Accountant

Yutaka Matsuki

Designated Engagement Partner

Certified Public Accountant

Yoshinori Saito

Designated Engagement Partner

Certified Public Accountant

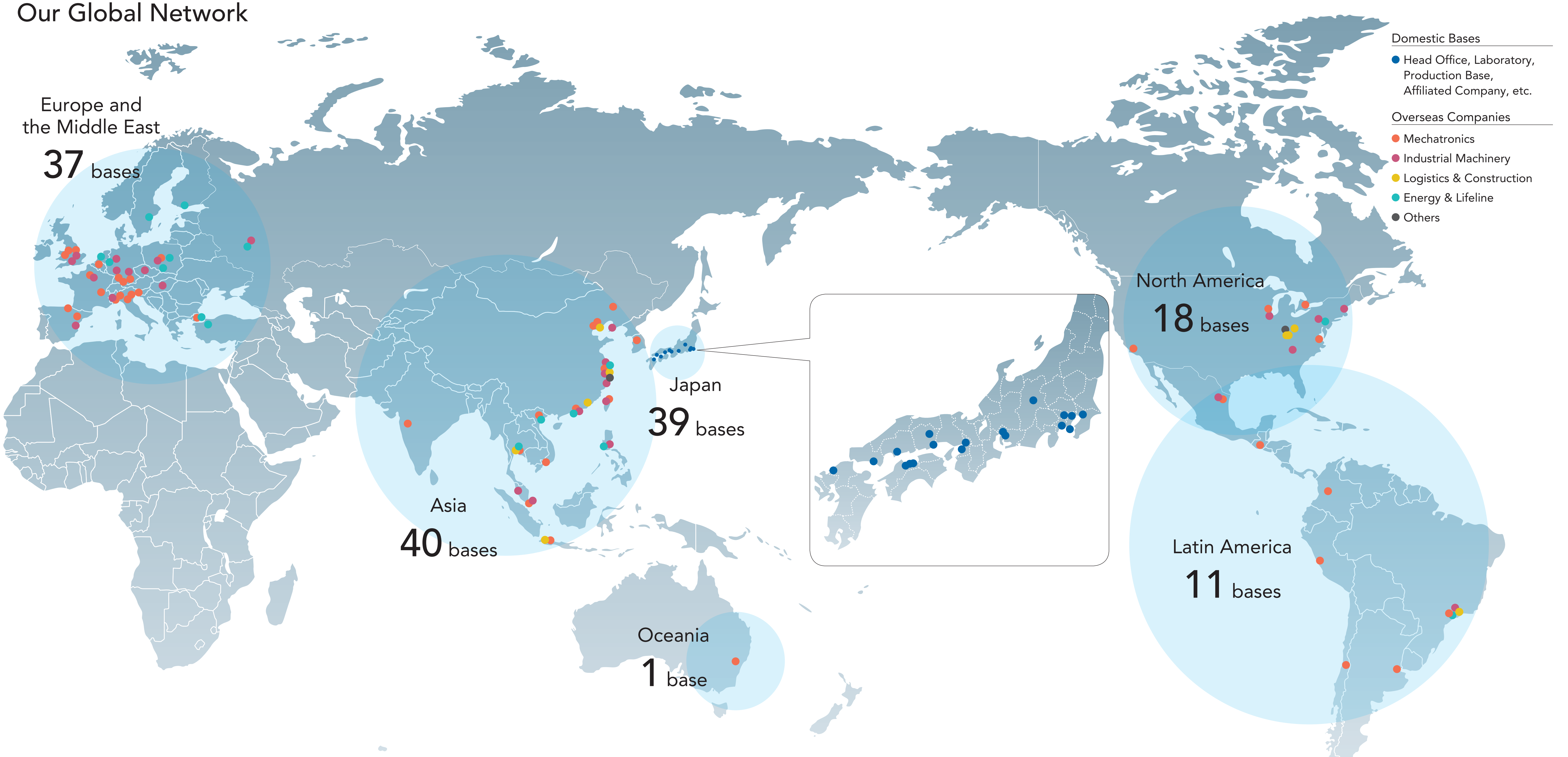
KPMG AZSA LLC

Tokyo Office, Japan

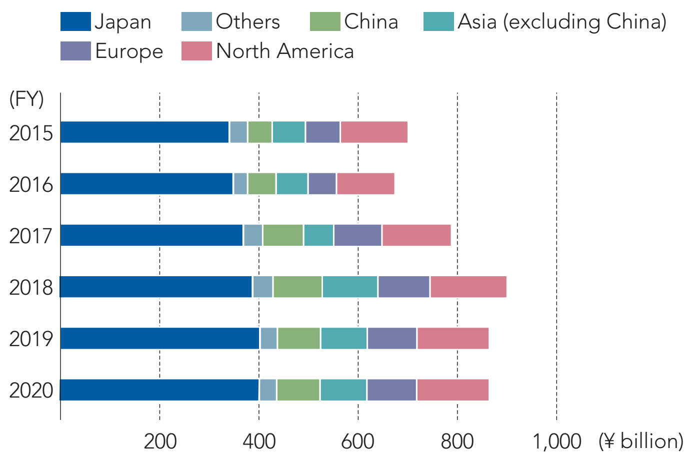
September 28, 2021

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

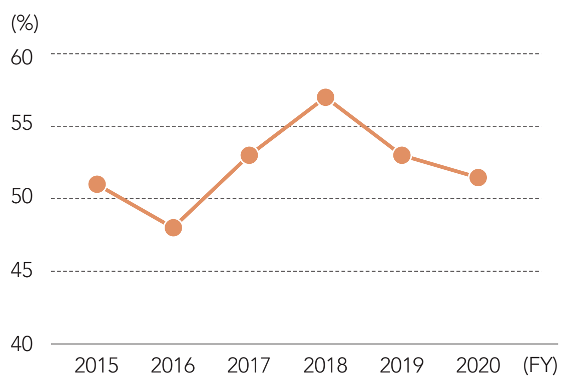
Our Global Network



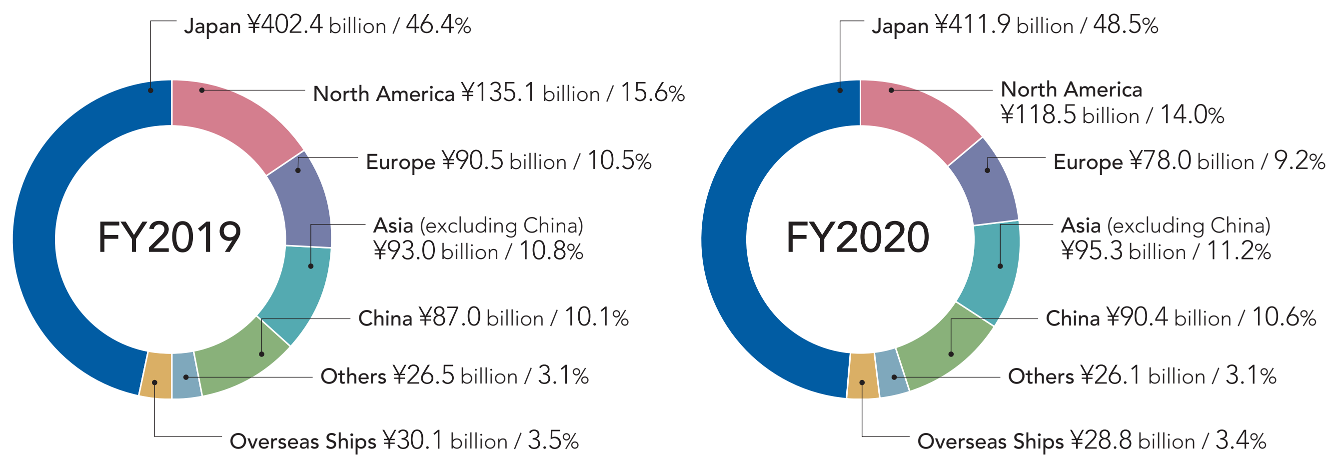
Overseas Sales



Overseas Sales Ratio



Net Sales Ratio by Region



Corporate Data (As of March 31, 2021)

Corporate Data

Head Office	Sumitomo Heavy Industries, Ltd. 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
Tel	+81-3-6737-2331
URL	http://www.shi.co.jp/english/index.html
Founded	1888
Incorporated	November 1, 1934
Paid-In Capital	¥30,871,651,300
Number of Employees	24,050 (Consolidated) 3,356 (Non-consolidated)

■ Domestic Offices

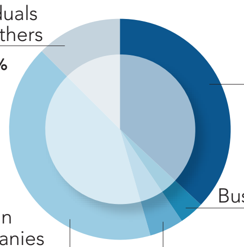
Chubu Office	10-24, Higashi-sakura 1-chome, Higashi-ku, Nagoya-shi, Aichi 461-0005, Japan	Tel: 81-52-971-3063
Kansai Office	3-33, Nakanoshima 2-chome, Kita-ku, Osaka-shi, Osaka 530-0005, Japan	Tel: 81-6-7635-3610
Kyushu Office	8-30, Tenyamachi, Hakata-ku, Fukuoka-shi, Fukuoka 812-0025, Japan	Tel: 81-92-283-1670
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, 2021)

Stock Information

Transfer Agent	Sumitomo Mitsui Trust Bank, Limited
Stock Exchange Listing	Tokyo
Shares Outstanding	122,905,481
Number of Shareholders	32,957

Distribution of Shareholders

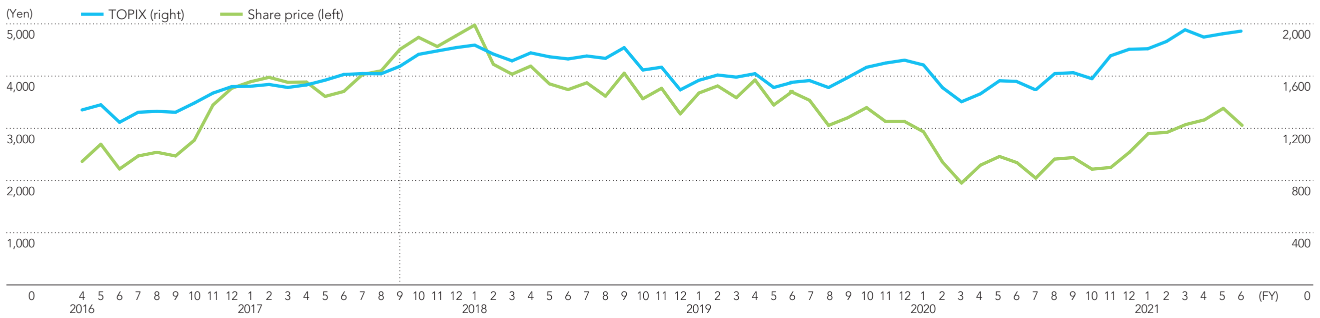


Major Shareholders

Name of shareholder	Number of shares held (thousands of shares)	Ownership ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	13,005	10.6
Custody Bank of Japan, Ltd. (Trust account)	7,806	6.4
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	6,658	5.4
Sumitomo Life Insurance Company	4,333	3.5
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,997	3.3
Sumitomo Heavy Industries, Ltd. Kyoeikai	2,917	2.4
STATE STREET BANK AND TRUST COMPANY 505103	2,584	2.1
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	2,358	1.9
Sumitomo Mitsui Banking Corporation	2,000	1.6
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	1,790	1.5

Note: Ownership ratios are calculated less treasury stock (397,625 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.

Share Price Chart



* The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. Figures for FY2016 have been retroactively adjusted as if the stock split had occurred at the beginning of each fiscal year.

Sumitomo Heavy Industries, Ltd.

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