



Integrated Report

April 2022–December 2022

2023

Excellent Products and Services

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



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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 2023 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., 144 consolidated subsidiaries (37 in Japan, 107 overseas) and 4 equity-method affiliates (1 in Japan, 3 overseas). Context changes are duly noted in the text.

Timeline

This report covers FY2022(April 1, 2022 to December 31, 2022). Coverage of overseas subsidiaries is from January 1, 2022 to December 31, 2022 with the exception of two companies. Some content makes references to dates outside of this time period. Regarding non-financial data, due to considerations that include ensuring comparability, this report generally covers the 12-month period from January to December 2022.

Reference Guidelines

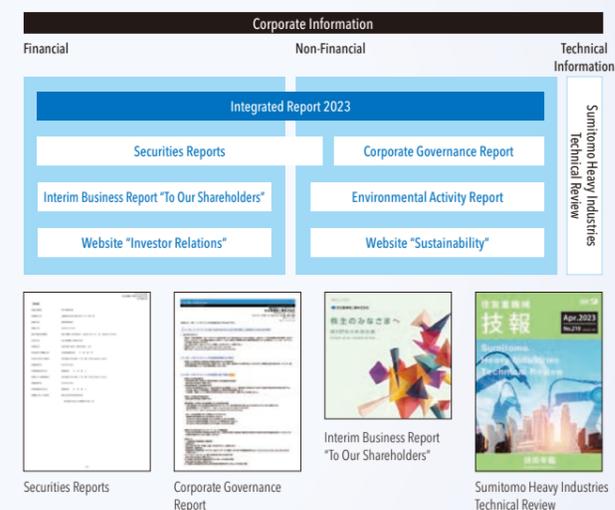
- "International Integrated Reporting Framework," IFRS Foundation
- "GRI Standards
- "WICI Intangibles Reporting Framework Version 1.0," World Intellectual Capital Initiative
- "Guidance for Collaborative Value Creation," METI of Japan



Cautionary Note Concerning Forward-Looking Statements

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

Positioning of Integrated Report 2023



Our Website

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

Investor Relations

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



Sustainability

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



The Sumitomo Heavy Industries Group
aims to achieve sustainable growth
by contributing to the resolution of social issues
and embraces the challenge of transformation.



Tetsuya Okamura
Representative Director, Chairman of the Board

Shinji Shimomura
Representative Director, President and CEO

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

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

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

In Integrated Report 2023, 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.

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

[Commentary]

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

CORPORATE PHILOSOPHY

Corporate Mission Statement

We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world. With integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders.

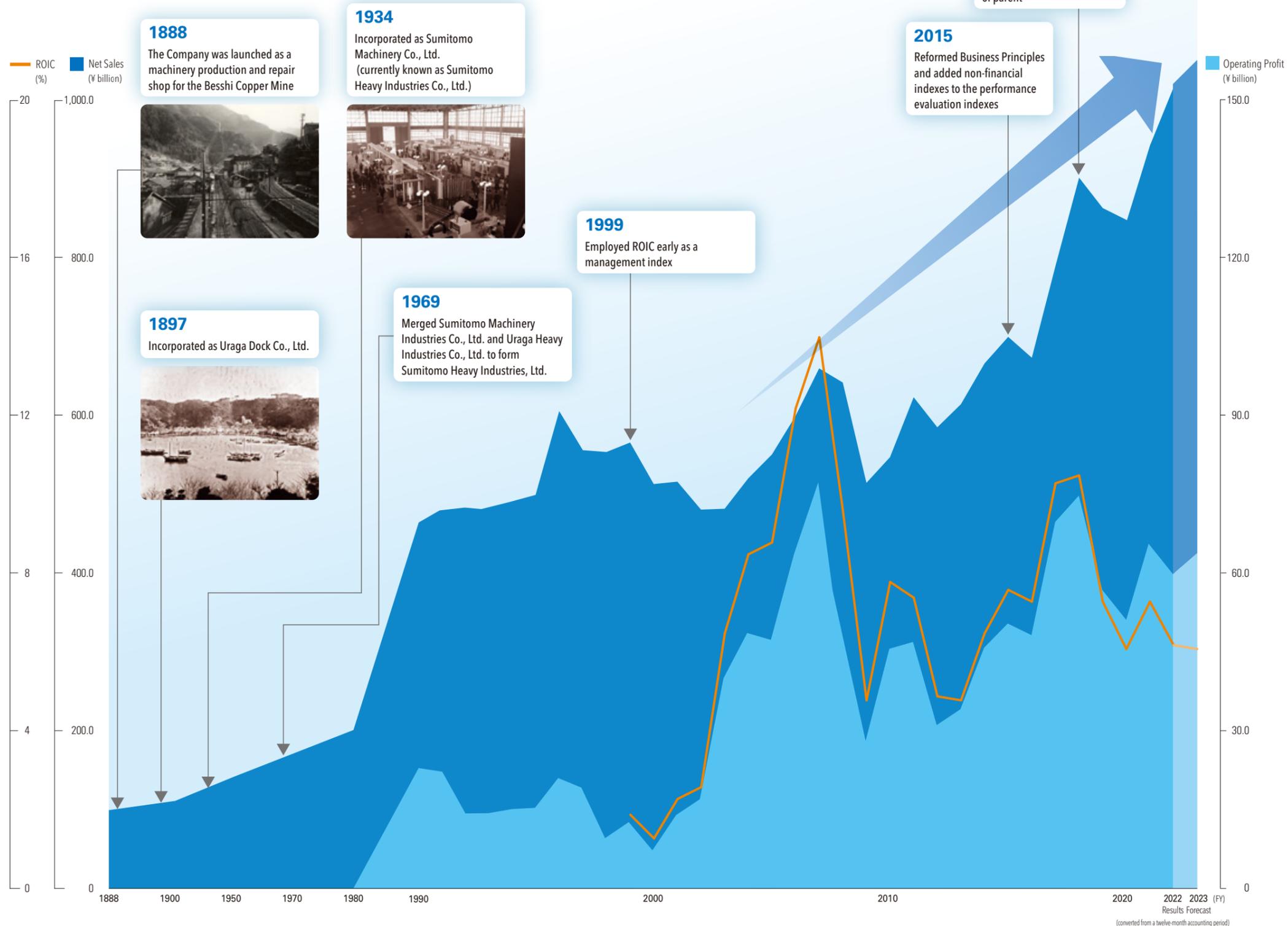
Our Values

- Customer First
We exceed customer expectations by providing sophisticated efficient products and services, giving the utmost consideration to their needs and requirements.
- Embrace Changes
We will continue to drive and embrace changes without accepting the status quo.
- Commitment to Technology and Innovation
We are passionate about contributing to society by further developing our unique, in-house technologies.
- Respect People
We will nurture an organizational climate that fosters mutual respect, tolerance and learning for growth.

Growth History

Since its establishment in 1888, the SHI Group has worked to tackle the problems faced by customers and society by providing products and services as a manufacturing company. The strengths of our Group lie in our superior technological, management, and organizational capabilities that we have built up over the course of our extensive history.

We will continue to draw on these strengths as sources of greater competitiveness and strive to achieve further growth in the future.



"Medium Term Management Plan 2016"

Achieve "Steady Growth" Become a "High Profit Company" Create excellent products and services through "A Tireless Commitment to Improving Operational Quality"

- Achievements and Challenges**
- We accelerated globalization through the acquisition of SFW and aggressively invest 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.
 - We recognized the need to achieve steady growth based on a strict assessment of the external environment, further enhance our profitability with a view to becoming a highly profitable corporate entity, and further improve our operational quality.

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

"Medium Term Management Plan 2019"

Pursue corporate mission

- Achievements and Challenges**
- 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.
 - We refocused our attention on improving our operational quality and formulating a management policy that prioritizes compliance.

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

"Medium Term Management Plan 2023"

Enhance corporate value in a sustainable manner by solving social issues through products and services

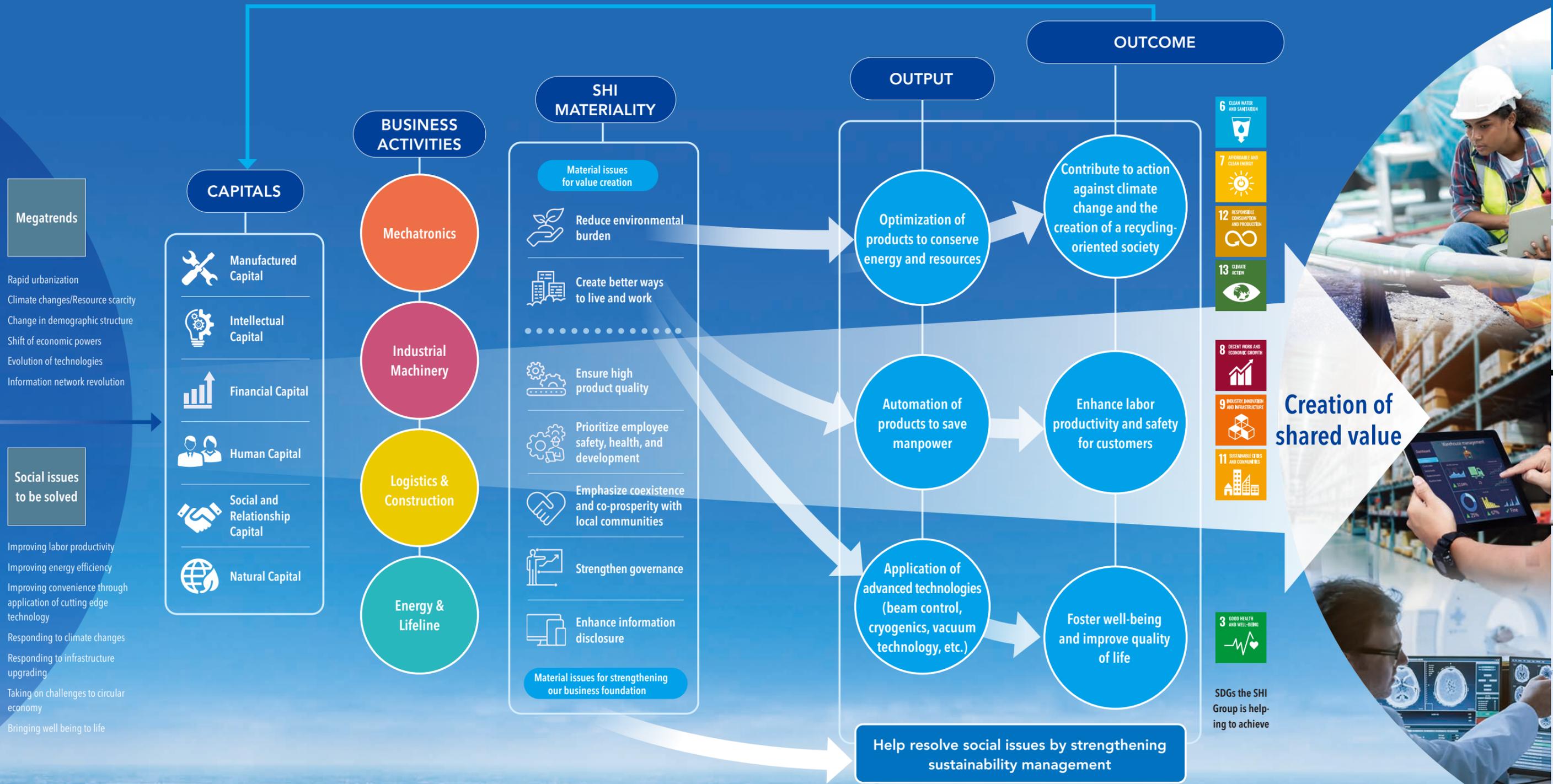
- Achievements and Challenges**
- Fiscal 2022 will be a nine-month accounting period due to a change in our fiscal year-end.
 - We will conduct a review of our segments to strengthen our exploratory capabilities, achieve a certain scale of operations, and further refine our exploitation capabilities through the power of integration.
 - Given the strong capital investments and demand for machinery, our net sales target for fiscal 2023, the final year of the plan, has been revised upward from the initial plan.
 - Challenges include the need for us to respond to an external environment that has evolved dramatically, including heightened geopolitical risks, fragmentation of the global economy, rapid fluctuations of financial markets, and supply chain disruptions.

Targets and Results		
	Target	FY2022 Results*
Net Sales	¥1,050.0 billion	¥1,018.3 billion
Operating Profit	¥76.0 billion	¥60.0 billion
ROIC	7.5%	6.2%

* Converted from a twelve-month accounting period

Value Creation Process

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





Through the process of solving social issues through our business, we will achieve sustainable growth

Shinji Shimomura

Representative Director,
President and CEO

Business Principles and Purpose

The Sumitomo Heavy Industries (SHI) Group aims to create customer value through continuous optimization and deliver solutions to social issues based on the Corporate Mission Statement set forth in its Business Principles, specifically “to continue to provide excellent products and services to the world” and “to contribute towards society by gaining high respect and confidence from all stakeholders.” With these essential qualities as our inheritance, we are currently in the process of formulating our Purpose statement, which we plan to complete by the start of the next Medium-Term Management Plan next year. At present, we are reaffirming our vision for the Group, our reason for existence (Purpose), the unique characteristics of Sumitomo Heavy Industries, and the direction we should take. At the same time, we are in the process of considering how to make these easier for outsiders to understand.

I feel that “providing excellent products and services” as stated in our Business Principles captures our reason for existence clearly but does not sufficiently express SHI’s individuality. This is due to the fact that our business is expanding in many directions, our final

finished products include so many sub-products, and each business division has its own strengths. Factors such as strengths that actually create excellence vary from division to division and, in some cases, from product to product within a division. For this reason, I’m concerned that even if we share the sense of belonging to the Group and the Sumitomo Business Philosophy, the underlying common concepts of our reason for existence and individuality may be weak. Sustainable growth requires a reason for existence and a sense of individuality. In the process of formulating the Purpose, I would like to invite members of various departments and management levels to participate in the discussion, and I would ask them to focus on the social value and corporate value generated by the entire Group, in addition to the values based on the business to which they belong.

I believe that our newly formulated Purpose will not only communicate to outsiders what kind of value we provide, but will also serve as an important guidepost for us to share a common view of what we as a Group are aiming for.

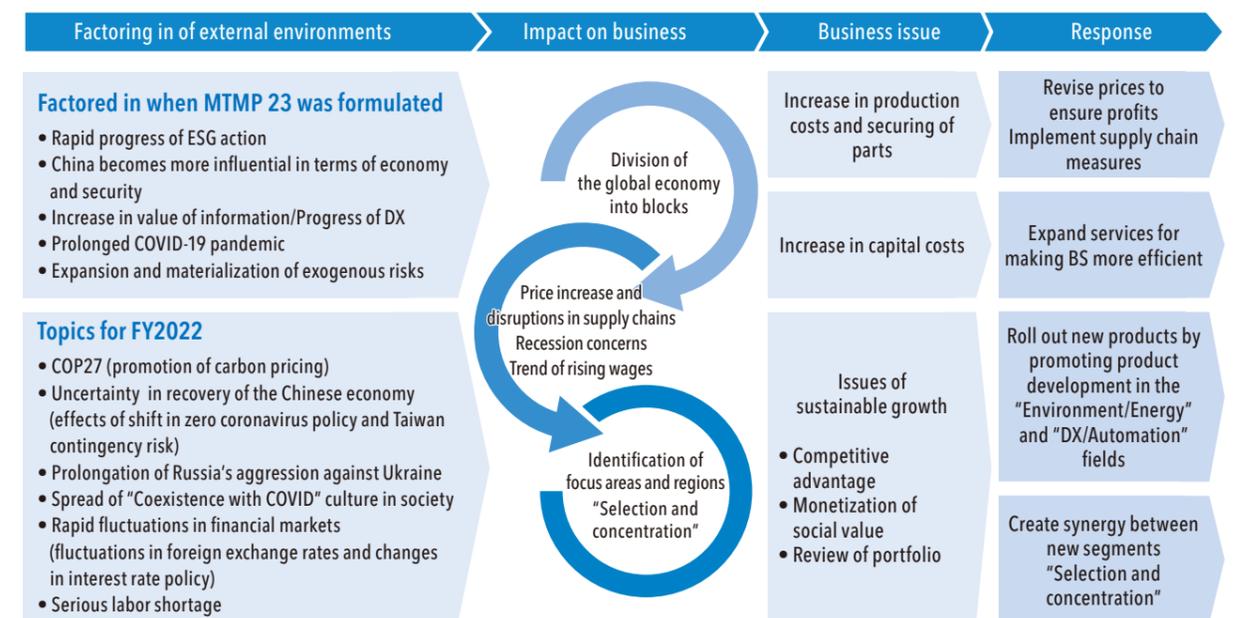
Understanding the Medium- to Long-Term Business Environment

Our Medium-Term Management Plan 2023 (MTMP23), which is currently being implemented, was created by “backcasting” from our 2030 vision. As a result, the plan must focus not only on that period, but beyond it to 2030. For this reason, we are paying more attention than ever to changes in the business environment over the medium to long term and are working to respond to them.

While there have been no major changes in ongoing megatrends such as rapid urbanization, resource scarcity, and demographic change, notable recent developments include the global response to the COVID-19 pandemic that began in 2020 and changes in the external environment related to climate change. Following COP26 (the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change) held in 2021, which set a shared global goal of limiting the average increase in global temperature to 1.5 degrees Celsius, COP27 discussed the promotion of “carbon pricing,” in which companies and other entities bear costs based on their carbon emissions in

order to realize this goal. The Japanese government is also moving forward with the introduction of carbon pricing-related programs. These include an emissions trading scheme which will be fully operational from fiscal 2026 with the goal of encouraging companies to accelerate their emission reduction efforts by trading emission reductions in the market like stocks and bonds.

We are also closely watching ongoing geopolitical instability factors, such as Russia’s prolonged invasion of Ukraine and the risk of China initiating a crisis in Taiwan, as factors that are likely to have an impact over the medium to long term. In addition, the semiconductor problem, which is attributable to geopolitical instability, has led to higher prices for all kinds of procured goods, including materials and energy, and combined with a shortage of manpower, has also driven up labor costs, causing a dramatic shift in our understanding of manufacturing costs over the past year or two. I believe it is necessary to appropriately pass on higher manufacturing costs to our customers and provide them with truly valuable products.





Despite the harsh business environment, we continued to prepare for long-term growth through organizational restructuring and product development in key areas

Medium-Term Management Plan 2023 (MTMP23)

— Results for the Fiscal Year Ended December 31, 2022 —

In fiscal 2022 (the fiscal year ended December 31, 2022), the second year of MTMP23, the accounting period is different from the previous fiscal year due to the shift to a different fiscal year-end. However, compared to the previous year, orders received exceeded ¥1 trillion on a 12-month basis thanks to a robust order environment. While net sales also showed growth, operating profit declined due to rising prices for raw materials and procured goods and the deterioration in profitability of individual projects related to energy plants. In addition, due to the posting of extraordinary losses by the European subsidiary in charge of these projects, including impairment loss and valuation loss

on investment securities, the current profit decreased significantly to ¥5.8 billion. ROIC was also down from the previous fiscal year at 6.2%.

Looking at performance figures like this, the situation may appear dire. However, during this period, we made steady progress in our preparations for long-term growth, including overhauling procurement to control manufacturing costs, restructuring our organization (formal organization of new segments) necessary to generate new growth, and product development in the four key areas of Environment, Energy, Automation, and Digitalization, which we expect to form the core of our growth strategy.

— Forecast for the Fiscal Year Ending December 31, 2023 —

The fiscal year ending December 31, 2023 is the final year of MTMP23, and we expect orders of ¥1.08 trillion, net sales of ¥1.05 trillion, and operating profit of ¥64 billion. Furthermore, current profit is expected to recover to ¥38 billion in the current fiscal year due to the absence of the impact of the extraordinary losses in the previous fiscal year. These forecasts are based on the assumption that market conditions will remain firm, albeit with some regional variations, given the uncertain outlook. Although procurement prices are

expected to continue rising, I believe we will be able to improve profitability to a certain extent by passing on higher costs to customers. There are other risks such as geopolitical risks and excessive fluctuations in exchange rates, but we cannot estimate the impact of these risks at this time, and we will have no choice but to respond with agility.

In the final year of the current plan, orders received and net sales are expected to exceed the targets set at the start of the plan, while operating profit, operating

profit ratio, and ROIC are expected to fall short. Since the main reason for the operating profit shortfall is higher-than-expected cost increases, we will continue our cost containment efforts in the current fiscal year, while also focusing on enhancing earning power by improving quality.

In order to achieve sustainable growth, MTMP23 called for aggressive capital investment, R&D investment to strengthen product competitiveness for growth, and M&A to accelerate growth. In fact, we have made aggressive capital investments centered on our

core businesses, and have also increased R&D expenditures. These investments will bear fruit in the next Medium-Term Management Plan.

Meanwhile, M&A is something I view as a way to buy time and technology for further growth, so I believe that a certain level of M&A is necessary, if not on a 5-year time horizon, then certainly on a 10- or 20-year time horizon. Since few M&A deals that match our requirements emerged in the current medium-term plan period, I do not expect our investments to reach the scale that was initially planned.

Growth Strategy

— Necessity of Strategies Unique to the Sumitomo Heavy Industries Group —

In the past, I served as President of Sumitomo Construction Machinery, one of our Group companies. At that time, the company was faced with the challenge of how to expand its market share in Japan for its flagship product, the hydraulic excavator. One feature our customers were demanding was improved fuel efficiency. Seizing on this requirement as an opportunity for new product development, we were able to increase our sales volume and boost our market share above 10% through a combination of several initiatives, including popularizing the new product in the market,

increasing the number of service personnel, and introducing highly rated products in the used vehicle market, which is an important market for hydraulic excavators. This demonstrates that even when we have a small market presence, we can achieve growth through appropriate strategies. To accomplish this, however, it is more necessary than ever before to create products that only we can make, and to come up with strategies that only we can execute, and in some cases, methods that other companies cannot imitate.

— Promoting Development in Key Areas that Link the Seeds of Businesses —

At present, some critics value the Group at a “conglomerate discount” because of our wide range of businesses, the relatively small size of each business, and the difficulty of seeing the interconnectedness of our businesses from an external perspective. It is true that the Group has a wide range of businesses, and the size of each business is small. However, even if the scale of our businesses is small at present, I believe that if we can demonstrate the Company’s unique characteristics and link together the seeds of our businesses, we’ll have a good chance of creating new businesses and growing them.

In linking together the seeds of our businesses—that is, shaping synergies between the businesses—we will be guided by the four keywords of Environment, Energy, Automation, and Digitalization, which are our key development areas. All four of these areas reflect

the long-term needs of society and are based on technologies in which the Group has a competitive edge.

One of these technologies, related to the Energy area, is the Liquid Air Energy Storage (LAES) system. In this technology area, we have partnered with Hiroshima Gas Co., Ltd. to build a commercial demonstration plant that is scheduled to go into operation in 2025. Additionally, in the area of gear reducers, some products have already been at the stage of commercialization, including products that combine actuators and high-efficiency motors with gears. I believe we can fully expect profit contributions from products in the four key areas in the next Medium-Term Management Plan and beyond, and I am confident that by then we’ll be able to reverse our reputation for conglomerate discounting.

Key areas	Development targets	Actual FY2022
Environment	Develop environmental conservation technologies necessary for sustainable industries (Waste water /waste treatment)	<ul style="list-style-type: none"> ■ New anaerobic treatment technology for which the speed at which high concentration fats and oils are broken down was significantly improved, and desulfurization and power generation technologies based on principles for fuel batteries were developed. ■ To respond to environmental issues caused by plastics, we examined the polymerization process where chemical recycling is performed to reprocess plastic waste into high quality products.
Energy	Develop futuristic technologies towards a decarbonized society (Technologies to use carbon dioxide and waste heat; plant failure diagnosis/operation support technologies)	<ul style="list-style-type: none"> ■ In addition to CO₂ fixation technologies using incinerated ash or algae, development of fuel synthesis technologies was started. Development of waste heat utilization technologies through high temperature thermal energy storage was promoted. ■ Utilization of gasification technology was promoted, construction of an energy storage system demonstration plant was decided and commercialization of CO₂ recovery and utilization technologies was examined.
Automation	Introduce intelligent/advanced moving objects and robot products; promote development towards production technology innovation	<ul style="list-style-type: none"> ■ Development of technologies for operation support, remote control, automation and electrification of construction machinery was promoted. Testing for application to actual machines was performed. ■ The scope of automation of construction and material handling machines was expanded using sensing and information processing technologies.
Digitalization	Improve intelligent technology and information infrastructure technology and implement various intelligent functions in products and services	<ul style="list-style-type: none"> ■ A prototype peripheral monitoring system for construction machinery using sensor fusion technologies was produced. Testing for application to actual machines continued to be performed. ■ Regarding failure diagnosis technologies for construction machinery, trial operation was completed and the next phase started to be considered. ■ Development of condition setting support and automation technologies for industrial machinery was promoted.

Sustainability Initiatives

The SHI Group has shifted from its previous emphasis on financial value to taking social value into consideration. Based on this, we are aiming to increase corporate value in terms of both financial value and social

value. With regard to sustainability initiatives related to social value, we have identified issues in the areas of the environment (E), society (S), and governance (G), and are focusing on initiatives to address these issues.

	Actual FY2022	Issue
Environment (E)	<ul style="list-style-type: none"> • Set the 2030 CO₂ emission reduction target and the 2050 carbon neutrality target • Started procurement of renewable energy • Our group company won the Energy Conservation Grand Prize for its CO₂ emission reduction 	<ul style="list-style-type: none"> • Evaluate risks and opportunities and formulate policies • Followup on the progress of a measure to achieve the CO₂ emission reduction target and carbon neutrality
Society (S)	<ul style="list-style-type: none"> • Formulated a human rights policy and implemented a survey on work environments of technical intern trainees • Strengthen LGBT measures (develop an environment for same sex partnership and transgender people) • Accelerated work style reformation (such as side jobs) 	<ul style="list-style-type: none"> • Strengthen cooperation with suppliers • Address human rights issues in the supply chain • Improve well being of employees and contractors
Governance (G)	<ul style="list-style-type: none"> • Newly appointed a female director • Started the operation of the 4 segment framework by giving substance to it • Adopted a stock based remuneration system for officers 	<ul style="list-style-type: none"> • Further improve governance by outside directors • Expand gender diversity

— Initiatives Related to the Environment (E) —

With regard to the environment, we are working to achieve the 2030 CO₂ emission reduction target and

the 2050 carbon neutrality target. In order to achieve the 2030 target, we are making

In response to rising global awareness of human rights, we are fulfilling our responsibility to protect human rights throughout the entire supply chain



reductions in Scope 1, 2, and 3 emissions. For reductions under Scope 1 and 2, we have begun procurement of renewable energy and implementation of an internal carbon pricing system to accelerate reduction of CO₂ emissions in our production activities. For reductions under Scope 3, we are promoting the

provision of new products such as LAES system to reduce CO₂ emissions during product use. In recognition of these achievements, the CDP, an organization that evaluates climate change response strategies and efforts to reduce greenhouse gas emissions, upgraded our rating from B- in the previous year to B this year.

— Initiatives Related to Society (S) —

With regard to society, we have strengthened our initiatives related to human rights. In response to rising global awareness of human rights, the Board of Directors has adopted a Human Rights Policy that declares our responsibility for human rights not only to our employees but also across our entire supply chain. In addition, we have initiated human rights due diligence to review the status of respect for human rights in the field, including the supply chain, and to address any issues as appropriate. As a first step, last year we conducted a survey of technical intern trainees

at Group manufacturing sites in Japan, and this year we conducted surveys at Group manufacturing sites in Southeast Asia and at their partner companies.

In addition to this focus on human rights, we are also promoting LGBT-related initiatives. In addition to holding study sessions at the executive level, we issued an LGBT-friendly guidebook to promote employee understanding. We are also taking measures such as appealing to LGBT allies and starting to adopt an in-house system for recognizing same-sex partnerships.

— Initiatives Related to Governance (G) —

With regard to governance (G), we focused on initiatives to strengthen the effectiveness of the Board of Directors. One of these initiatives was the appointment of our first female director following a resolution at the General Meeting of Shareholders held in March. I'm sure our newly appointed Director Morita will provide valuable opinions and recommendations to the Company's Board of Directors based on her extensive knowledge in the information network field and

experience as a corporate manager, and I also look forward to her recommendations on gender diversity.

In addition, as an initiative to strengthen its effectiveness, the Board of Directors worked to enhance its deliberations centered on current challenges including management resource allocation, business portfolio strategy, and capital costs. Specifically, we thoroughly discussed the optimal composition of our business portfolio and the optimal setting of ROIC targets in our

Medium-Term Management Plan. I'm confident that the results of these discussions will be useful for the realization of the next Medium-Term Management Plan and our vision for the future.

Equally important to these efforts is the succession plan. It is often said that a president's most important task is to appoint the next president. In this regard, we have enhanced programs focused on fostering

successor candidates. Specifically, we are working to shore up our in-house SHI Group Business School (SBS) and the Management Course not only through outsourcing but through a greater commitment by the President. We changed SBS to a two-year training program for those in their late 40s and early 50s and made the program more practical.

Aiming for Sustainable Growth

In our present time, which can be characterized as an inflection point marked by geopolitical changes, the emergence of various products and services using new digital technologies centered on AI, and growing expectations for companies to contribute to social value represented by the SDGs, the SHI Group has shifted from its previous emphasis on economic value to taking social value into consideration.

Accordingly, one of the goals of the next Medium-Term Management Plan will be to establish a business portfolio framework for solving social issues. Goals are nothing but a meaningless pipe dream until we start to

make steady progress towards their realization. For this reason, in the next Medium-Term Management Plan, we will clearly define corporate value and CSV (creating social value by solving social issues through products and services) and set KPIs as a path to realizing corporate value. In particular, we will set ROIC targets for each segment.

We will solve social issues through our business. Through this process, we aim to achieve sustainable growth by promoting value creation initiatives that balance both corporate value and social value.

We promoted measures to become carbon neutral with the aim of increasing corporate value in terms of both financial value and social value

Representative Director, President and CEO




Hideo Kojima
External Director

Susumu Takahashi
External Director

Akio Hamaji
External Director

As part of its efforts to strengthen corporate governance, the Sumitomo Heavy Industries Group places importance on the perspectives of external directors who offer a wide range of opinions. In the following discussion, the Group's three external directors look back on the past year and discuss, from various perspectives, what we've done and what challenges we face, including progress on the Medium-Term Management Plan 2023 (MTMP23), SHI's sustainability initiatives, and how to proceed with information disclosure.
(Conducted on March 30, 2023 at the Head Office conference room)

Progress on MTMP23

Takahashi Orders and net sales grew in fiscal 2022, supported by relatively robust demand for machinery, but the profit was not satisfactory. Reasons for this include external factors such as the global rise in energy and material prices and difficulties in procuring materials and parts. Although inflation is expected to slow this fiscal year, there are concerns that the global economy's growth potential will decline, and uncertainty remains on the earnings front. Under these circumstances, the challenge remains how to strengthen profitability in order to overcome these severe external factors.

Kojima Due to several changes in the business environment that occurred in 2022, it seems that we have not fully achieved our goals of enhancing profitability and achieving appropriate ROIC management. In 2023,

the final year of MTMP23, we need to formulate measures to address the various issues facing each segment and achieve our targets.

Hamaji Although we are facing a difficult situation in achieving our profit and loss targets, I appreciate the progress we are making in moving closer to our mid- to long-term vision. In particular, on the business side, in January of this year we selected the new segment leaders, and efforts aimed at demonstrating future synergies are taking off in earnest. With regard to ROIC management, each business division has begun a thorough analysis—building an ROIC tree, identifying issues that need improvement, organizing KPIs, and so on—and this is encouraging.

Speed of Corporate Reforms

Hamaji The true purpose of corporate reform, including at SHI, is to expand corporate value while realizing social value. One measure of corporate value is ROIC, and we have closely monitored efforts to improve ROIC. In fiscal 2022, efforts to improve ROIC shifted from Company-wide challenges to business unit-specific ones, and each business unit built an ROIC tree to address the improvement of their respective indicators. Going forward, it will be crucial to select important KPIs that will lead to the creation of corporate value and to have the Board of Directors oversee their progress and speed of improvement.

Kojima I believe concrete progress has been made in corporate reform, including strengthening governance and enhancing sustainability-related operations. On the other hand, due to the many changes in the business environment that occurred within the fiscal year, there was a lack of speed in our selection and concentration of businesses, thorough ROIC management, and initiatives to achieve the goals of MTMP23 in fiscal 2022.

Takahashi In this roundtable discussion last year, I said that to speed up the process, it is important to strengthen our muscles as a company and to strengthen

investment in intangible assets such as human capital. As with athletes, in order to increase speed, it is necessary to strengthen basic physical strength such as leg strength and arm strength to support speed rather than technique. The way to strengthen the basic physical strength of a modern company is to increase its organizational capacity through the enhancement of intangible assets and other means, and I feel SHI needs to

make further efforts in this area.

At the same time, in order to speed up the pace of addressing immediate challenges, it is very important to set up the KPIs appropriately. Improving ROIC is an important goal for the Company, but to speed up our efforts, it is important to quickly identify the drivers that will be the key to improving ROIC, turn them into KPIs, and monitor them.

Approach to M&A

Takahashi At our Board of Directors meeting, we thoroughly discussed M&A not only in terms of strict due diligence but also strategic implications. Even so, the Company has now recorded an extraordinary loss. This is something that we on the Board of Directors should seriously reflect on and admonish ourselves for. Even if the strategic implications of the acquisition have not changed, we should examine our failure to foresee significant changes in the external environment and our ability to effectively respond to the changing environment, and apply these lessons in the future.



Hamaji Regarding M&A, I think we need to examine not only due diligence before the acquisition, but also the business integration process after the acquisition. M&A is an effective means of business expansion, so I would like to continue to discuss minimizing acquisition risk with the executive side at our Board of Directors meetings.

Kojima I don't think there will be any changes to our future M&A strategy or decision-making process as a result of this extraordinary loss. However, when evaluating a target company in terms of its current business and future business plans, we need to consider more factors than before. Specifically, it will be necessary to more rigorously review how future environmental risks, geopolitical risks, and the impact of technological innovation including IT will affect the markets in which the target company is involved, its future earnings forecasts, and the value of the intellectual property it holds.

Initiatives Related to New Product Development in New Areas

Kojima Regarding new product development in new areas, we are investing in development under the themes of "environment & energy" and "automation & digitalization", with product development from a CSV perspective as our challenge, and we are seeing steady progress toward the development goals we have set. However, it remains to be seen whether each of these areas will be on track by the end of the next Medium-Term Management Plan, which is the target year for the market launch of the main products to be developed.

new areas. This is a big commitment, and I feel that awareness of the need to speed up development has increased. In addition to this, I appreciate the development team's increased awareness of the need for speed.

Hamaji I also appreciate that the timing of the launch of products in each priority area of development is now being reported to the Board of Directors. The product development projects that are now reported to us include not only development of existing products for the purpose of differentiation but also products in

Takahashi We need to improve our organizational capabilities in order to create a story for our priority areas and speed up the development of new products. With this in mind, I think the challenge in the new Medium-Term Management Plan will be how to align this long-term story with a short-term business strategy, how to incorporate it into the strategy, and how to secure the management resources to make that happen. It is also necessary to further deepen the discussion on how to utilize DX in this effort.

Sustainability Initiatives

Takahashi In the past, we have lagged behind some of our competitors in our sustainability initiatives. Now, however, as we make progress in improving our internal framework, we are rapidly catching up to them, and we are discussing what we need to do to overtake them. It is important to steadily implement these initiatives and

properly promote them outside the company.

Kojima My understanding is that the long-term value creation story related to "Environment" within the sustainability initiatives was established in the process of promoting sustainability in MTMP23. The challenge

for the future will be to reconfirm the country-specific targets to be achieved by 2030 as presented at COP27 and the role that Japan should play, and how to reflect them in our environmental value creation story.

Hamaji I too appreciate the progress being made in the environmental area. One example is the ongoing project to commercialize liquid air energy storage (LAES) technology, which will contribute to making renewable energy a main source of power. I think that there will be various issues before it can be put into practical use, but if it can be commercialized, it is expected to contribute to the stabilization of the electric power system, which is essential for the spread of renewable energy.



Takahashi I, too, appreciate the progress being made on the environment, not only in developing a system centered on decarbonization, but also in reducing other environmental impacts. Going forward, it will be necessary for the Board of Directors to carefully check whether we can reliably produce results in terms of decarbonization and environmental impact reduction.

Effectiveness of the Board of Directors

Takahashi With regard to the effectiveness of the Board of Directors, each year we conduct a self-check to ensure our effectiveness through questionnaires and interviews with all members of the Board. We also check whether the issues identified in these assessments were appropriately corrected in the following year, and disclose the results in detail. Judging from this process, it's fair to say that we've ensured the effectiveness of the Board.

effectiveness evaluations" (page 61 of the Integrated Report). The meeting of outside officers is deeply involved in the evaluation process, reviewing the content of the questionnaire and interviewing directors and officers. According to the actual evaluation results, there is a growing view that it would be desirable to transition from a so-called "hybrid" board, which aims to balance the business execution function with the supervisory function, to a "managing" board, which places more emphasis on the supervisory function. In the future, we will look for ways to submit and discuss proposals that allow us to better exercise our supervisory function.

Hamaji The most important thing in relation to the effectiveness of the Board is the active exchange of opinions at the Board of Directors meetings. With regard to the Board's skill matrix, I think it became more balanced this fiscal year after we appointed a female external director with a high level of IT knowledge.



Kojima With regard to effectiveness, we have compiled the "Results of Board of Directors

Information Disclosure

Takahashi From the perspective of bridging the gap between internal and external stakeholders' perceptions of the Company and ensuring a correct understanding of the Company's initiatives, I am encouraged by the fact that, in cases where we had been slow to disclose, we are now actively disclosing information, and in cases where we had been unable to disclose, we are reviewing our internal system to enable disclosure and are preparing for disclosure.

be more proactive in disclosing our process of creating corporate value.

Hamaji Like Mr. Takahashi, I too applaud the Company's efforts to disclose information proactively. In fact, our ESG-related assessments by external organizations have been improving. With regard to decarbonization in particular, since announcing our endorsement of the TCFD, we have focused on actively acquiring data with a view to obtaining certification from external organizations. On the other hand, we need to

Kojima To sum up the past year of our information disclosure, I must say that although we are making progress in our internal efforts, we are still being viewed harshly by outsiders. At last year's roundtable discussion, I expressed the opinion that the Company's inadequate disclosure of its intellectual property had negative effects on the assessments of outside investors and the Company's share price. One assessment, benchmarking the stock price movements of other heavy industry companies over the past year, noted that it is important to remove uncertainty about future business performance to increase PBR and to increase the profitability of the business portfolio by presenting clear solutions.

Message from Newly Appointed External Director



I hope to contribute to the creation of value for SHI by drawing on my expertise in diversity and digital technology.

Sumie Morita
External Director

When Sumitomo Heavy Industries (SHI) approached me about serving as an external director, my first question was why they would choose me, a woman. That's because simply having a woman on the Board of Directors does not mean that diversity and innovation will occur. Nowadays, achieving D&I has become an important theme for every company, but the benefits can only be obtained by understanding the "essence" of the need and being able to implement the necessary measures. When they explained why they had chosen me, I was convinced that they understood my characteristics well, and I decided to accept the position as external director.

In the past, I worked for an ICT company, mainly in the development of network systems for overseas carriers. It was a business that did not simply sell the company's own technology, but rather identified the customer's real issues, created value, and provided solutions to social issues. I believe that this way of doing business is in many ways consistent with SHI's management policy. I'm confident that my past experience will help SHI to establish a future orientation to survive in times of rapid change, to transform tacit knowledge into formal knowledge and understand the meaning behind such knowledge, and to realize Purpose Management (our reason for existence).

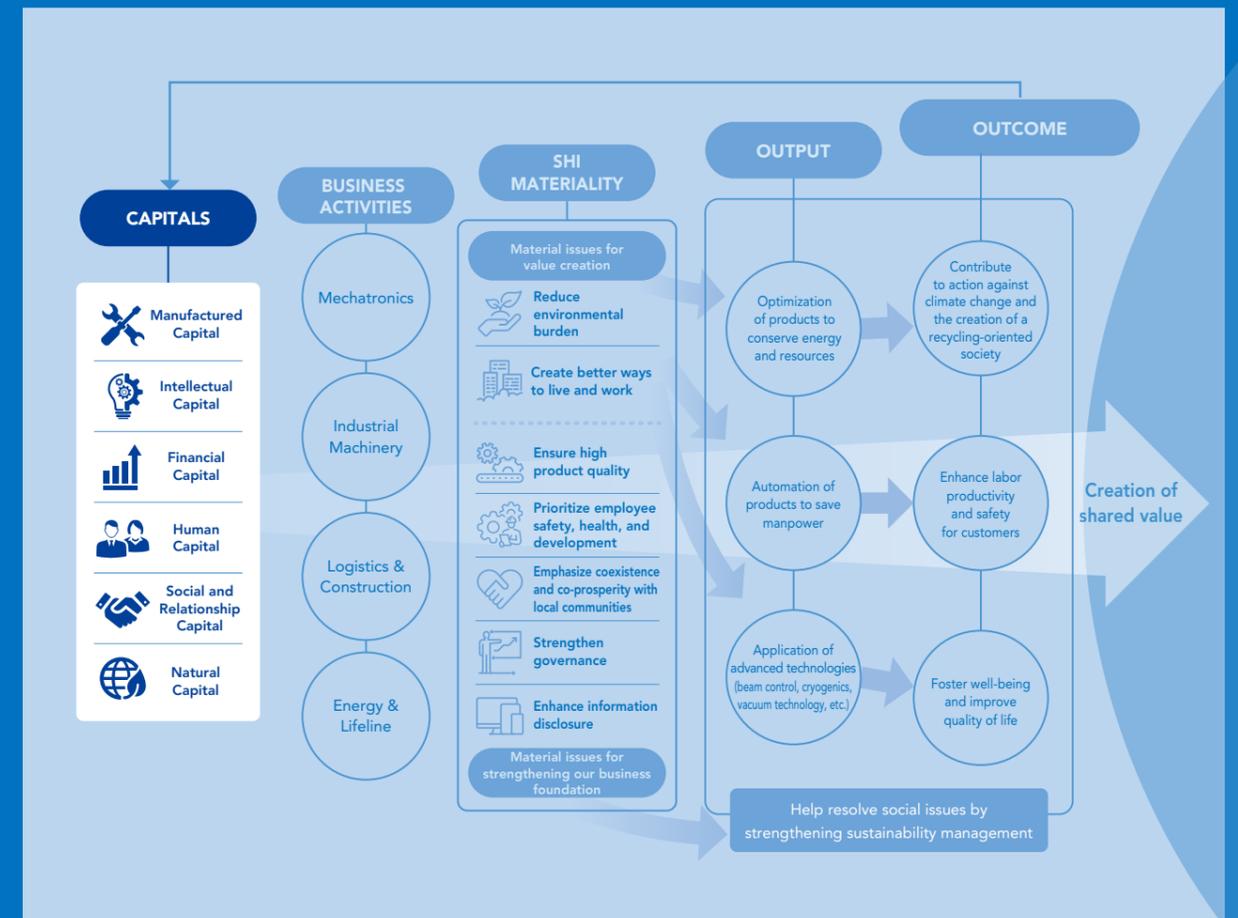
A skill map has been published that details the areas of expertise and expected contributions of

management members, including external directors. However, no matter how much expertise each individual possesses, if they are all moving in completely different directions, they cannot fulfill their responsibilities as external directors. I believe it's important for members to know each other's expertise and respect each other, while at the same time building relationships that allow polar opposites to complement each other in fulfilling their responsibilities. I also believe it's important to work as a team and balance executive officers and directors wisely in order to function well as an organization.

The SHI Group engages in a wide range of businesses both in Japan and overseas, and contributes to the creation of value for a variety of customers, even in fields that are invisible to end users. Currently, we operate in four newly defined business segments, and I believe that these four business segments are not independent, but interconnected, and that the entire organization should grow in accordance with a single strategic narrative, and I am convinced that doing so can trigger new innovation. As a result, I believe we can continue to be a company that creates value for a variety of customers in a sustainable manner while maintaining the Group's unique identity. For my part, I hope to contribute to the creation of value for the SHI Group by drawing on my expertise in diversity and digital technology.

CAPITALS

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



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

Domestic manufacturing divisions:

7

Total capital investment (MTMP2023) over three years (planned):

Major domestic subsidiaries' manufacturing companies:

18

125.0 billion yen

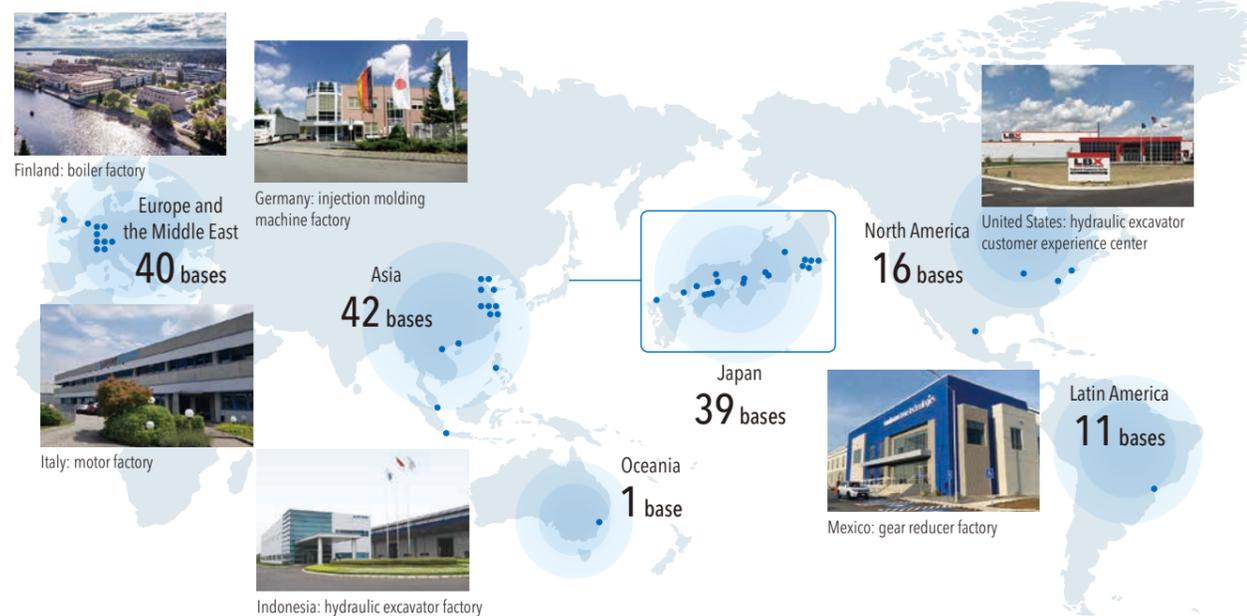
(Total capital investment under the previous MTMP over three years: 127.6 billion yen)

Major overseas subsidiaries' manufacturing companies:

30

A Production System That Aims to Supply Excellent Products to the World

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



Focused Investment in Businesses We Seek to Expand

In fiscal 2022, we invested a total of 36.5 billion yen* in capital. In 2023, we plan to invest 56.3 billion yen* in capital, including IT infrastructure development and production facilities mainly aimed at increasing our production capacity and productivity.

In terms of our growing business, we are focusing on investing in the Mechatronics segment and Industrial Machinery segment.

* Actual figures are based on cash flow, while forecast are based on budget.



Semiconductor production equipment: new factory (Construction completed in October 2022)

Ensuring Product Safety and Product Quality

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

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

Evolving our quality management system through audits

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

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



Manufacturing site inspection by the Representative Director, President & CEO

Setting up an employee education system

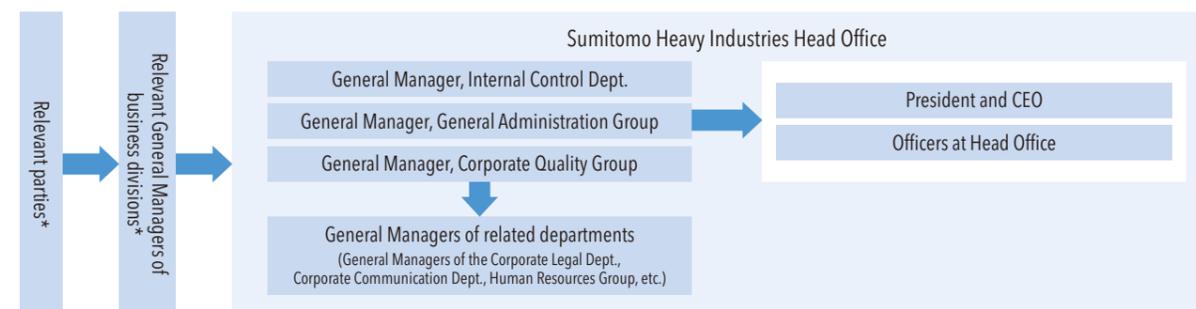
The SHI Group considers the assurance of product safety and quality to be a key priority that all employees should be deeply conscious of. In general, quality control education will be conducted for all new employees (including new graduates and career hires) when they join the company. We have also introduced the Six Sigma, an internationally recognized process improvement approach, as our shared quality reform framework, and we conduct practical education every year to raise awareness of this concept throughout our Group. In fiscal 2022, 72 employees have completed the Six Sigma education module.

Rigorous quality compliance

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

Reporting flow in the event of product accidents, etc.

To prepare for the possibility of serious accidents caused by the products our Group delivered—such as fire accidents or accidents resulting in personal injury or fatality—we have defined a reporting procedure/flow in the Sumitomo Heavy Industries Group Emergency Contact Guidelines to help ensure prompt communication with our top management, the ability to obtain accurate information, and the ability to respond swiftly and appropriately.



* This includes the Sumitomo Heavy Industries Head Office, works, branches, business divisions (including Japanese and overseas subsidiaries and affiliates), subsidiaries and affiliates (including Japanese and overseas subsidiaries and affiliates) over which the Head Office has jurisdiction, and overseas SHI offices.

Strengthening our product capabilities to achieve sustainable growth

Total R&D expenses (MTMP2023) over three years (planned):

68.0 billion yen

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

Intellectual property activities aimed at creating a competitive advantage

Total number of patents obtained:

7,494

Number of patents obtained overseas: **3,646**

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

Toshihiko Chijiwa

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

We are aggressively pursuing R&D in growth sectors with the aim of building a resilient enterprise and playing a role in tackling social issues through our products and services. In addition, we are keeping a close eye on markets, megatrends, and our clients as we backcast from a longer term perspective and work on R&D. We also emphasize intellectual property as a source of competitive advantage for the SHI Group, and we seek to conduct intellectual property activities in coordination with our R&D efforts.



Our R&D Strategy

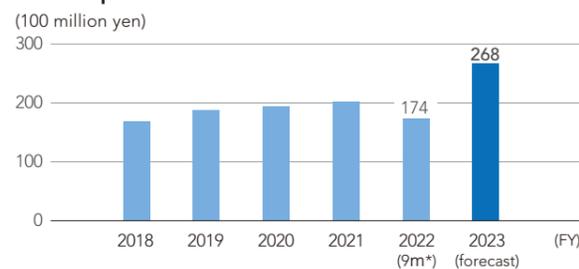
In MTMP2023, we have identified “environment & energy” and “automation & digitalization” as our priority areas. To achieve sustainable growth, we are pursuing strategic R&D—including synergies between new segments—as we look ahead to the medium and long term.

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

In particular, the key issues identified for the entire Group include improving energy efficiency and taking action against climate change, addressing our aging society and declining birthrate as well as the shortage

of labor, and promoting a circular economy.

R&D expenses

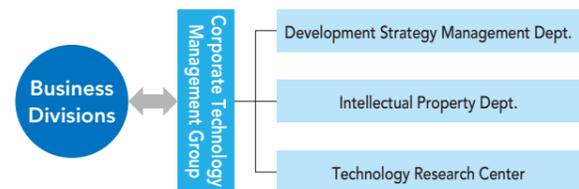


*Actual figures are based on P/L, while projections are based on corporate decisions. *Here, (9m) indicates the results for nine months.

R&D Framework

For new product development, we are promoting activities with close coordination between business divisions and the Corporate Technology Management Group.

We are also implementing an integrated development process that involves conducting basic technology and elemental technology development in advance at the Technology Research Center and commercialization development in our business divisions.



● 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.

Intellectual Property Strategy

Based on Basic Intellectual Property Policy 23, our Group promotes the enhancement of intellectual property management for our products and services aimed at helping to resolve social issues. More specifically, to facilitate the growth of our Group, we are focusing on acquiring intellectual property rights related not only to our products but also to our future service business.

In addition, aside from simply utilizing the intellectual property rights we acquire to ensure the competitive advantage of our Group’s business, we are working on effectively utilizing these rights from the perspective of increasing social value, such as by transferring related licenses to companies that need them.

Basic Intellectual Property Policy 23

“We will use intellectual property to protect our products and services aimed at helping to resolve social issues, and we will also utilize this property to contribute to sustainably increasing corporate value.”

Framework and Organization

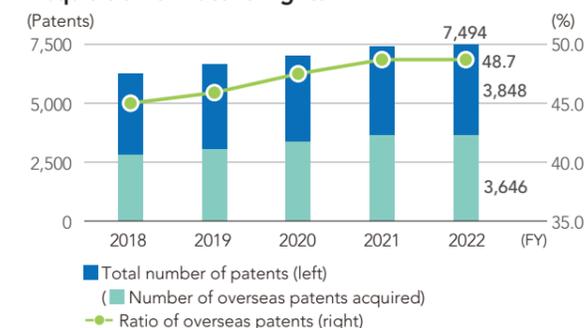
Our Group emphasizes intellectual property as a source of our competitive advantage, and we conduct intellectual property activities to create new business and innovation in cooperation with product planning, R&D, service divisions, and other divisions.

In terms of these activities, our Executive Vice President and General Manager of the Corporate Technology Management Group acts as the Executive & Operating Officer. In addition, to help ensure that intellectual property activities proceed more smoothly and effectively throughout the entire Group, we have assigned chief intellectual property officers (CIPOs) to each business division. Our Head Office Intellectual Property Department also acts as the Secretariat to organize CIPO meetings and Intellectual Property Review Board meetings in an effort to help activities progress according to our business, share experience and information between business divisions, and

otherwise facilitate Group-internal cooperation.

To achieve superiority in terms of our overseas business expansion as well, we are also taking steps that include increasing our overseas patent-right acquisition rate in major market countries.

Acquisition of Patent Rights

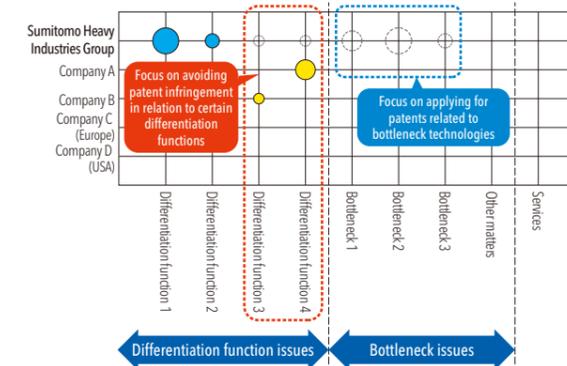


Intellectual Property Activities

Based on our medium to long-term business strategy and the topic of future new business, we are working on formulating the best possible intellectual property portfolio, and we are conducting activities to protect our intellectual property in anticipation of R&D related to bottleneck technologies as well as assumed differentiation functions.

In addition, we have introduced intellectual property value analysis tools, and we are conducting activities that include analyzing our intellectual property strength for specific businesses and products as well as searching for new business and partners in accordance with the IP landscape.

Strategy Based on Our Intellectual Property Portfolio Map (Conceptual Figure)



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

Stockholders' Equity Ratio

49.5%

(as of end of December 2022)

Net Interest-Bearing Debt Ratio

5.5%

(as of end of December 2022)

ROIC
(Return on invested capital)

6.2%

(fiscal 2022)

Message from the General Manager of Corporate Finance, Accounting & Administration Group

We will support the transformation to a desirable business portfolio from a financial perspective

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



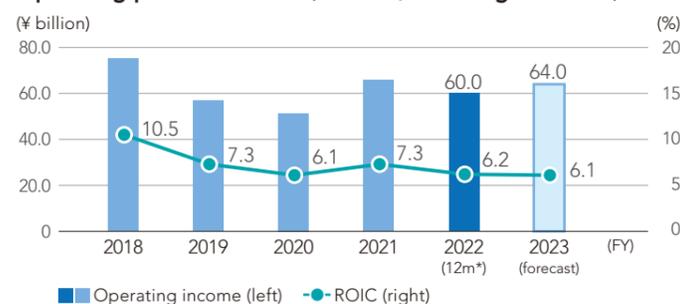
Promoting ROIC Management

Sumitomo Heavy Industries (SHI) is committed to promoting ROIC management. ROIC in fiscal 2022 was 6.2%, which is worse than the previous fiscal year, and unfortunately far from the target of 7.5% set at the start of the Medium-Term Management Plan. Our current decline in ROIC is disappointing considering that SHI was among the first companies to adopt ROIC as a management index. The decline is clearly attributable largely to a decline in the profitability of existing businesses, in addition to aggressive investment in recent years. I believe the solution, in addition to looking at the ROIC trends for each business and debating the good and the bad, is to set intrinsically appropriate ROIC hurdle rates on a segment-by-segment basis and then further discuss what needs to be improved in each business.

Meanwhile, in each segment, we will also seek new businesses for future growth. Naturally, the appropriate ROIC value differs between new businesses in the startup stage and existing businesses. It would be counterproductive to become so fixated on the ROIC hurdle rate that we become reluctant to explore new business opportunities. If we can expect growth in the long term and achieve high

ROIC in the future, I believe a low ROIC in the short term is acceptable. Thus, in the next Medium-Term Management Plan, in order to concurrently manage the business portfolio and explore new businesses by setting the hurdle rates, we intend to appropriately manage the ROICs set on a segment-by-segment basis and strive to improve ROIC on a consolidated basis, while at the same time establishing medium- to long-term growth scenarios for each segment business, keeping in mind the time horizon. Through these efforts, I hope to promote ROIC management that is compelling both internally and externally.

Operating profit and ROIC (FY2023, including forecasts)



* (12m) indicates the 12-month reference value.

Business Portfolio

One of the major themes of the current Medium-Term Management Plan is revamping our business portfolio framework and establishing a system to create growth-ready businesses by taking advantage of synergies in terms of products and technologies handled in new market segments. In this regard, we formally organized the segments in January 2023. Each new segment will now draw up its own sustainable growth scenario, which will be reflected in the next Medium-Term Management Plan.

It is my understanding that this consideration of growth scenarios within each segment is just now getting up to speed. In addition, although net sales

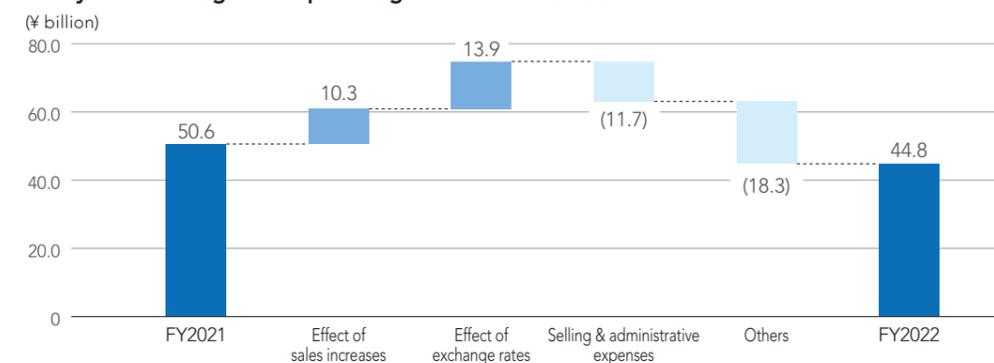
increased in fiscal 2022, this was not accompanied by sufficient profitability. Right now, we're prioritizing exploring new businesses and identifying common challenges for growth that will unleash synergies between businesses in each segment. However, in my opinion, there has been insufficient discussion on how to optimize the composition of business units within each segment. In the next Medium-Term Management Plan, I believe it will be necessary to further clarify the positioning of each segment and then present a policy for creating a desirable business portfolio from the perspective of overall optimization.

Operating Results for Fiscal 2022

In fiscal 2022, orders received were ¥984.7 billion, net sales were ¥854.1 billion, operating profit was ¥44.8 billion, and current profit was ¥5.8 billion. When compared to the same period of the previous year, adjusted for the irregular nine-month accounting period due to a change in the fiscal year end, orders increased in all segments due to robust demand for machinery. Net sales increased except for the Energy & Lifeline segment thanks to generally firm market conditions, although production constraints remained due to difficulty in procuring parts. On the other hand, operating profit declined due to rising prices for raw materials and procured goods and the deterioration in profitability of energy plant projects in Europe. Current profit fell sharply due to extraordinary losses of ¥26.4 billion.

The main components of the extraordinary losses were impairment losses on intangible assets, including goodwill, at our past acquisitions of SFW and LMS and a loss on valuation of investment securities from our investment in Highview. We had acquired SFW, a biomass boiler company with a large sales volume, as part of our quest to find and develop growth businesses in the energy sector, but unexpected changes in the business environment caused its business performance to deviate significantly from the initial business plan, resulting in the posting of a loss. In this case we recorded it as an impairment loss because it takes time for new businesses to grow. However, our intention to seek growth in the energy sector remains unchanged since the acquisition of SFW.

Analysis of Changes in Operating Profit for FY2022



Outlook for Fiscal 2023

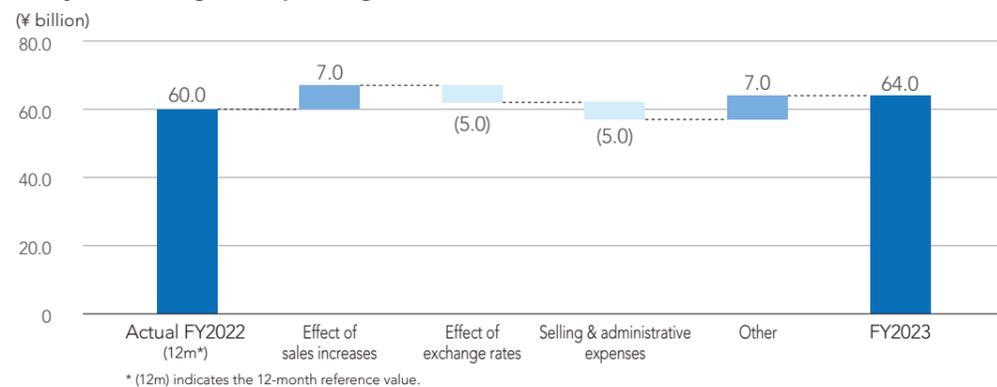
In fiscal 2023, we expect orders of ¥1.08 trillion, net sales of ¥1.05 trillion, operating profit of ¥64 billion, and net income of ¥38 billion. With regard to orders, although market conditions are expected to remain generally stable with some regional variation, I expect a year-on-year (12-month equivalent) decrease as a recoil from the increase in the previous fiscal year. With regard to net sales, although procurement of parts and supplies continues to be difficult, sales are expected to increase in all segments except for Energy & Lifeline due to the large order backlog. With regard to operating profit, although net sales are expected to increase, improvement is likely to be limited due to the impact of foreign exchange rates and the lingering effects of higher prices for raw materials and procured goods in some products.

We are working to pass on higher raw material and

other procurement costs by reflecting them in the selling prices of our products, and expect a certain improvement in profitability, but it will take time to fully cover the increased costs. Disruptions in the supply chain will have a residual impact on some products, including hydraulic excavators. I believe that supply chain issues will continue to affect us through the end of this year and possibly into the first half of 2024. In order to resolve procurement difficulties, in 2022 we began expanding centralized purchasing at the head office.

In recent years, in addition to direct risks such as COVID-19 and the Russia-Ukraine problem, risk factors have been spreading rapidly, and it has become difficult to incorporate them into forecasts and long-term plans. However, we are doing what we can, such as systematically building business continuity plans for supply chains in response to these risks.

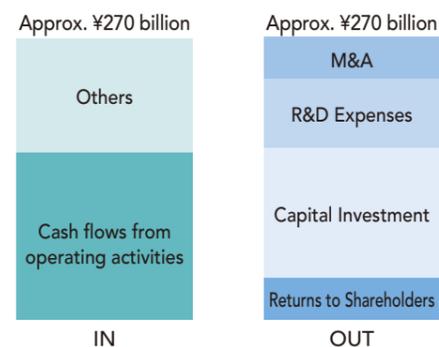
Analysis of Changes in Operating Profit for FY2023



Approach to Cash Flow

With regard to cash flows under the Medium-Term Management Plan, although cash inflows, particularly cash flows from operating activities, will decrease due to our business scale expansion and increase in working capital, free cash flow is expected to be positive due to lower than expected cash outflows from investments. As for cash outflows, while capital investment is a little behind schedule, we are making the high level of investment we envisioned through steady execution. Given our financial position, we have ample investment capacity, and we intend to continue to invest aggressively in the next medium-term plan while paying attention to return on investment.

Overview of Cash Allocation under the Medium-Term Management Plan



Investment Plans

With respect to our plans for capital investments and return on M&A investments, we carefully assess each circumstance and make decisions based on strategic considerations. Capital investment is determined on a case-by-case basis, with some decisions based on a payback period of about two years and others based on a payback period of about five years. When it comes to new businesses, projects that are currently under development are expected to be commercialized around 2030, which means that, as a rough estimate,

we will go through approximately two medium-term management plans before entering the stage of investment recovery.

Regarding M&A investment decisions, some external directors have pointed out that we should set a clear hurdle rate for earnings relative to investment. In response to this feedback, starting with the next Medium-Term Business Plan, we will set and manage ROIC hurdles for each segment. I believe this is necessary to realize our vision.

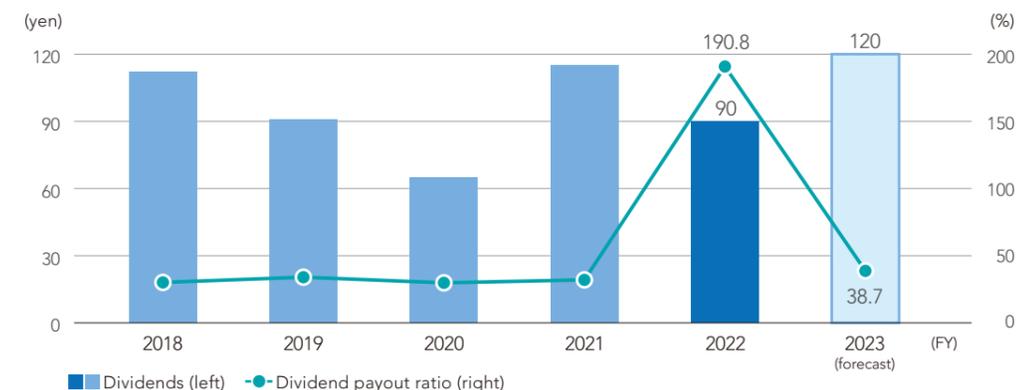
Returns to Shareholders

The Company's basic policy is to maintain a dividend payout ratio of 30% or more, with the aim of gradually raising the dividend payout ratio to around 40% as earnings improve. In fiscal 2022 we paid an annual dividend of ¥90 per share. As a result of the extraordinary losses and significant decline in net income, the dividend payout ratio amounted to 190.8%.

We hope that by paying stable dividends, our

shareholders will feel more secure in their shareholdings. Considering the special nature of the impairment loss in the downturn in net income on this occasion, we prioritized paying a stable dividend in line with the originally announced amount. In fiscal 2023, we aim to pay an annual dividend of ¥120 per share (payout ratio of 38.7%).

Dividends and dividend payout ratio (including FY2023 forecast)



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

Number of employees: **25,541**

Annual training expenses per employee: **53,222 yen**
(consolidated Japanese result)

Annual training hours per employee: **11.1 hours**
(consolidated Japanese result)



Message from the General Manager of Human Resources Group

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

Kazutoshi Shiraishi

Executive Officer & General Manager of Human Resources Group



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

Our Human Resource Strategy

The management of human resources is a particularly significant theme for our Group in order to accelerate globalization and to continue providing first-class products and services that meet the needs of society. Based on our ethos of "Our Business Is the People," which runs throughout the Sumitomo Group, we have established the SHI Group Human Resource Policy and are promoting initiatives for employees to grow alongside the Company. In addition, we believe that employee health management is fundamental to the sustainable

growth of the Group, and we pay the utmost attention to employee health and safety, such as by taking a proactive approach to promoting health management while striving to create a workplace where safety is the top priority in all our business operations. In our diversity promotion activities, we are focusing on creating a workplace where diverse human resources can thrive through our various initiatives, including empowering women in the workplace, encouraging work-life balance, and fostering respect for LGBT individuals.

SHI Group Human Resource Policy

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

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

Nurturing Talents

We aim to build a human resource/organizational management system based on the SHI Group Human Resources Policy that allows for the fair and convincing evaluation and treatment of employees. We also strive to provide opportunities that support the autonomous growth and career development of our employees, and we simultaneously endeavor to enhance our foundation for human resource development, such as by fleshing out programs that can be applied in practice.

Career development and our evaluation process

At the Company, each employee has the opportunity to have a target setting interview with their superior at the beginning of each fiscal year to set targets for that year. At the end of each fiscal year, they also have an achievement interview to discuss achievement results with respect to the corresponding targets. In addition, aside from simply evaluating these achievement results, assessment results are provided to each employee as feedback to motivate them and help them to succeed during the next and subsequent fiscal years.

During the above interviews, employees also have the chance to discuss how their career development and other goals mesh with the needs of the company, and we strive to achieve effective human resource development and utilization as well as suitable human resource allocation throughout our organization.

Training and education

Fostering a culture of nurturing

In terms of developing our management personnel, we strive to provide practical training and knowledge that is effective for management even as we work on enhancing our ability to develop such personnel in the workplace.

We have also introduced a new, highly convenient training management system and are working on establishing an environment that makes it easy for anyone to learn in order to actively provide our employees with the opportunities to achieve self-directed career and skill development. Our employees can also freely select business skill courses to take at SHI Open College. In the area of specialized technical training, we offer 80 courses in the fields of machinery and materials, electrical

equipment and electronics, control systems, software, information, and production technology, with a focus on hands-on practical training courses.

Development of management personnel

We are continuing to develop management personnel by selecting business-leader candidates from each of our Group's departments and educating them via the Sumitomo Heavy Industries Business School (SBS) or Management Course. Through our programs which include opportunities to engage in dialogue with our senior management, sessions with external leaders, attendance by external coaches, and discussions as well as other forms of interaction with human resources from other companies, we strive to improve the abilities necessary for management personnel and foster the right management mindset.

Digital transformation (DX) human resource development

The SHI Group's DX Vision is to "utilize the power of digital technologies to make workplaces around the world more comfortable and bring happiness to everyone involved." To provide more value to society and our customers through our products and services, we believe it is important to work on DX in every one of our business domains. To provide DX education, we have long offered specialized technical training, DX planning workshops, and other forms of training. In addition, in fiscal 2022, we started providing DX literacy education throughout our Group in order to ensure that all of our employees are aware of the effectiveness of utilizing digital technologies and to foster a corporate culture capable of flexibly responding to changes in our business environment.

SHI Group's DX Grand Design



Major Educational Programs Related to DX Human Resource Development

Program	Format, characteristics, etc.	Scale	Objective
DX planning workshops	Utilization of Company-external resources Workshop format	5 teams	Cultivation of business planning ability
[Expertise engineering education] Selective courses (information systems)	One-on-one training Project Based Learning	5 students	Cultivation of first-class engineering ability and problem-solving ability
[Expertise engineering education] General courses (information systems), etc.	Practical group training	10 courses, 20 to 30 students each	Cultivation of specialized engineering ability
DX literacy education	E-learning Brainstorming training	SHI Group: 8,500 students (approx. 70% of all employees in Japan)	Cultivation of literacy

Developing the Organization

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



Engaging in dialogue as part of PRIDE PJ

Work Comfort and Motivation

As an organization that operates globally, the SHI Group strives to provide appropriate work conditions and environments based on the SHI Group Human Rights Policy in addition to complying with the laws and regulations of each country, including those concerning working hours and wages, and otherwise promotes the creation of better work environments.

Workstyle reforms

We believe that achieving both comfort and motivation in terms of work is important for each and every employee to make the most of their unique traits and capabilities. We are promoting the development and implementation of various systems that support efficient workstyles as well as the childcare, nursing care, and self-directed activity needs of employees.

Flexible work hours and teleworking

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

Designation of “no overtime” days

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

Promoting the use of paid vacations and accrued leave

Employees are granted 22 paid vacation days each year. Any paid vacation days not used during their validity period can be used for purposes such as fertility treatment, childcare, nursing care, volunteer activities, etc., in the form of accrued leave.

Promoting the use of childcare leave and shorter working hours for employees with childcare needs as well as paternity leave

Employees may take childcare leave until the end of March in the year their child reaches three years of age. In addition, we endorse the 100% Paternity Leave Declaration that has been promoted by Work-Life Balance Co., Ltd. since February of 2023, and we are striving to foster a culture that enables employees who recently had children to take childcare leave. Flexible work arrangements, including shorter working hours and fewer working days, are also available until their child graduates from elementary school.

Side jobs (additional career system)

We have introduced an “additional career system” under which side jobs are approved for employees who satisfy certain requirements due to our belief that by engaging in self-directed activities, learning, and demonstrating their abilities in environments that differ from the Company, they gain diverse knowledge, skills, experience, personal relationships, and other advantages they cannot gain in-house, ultimately leading to self-realization through activities that give them motivation and a sense of purpose, autonomous career development, and the ability to give back to and innovate in terms of their main job.

Respecting Diversity

The Diversity Promotion Declaration

The SHI Group considers diversity to be an indispensable foundation for its growth. We therefore respect differences in the traits and attributes of each person (e.g., age, nationality, birthplace, gender, gender identity, sexual orientation, sexual expression, the presence of disabilities, etc.), and we strive to foster an organizational culture and set up a work environment to allow every one of our diverse employees to reach their maximum potential and to work enthusiastically. We have formulated the SHI Group Diversity Promotion Declaration, and we have continued to promote initiatives centered on the three pillars of “raising awareness,” “revising existing systems,” and “improving the environment” as set out in the declaration.

Efforts to promote career development for women

As our Group has a high proportion of male employees, promoting the active participation of women is key to our medium- to long-term growth. Therefore, we have specified this as one of our KPIs in management and launched various initiatives on this front. In 2015, when we started our initiatives, we only had 12 female managers (1.4%), but we had 32 (2.8%) in January 2023, which shows a steady increase. We will continue to focus on the career development of women.

- Providing training related to the subconscious bias related to level-specific training
- Conducting diversity management training for managers
- Dispatching employees to J-win, an NPO, as part of our efforts to strengthen the development of female managers
- Supporting career development by having the HR department conduct one-on-one interviews with women prior to their promotion to management positions as well as their superiors and creating development plans
- Conducting seminars to support employees returning to work after childcare leave and conducting interviews with their superiors about returning to work

Efforts to enable foreign employees to play an active role

Along with the globalization of our business, we are

actively recruiting human resources of different nationalities. We have set up a support system to ensure that our foreign employees can work with peace of mind even after leaving their home countries.

- Personalized support for daily needs
- Japanese language education
- Religion-related provisions

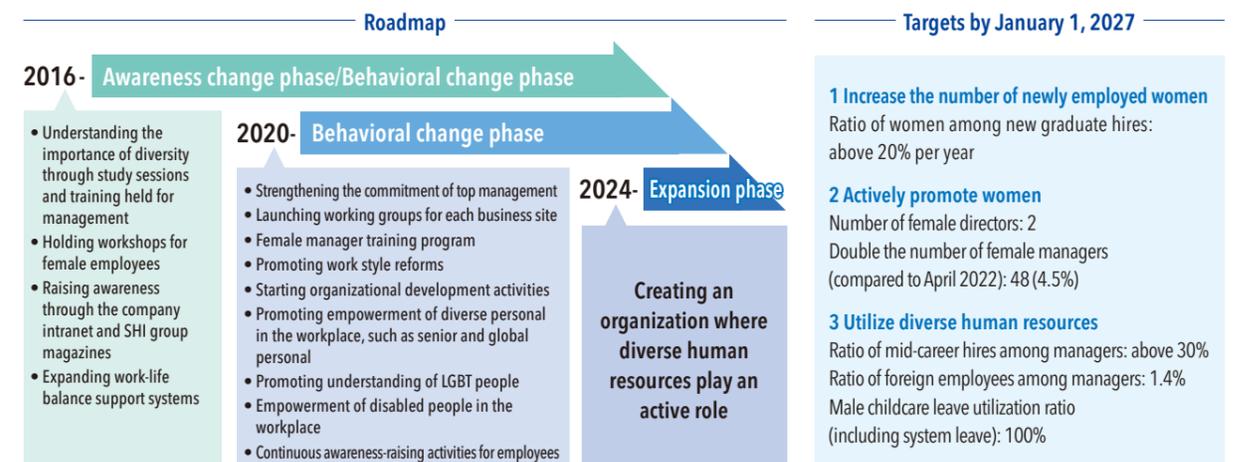
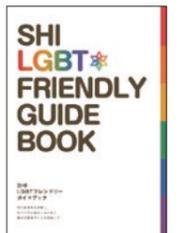
Efforts to ensure the stable employment of disabled individuals

- Cleaning and greening teams (Yokosuka Works)
These teams are responsible for cleaning areas and maintaining the greenery around manufacturing sites.
- SHI Iki-Iki Farm
Vegetables cultivated at our farm are harvested and sold to employees at sales events. All proceeds are donated to non-profit organizations that support the development of children.

Efforts to ensure that LGBT persons are comfortable working for us

We are pursuing initiatives from two angles: “education and awareness raising” as well as “systems and infrastructure.”

- Education and awareness raising
We have invited external speakers to deliver lectures to our Group’s officers, employees, and HR personnel to deepen their understanding of LGBT issues. In addition, we distribute pamphlets aimed at promoting the understanding of LGBT issues among all our employees, we distribute awareness raising articles through our in-house newsletter and email newsletter, and we create LGBT ALLY stickers and distribute them to employees who support this cause.
- Systems and infrastructure
Aside from adding same-sex partners to the coverage of our in-house systems, we have changed the name of our multipurpose restrooms to “restrooms for everyone” to show consideration for transgender and other persons, and we also set up fitting boards for changing clothes in these restrooms.



Health Promotion Among Employees

Promoting health management

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

The SHI Group Health Declaration

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

Promotion of data-based health and collaborative health

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

Promotion of mental health measures

We implement regular stress check tests and then conduct interviews, etc. based on the results. In addition, mental health training is also conducted at each business location by both our internal occupational health staff and through

external support programs.

Measures to combat cardiovascular diseases

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

Measures to combat COVID-19 and other infectious diseases

Ever since the COVID-19 outbreak, we have been providing our employees with the latest information and taking necessary steps to prevent the spread of this disease. We also raise the awareness of and draw the attention of our employees traveling or assigned overseas to malaria, HIV, tuberculosis, and other global health issues.

Our Company has been recognized as a “Certified Health & Productivity Management Outstanding Organization 2023 (large enterprise category)”*1 jointly selected by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi.

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



* Our Company has been recognized as a Certified Health & Productivity Management Outstanding Organization for three consecutive years (from 2021 to 2023).

Expanding the acquisition of ISO 45001 certification

To improve our occupational safety and health management system, we are promoting the acquisition of ISO 45001 certification at various sites. Around 70% of our major manufacturing sites have successfully obtained this certification.

Efforts to promote health and safety

When we divided occupational accidents that occurred within the SHI Group based on the number of years of experience of the victims, we discovered that in over half of the cases, the victims had five or fewer years of experience, and this number had been increasing every year since 2018. Therefore, in 2021, we started shifting from traditional classroom-based learning to hands-on education intended to increase the sensitivity to danger or our inexperienced workers in particular, and we established hands-on training facilities at our major factories.

Making Safety Our Top Priority

Creating a safe and secure workplace

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

The SHI Group Basic Safety and Health Philosophy

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

Confidence in the “Sumitomo” Brand and Management from the Perspective of Our Stakeholders

Number of suppliers

6,230 companies

(as of end of December 2022)

Confidence in the “Sumitomo” Brand

Sumitomo’s foray into its businesses of copper refining, copper trading, and copper mining began with the opening of the Besshi Copper Mine in Shikoku, which is one of the four main islands in Japan, in 1691. This was followed by the establishment of the SHI Group in 1888 to handle the mechanical operations at the Besshi Copper Mine by manufacturing and repairing the machinery and equipment used at the mine. As a company deeply rooted in the Sumitomo family, our Group has worked to create a better society for over 130 years in line with the Sumitomo Business Philosophy by embracing our mission to ensure that our business must not only benefit Sumitomo but also the nation and the society at large.



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

Responsible Procurement

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

In addition to ensuring fair, equitable, and transparent transactions, we seek to promote responsible procurement

along with our business partners in the spirit of respect for human rights, compliance, and environmental conservation. More specifically, we have established and are disseminating CSR Procurement Guidelines, conducting supplier and on-site surveys, providing CSR procurement education to our employees, and taking similar action.

CSR Procurement Guidelines (Overview)

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

- | | |
|--|---|
| 1 Human rights, labor practice, Occupational Health and safety | 4 Improvement of product competitiveness and customer satisfaction |
| 2 Open and fair competition and trade practices | 5 Consideration for the environment |
| 3 Compliance with laws, regulations, and social ethics | 6 Information disclosure to promote communication with stakeholders |

Implementing on-site supplier surveys

In March of 2023, we conducted an on-site survey related to the working environment targeting one of our Group’s important suppliers in the Philippines. We conducted this survey in collaboration with The Global Alliance for Sustainable Supply Chain (ASSC), an NGO that supports the building of sustainable corporate supply chains. We did not identify any current or imminent human rights issues related to human rights violations, safety, or human health as a result of the survey.



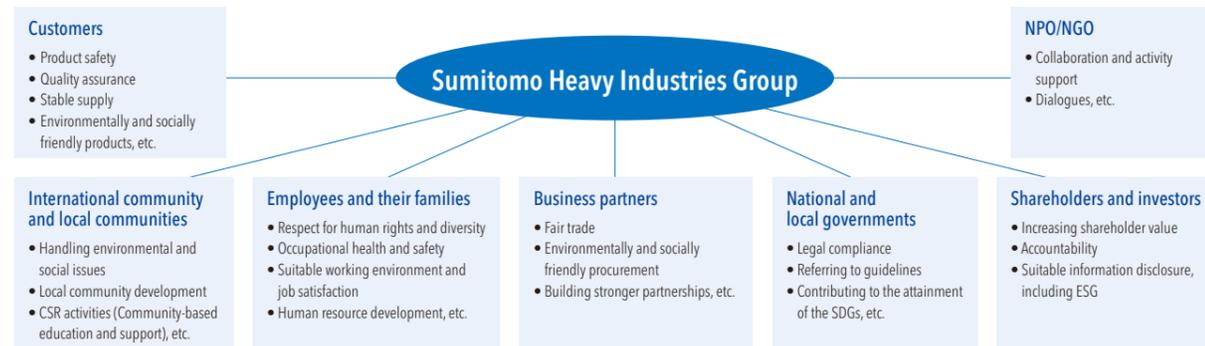
An interview by the ASSC

Stakeholder Engagement

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

with stakeholders, we also strive to foster greater understanding and confidence in our Group through appropriate information disclosure.

Our major stakeholders and our responsibilities to them



Engagement approaches

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

TOPICS

TOPICS Dialogue with Nishitokyo concerning carbon neutrality

Date : December, 16, 2022

Place : Tanashi Works

Attendees : Mr. Ikezawa (Mayor of Nishitokyo), Mr. Kayano (Vice Mayor of Nishitokyo), the General Manager of our Tanashi Works, the General Manager of our Sustainability Department, etc.

Outline : Overview: In February of 2022, on the occasion of Nishitokyo's—the home of Tanashi Works—announcement of its Zero Carbon Declaration, we decided to engage in dialogues on the topic of dealing with climate change, and we specifically exchanged opinions on initiatives to achieve carbon neutrality by 2050 as well as related issues to address. In addition, we explained the fact that our Company opened part of the forest on the site of Tanashi Works to the citizens as a place of relaxation, and we called it *Hasso no Mori* (literally: the Forest of Inspiration). We also explained and obtained opinions on our initiatives to contribute to the local community, including the plant tours we offer to nearby elementary school students.



Left: Mr. Ikezawa Right: Mr. Kayano



Tanashi Works: Hasso no Mori

Our Initiatives to Reduce Environmental Burden

Energy consumption

506,468
MWh

Renewable energy consumption

14,503
MWh

Water consumption

1,530
thousand m³

Key Environmental Priorities

- Enhancement of environmental risk management
- Reduction of CO₂ emissions with actions addressing climate change taken into consideration
- Reduction of environmental loads in business activities
- Preservation of biodiversity

We believe that addressing global environmental issues, including climate change, is the responsibility of the SHI Group, which engages in business activities on a global scale. As our business is founded on the provision of industrial machinery to support our customers' production activities, we believe that improving the environmental performance of our products and services will contribute to the realization of a

decarbonized society and enhance the competitiveness of our products. In view of this, we are working to reduce our environmental burden in line with the Sumitomo Heavy Industries Group Environmental Policy through a two-pronged approach that includes reducing the environmental burden of our business activities and improving the environmental performance of our products.

Sumitomo Heavy Industries Group Environmental Policy

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

The policy now contains more specific details on the basic initiatives that should be undertaken by our Group and seeks to further strengthen environmental management throughout the entire Group.

Sumitomo Heavy Industries Group Environmental Policy

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

Environmental Management System

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



Medium-Term Environmental Plan

We have formulated the 6th Medium-Term Environmental Plan (FY2020 to FY2023) as a medium-term implementation plan for environmental management and are currently implementing the initiatives in the plan. Under this plan, we are working on four priority issues: (1) enhancement of environmental risk management, (2) reduction of CO₂ emissions with actions

addressing climate change taken into consideration, (3) reduction of environmental loads in business activities, and (4) preservation of biodiversity. In addition, we have set both medium-term targets and single-year targets up through fiscal 2023, and we are managing the progress and promoting related activities.

Index	Item	Base year	FY2022 Target	FY2022 Results	FY2022 Evaluation
Environmental management	Number of serious environmental accidents	-	0	0	○
	Number of environmental accidents	-	3 or less/April to December (9 months)	6	×
Response to climate change	Total CO ₂ emissions (Japan)	2019	3% reduction compared to FY2019	2.3% reduction	×
	During production / energy productivity (Japan)	2019	3% improvement compared to FY2019	9.2% improvement	○
	During production / energy productivity (overseas)	2019	3% improvement compared to FY2019	17.3% improvement	○
	During transportation / green logistics (Japan)	2019	Maintain FY2019 level	5.9% reduction	○
	Expansion of the range of Sustainability Plus Products (Environmentally friendly products)	2020	23 models	27	○
Resource conservation / recycling	Reduction of waste generated (basic unit) (Japan)*	2017-2019	Maintain FY2017-FY2019 average	24.0% reduction	○
	Reduction of waste generated (basic unit) (overseas)*	2019	3% reduction compared to FY2019	18.5% reduction	○
	Zero emissions landfill rate (Japan)	-	Less than 0.5%	0.1%	○
	Reduction of product packaging materials (basic unit)	2017-2019	Maintain FY2017-FY2019 average	1.4% reduction	○
	Reduction of water consumption (Japan)	2017-2019	Maintain FY2017-FY2019 average	3.9% reduction	○
Prevention of environmental pollution	Reduction of water consumption (basic unit) (overseas)	2019	Maintain FY2019 level	13.1% reduction	○
	VOC reduction volume (Japan)-Total	2019	Maintain FY2019 level	9.1% reduction	○
	VOC reduction volume (Japan)-Basic unit	2019	Maintain FY2019 level	18.8% reduction	○

* Including Harmful Waste Disposed

Contributing to the Environment Through Our Business

Sustainability Plus Products (Environmentally friendly products)

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

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

Assessment criteria items

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

Overview of Our Sustainability Plus Products

Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline
<p>High-efficiency motors (E3 Motor Series) Resource recycling, reducing environmental risk</p> 	<p>Electric injection molding machines (SEEV-A Series) Fighting global warming, reducing environmental risk</p> 	<p>Hydraulic Excavators (LEGEST Type 7) Resource recycling, reducing environmental risk</p> 	<p>CFB boilers (compact 25t CFB) Reducing environmental risk, automation/labor saving</p> 
<p>PARAMAX gear reducers (PX9000 Series) Reducing environmental risk, fighting global warming</p> 	<p>Rolling rolls (SIP ductile) Fighting global warming, reducing risk</p> 	<p>Electric forklifts (reach trucks) Fighting global warming, reducing environmental risk</p> 	<p>Steam turbines (highly efficient blades) Resource recycling, fighting global warming</p> 

Capital Investment in Environmental and Energy-Saving Equipment

We have made ¥2.51 billion in capital investment in environmental and energy-saving equipment in Japan and overseas. We are taking a proactive approach to upgrading aged equipment and installing equipment with the latest technologies from the standpoint of increasing efficiency, conserving energy, and preventing environmental accidents. In fiscal 2022, we introduced internal carbon pricing. By actively encouraging capital investment, we will continue to promote energy saving.

(unit: million yen)

Amount of capital investment	FY2019	FY2020	FY2021	FY2022
Environment-related	826	573	490	547
Energy conservation-related	3,706	1,287	2,610	1,967
Total	4,532	1,860	3,100	2,513

Awards

Received Director General Prize of the Agency of Natural Resources and Energy at Energy Conservation Grand Prize 2022

Due to its “heat-treating-furnace energy intensity and CO₂ emissions reducing initiatives,” Sumitomo Heavy Industries Himatex Co., Ltd. (called Sumitomo Heavy Industries Himatex below) received the Director General Prize of the Agency of Natural Resources and Energy at the fiscal 2022 Energy Conservation Grand Prize*, which was organized by the Energy Conservation Center of Japan. More specifically, Sumitomo Heavy Industries Himatex converted the heavy fuel oil, which has a high environmental impact, used as fuel for their rolling-roll heat treatment to LNG to reduce CO₂ emissions. In addition to this fuel conversion, they also incorporated various energy-saving ideas into the updated design of their equipment. Over a period of approximately five years, the company converted the fuel of every heat treating furnace used in their rolling-roll production process, finished the work in 2021, and ultimately improved their energy intensity by 15% and reduced their CO₂ emissions by 27% compared to 2017, which was before they launched these activities. The company received the award not only for the above quantitative achievements but also for engaging in small group activities involving members of different departments to make numerous other improvements.

* The Energy Conservation Grand Prize is awarded for outstanding energy-saving initiatives implemented by companies, workplaces, etc. that can serve as a model for others as well as for highly energy efficient products and business models (organized by: the Energy Conservation Center of Japan, supported by: the Ministry of Economy, Trade and Industry).



The awards ceremony (held at Tokyo Big Sight, February 1, 2023)

Third-Party Assurance Regarding Environmental Impact Data

To enhance the reliability of its environmental impact data, the SHI Group has obtained a third-party assurance from Bureau Veritas. In fiscal 2022, we expanded the Scope 1 and 2 data covered to include overseas data and added Scope 3.

Data covered:

The following environmental data for the period from January 1, 2022, to December 31, 2022:

- Energy used by the Group due to business activities at its 31 sites in Japan and 42 overseas sites
- Scope 1 and Scope 2 greenhouse gas emissions (CO₂ emissions from energy use)
- Scope 3 greenhouse gas emissions (Category 1, 2, 3, 4, 5, 6, 7, and 11)*

* Calculated based on the Company's rules



Addressing Climate Change Risks

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

reduction targets through 2030 as we step up our efforts to address climate change.

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



Governance

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

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

The Sustainability Committee, which is chaired by the President & CEO, focuses its deliberations on addressing the issue of climate change by approaching it not only as a risk but also as a source of business

opportunities for our Group.

The Sustainability Committee reports the results of its deliberations to the Board of Directors twice a year and promotes the relevant initiatives under the supervision and direction of the Board of Directors.

- **Risk Management Committee (at least twice per year)**
The Risk Management Committee, which is chaired by the President & CEO, identifies risks that have a high priority level for the Group and manages them.
- **Sustainability Committee (at least twice per year)**
The Sustainability Committee, which is chaired by the President & CEO, deliberates on the progress of measures implemented for the material issues and reports to the Board of Directors.

Climate Change Response Management Structure



Strategies

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

1.5°C and a 4°C rise in temperature, respectively.

As a result, we have identified the impact of stricter regulations on our business as the greatest risk and have analyzed this impact.

We define our impact level as follows.

Impact Level	Definition
High	The impact on business is serious and necessitates a business strategy review.
Medium	The impact on business is limited, but future action is necessary.
Low	There is almost no impact on business.

Results of Analyzing Risks and Opportunities

	Impact Level	Risks	Opportunities	Major initiatives
1.5°C scenario (decarbonization scenario)	High	Stricter regulations on power generation using fossil fuels	Stable supply of renewable energy	<ul style="list-style-type: none"> Restrictions on the acceptance of orders for coal-fired power generation Supplying products for the renewable energy market
	High	Stronger requirements in terms of energy-saving performance	Higher demand for energy-saving products	<ul style="list-style-type: none"> Development and provision of energy-saving products
	Medium	Stricter regulations on internal combustion engines	Higher demand for electrification and fuel conversion	<ul style="list-style-type: none"> Cooperation to facilitate electrification and fuel conversion
	Low	Higher carbon tax and raw material costs	Higher demand for energy- and resource-saving products	<ul style="list-style-type: none"> Further increasing the efficiency of production, transportation, etc. Introducing ICP to promote energy-saving capital investment and purchasing renewable energy to facilitate decarbonization
4°C scenario (advanced global warming scenario)	Medium	Increasingly severe natural disasters	Higher demand for disaster prevention infrastructure	<ul style="list-style-type: none"> Manufacturing-site BCP enhancement
	Low	Rising sea levels (long-term)	Higher demand for construction machinery for disaster recovery	

Our Group is aiming to reduce CO₂ emissions during product use (Category 11), the most common Scope 3 emissions, by 30% compared to fiscal 2019 by 2030.

In addition, although this does not count as reducing CO₂ emissions from our Group, we have defined products that help to reduce society's overall CO₂ emissions as products that contribute to the reduction of CO₂ emissions in the broad sense, and we are promoting efforts

that include electrification support related to the production activities of our customers, fuel conversion support related to delivered machines, and the expansion of our energy storage system business.

By providing both products that reduce CO₂ emissions in the narrow sense and products that contribute to the reduction of CO₂ emissions in the broad sense, our Group is helping to achieve a decarbonized society.

CO₂ Emissions Reduction Measures by Segment

Reduction category	Initiatives that can be directly counted toward a reduction of our CO ₂ emissions based on the definition of Scope 3 emissions CO ₂ emissions reduction in the narrow sense	Initiatives that indirectly contribute to reducing society's overall CO ₂ emissions CO ₂ emissions reduction in the broad sense (as defined by the Company)
Mechatronics	<ul style="list-style-type: none"> Improving the efficiency of electric motors 	<ul style="list-style-type: none"> Supporting the electrification of customer production processes
Industrial Machinery	<ul style="list-style-type: none"> Making the production process more energy efficient 	<ul style="list-style-type: none"> Weight-reducing, cryogenic, and superconducting technologies Providing support to reduce product materials (Scope 3: upstream)
Logistics & Construction	<ul style="list-style-type: none"> Converting the energy of internal combustion engines 	<ul style="list-style-type: none"> Enhancing efforts related to construction machinery for the forestry industry as well as wood-chip conveyance Supporting fuel conversion for delivered machines
Energy & Lifeline	<ul style="list-style-type: none"> Refraining from accepting orders for coal-fired power plants 	<ul style="list-style-type: none"> Expanding energy storage system business Combining multiple functions in individual pieces of equipment

Business risks and opportunities

As a result of analyzing the risks and opportunities related to our overall business by segment, we learned that in the Energy & Lifeline segment, there is a major impact on

both risks and opportunities, while in the Mechatronics segment and Industrial Machinery segment, there is a major impact on opportunities.

Our Group naturally aims to maximize customer value

by providing solutions to them, but as a machinery manufacturer that supports customers in terms of their efforts to resolve social issues, we also provide products that help customers to decarbonize their business activities (including production activities, etc.).

Examples in the Energy & Lifeline (E&L) segment

- 1) We built an LAES plant for commercial demonstration purposes on the site of the Hiroshima Gas Hatsukaichi LNG Terminal, for which pilot operation has started. Full-scale operation will start in 2024.
- 2) We accepted an order for a 10-MW-class poultry litter-fired power plant from Miyazaki Biomass Recycle Co., Ltd. (head office: Kawaminami-cho, Koyu-gun, Miyazaki).
- 3) We signed Minutes of Understanding with PT Pembangkitan Jawa Bali Services (PJB Services), an affiliated company of Indonesia's State Electricity Company (PT PLN), on "Cooperation in responding to the Policy for Decarbonization and Carbon Neutralization in the Energy Sector in Indonesia," and we are providing support to convert existing coal-fired power plants to biomass plants.

Examples in the Industrial Machinery segment

- 1) On January 31, 2023, we started selling the iM18E, a compact hybrid injection molding machine that boasts the smallest installation footprint in its class as well as exceptionally high precision stability. Due to the machine's hybrid power source and dramatically improved energy-saving technology, the machine consumes approximately 50% of the power compared to equivalent hydraulic machinery, a major improvement over past models.
- 2) We implemented an automobile body and frame production system (STAF) at Topia Co., Ltd. (head office: Suzuka, Mie), becoming the first company in the world to do so. By increasing frame rigidity and reducing the thickness of the necessary materials, this system helps to improve the fuel efficiency of automobiles by reducing the weight by approximately 30% compared to conventionally manufactured automobiles. STAF has also won two prizes: the Judging Committee's Special Prize at the 52nd Japan Industrial Technology Awards and the Technological Development Award at the 73rd Society of Automotive Engineers of Japan Awards.

Results of Analyzing Risks and Opportunities by Segment

Segment	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline
	Gear reducers, control equipment, etc.	Material processing, semiconductor production equipment, etc.	Construction machinery, conveyance/material handling equipment, etc.	Power plants, water and wastewater treatment plants, etc.
Impact area	Electric motors		Internal combustion engines	Power plants
Risks	If we fail to achieve decarbonization, develop highly efficient products, or change our product portfolio, we risk losing our product competitiveness or being forced to reduce our business scale.			
	Delays in responding to the needs of customers to reduce CO ₂ emissions during the use of our products	Stricter product energy efficiency regulations by governments	Stricter regulations on the CO ₂ emissions of internal combustion engines	Government restrictions on coal-fired power generation
	Delays in responding to the decarbonization needs of customers		Delays in handling fuel conversion, etc.	Stricter regulations on the generation of biomass power by using unapproved fuel
Impact Level	Low	Low	Medium	High
Opportunities	Accelerated electrification of customer production equipment		Fuel conversion and electrification in the construction and logistics fields	Increased demand for products related to biomass power generation
	Improved value of energy-saving products	Increased demand for products that help to reduce the weight of finished products	Increased investment in forest resources	Support for existing power plant fuel conversion
	Increased demand for products that integrate electronic and control devices with gear reducers	Expansion of power semiconductor production equipment	Increased wood-chip handling demand	Increased fuel conversion-related demand
		Increased cryogenic, superconducting, and other needs		Growth of the energy storage market to expand renewable energy utilization
Impact Level	High	High	Low	High

Risk Management

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

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

In addition, in March 2023, our Group formulated its Basic BCP Policy to enhance our ability to respond to various disasters, including natural disasters caused by climate change.

Indicators and Targets

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

Our Group has identified CO₂, an especially commonly emitted greenhouse gas, as a target for priority

- Aim to achieve carbon neutrality throughout the entire SHI Group by 2050
- CO₂ emissions during product manufacturing (Scopes 1 and 2): 50% reduction by 2030 (compared to FY2019)
- CO₂ emissions during product use (Scope 3, Category 11): 30% reduction by 2030 (compared to FY2019)

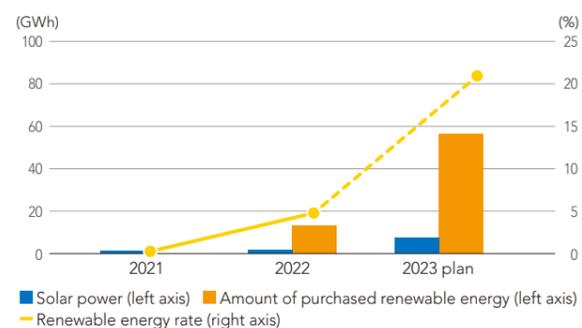
Reducing CO₂ emissions during product manufacturing (Scope 1 and 2)

To reduce our CO₂ emissions from business activities, we have continued to implement and enhance our existing energy-saving measures, we are establishing solar power generation facilities, and, starting in fiscal 2022, we started procuring renewable energy. However, due in part to the impact of our business expansion in fiscal 2022, including the operation of a new plant, our CO₂ emissions increased slightly.

Index	Unit	Base year (2019)	FY2021	FY2022
CO ₂ emissions during manufacturing (Scope 1, 2)	Thousand t-CO ₂	190.6	191.2	193.8

In addition, in fiscal 2022, we generated 1.7 GWh of solar power and purchased 12.8 GWh of renewable energy, increasing our Group's overall renewable energy rate to approximately 5%. We will continue promoting both the planned implementation of solar power and the purchasing of renewable energy. In fiscal 2023, we also introduced an internal carbon pricing (ICP) system and started allocating costs according to the CO₂ emissions of each of our business departments. By enabling each department to visualize its CO₂ emissions, we hope to further accelerate our CO₂ emissions reducing activities.

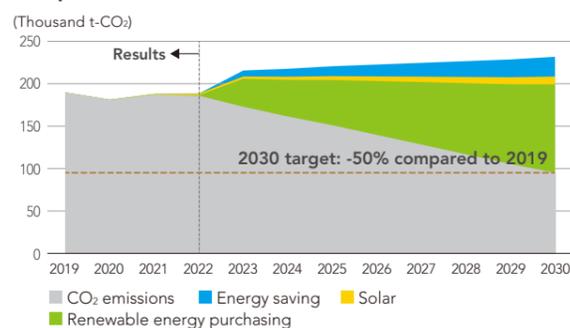
Implementation Situation of Solar Power/Renewable Energy Power and Our Plan



measures, and we have set total CO₂ emissions reduction targets. Scopes 1 to 3 emissions are calculated in accordance with the Greenhouse Gas Protocol. In addition, our disclosed data is subject to third-party verification by Bureau Veritas.

Under our CO₂ emissions reduction plan for the period up through 2030, we will invest in various energy-saving measures as we promote the establishment of solar power generation facilities and purchase renewable energy according to a plan. To achieve our 2030 plan of 50% reduction, we will continue to promote planned reductions.

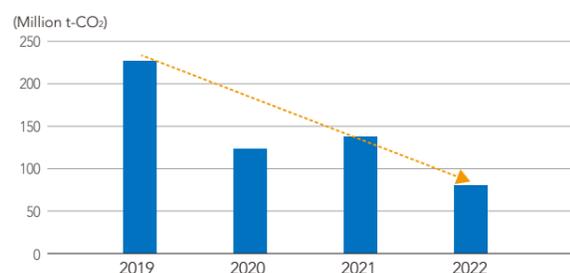
Plan for CO₂ Emissions Reduction up Through 2030 (Scope 1 and 2)



Reducing CO₂ emissions during product use (Scope 3: Category 11)

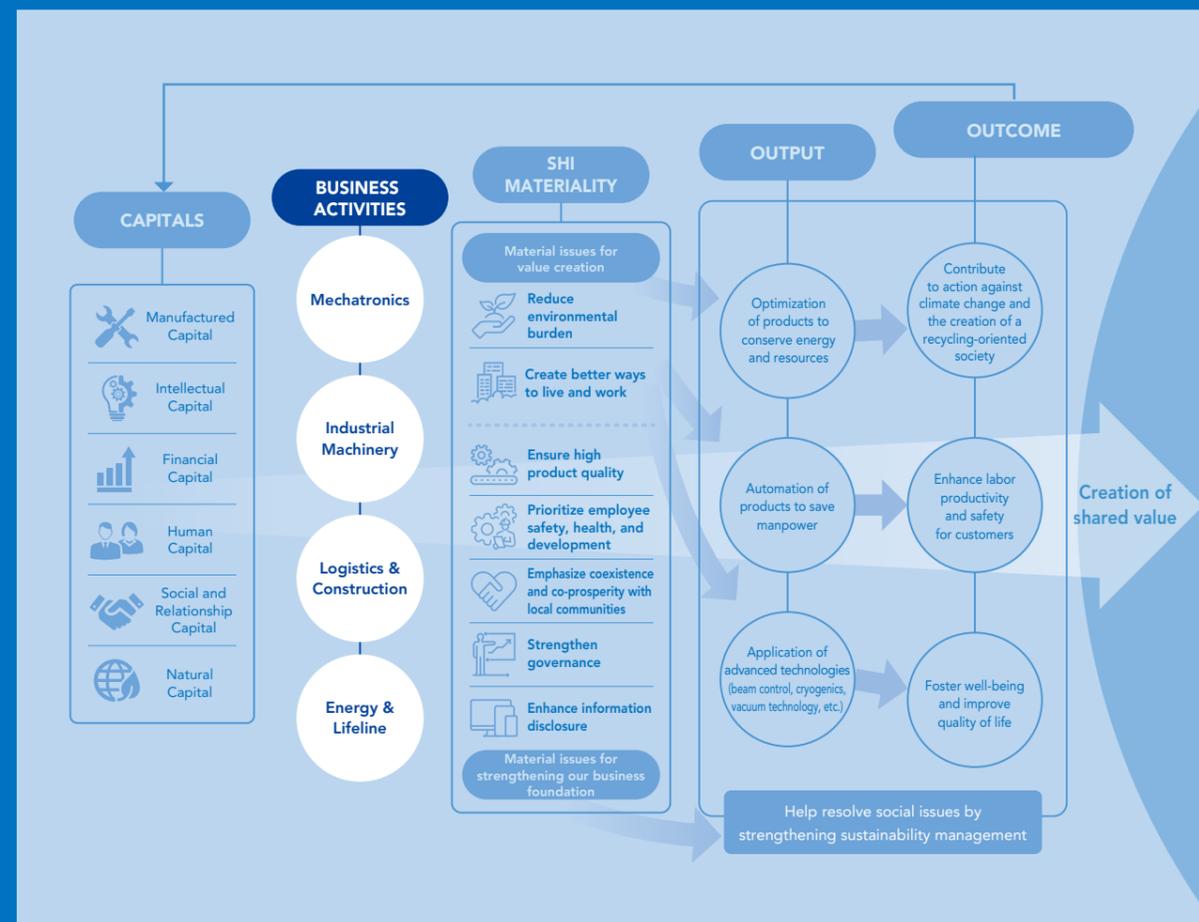
We are considerably reducing CO₂ emissions during product use (Scope 3: Category 11) by reducing our deliveries of coal-fired boilers. We will continue striving to develop products that contribute to a decarbonized society.

CO₂ Emissions Reduction Situation (Scope 3: Category 11)



BUSINESS ACTIVITIES

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



The 4 Segments of SHI

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

The following are our leading products in the respective segments and how they contribute to society and the environment.

The following pages provide an overview of each of our businesses and our business strategies.

* Due to a change in our accounting period, FY2022 will be a nine-month accounting period. Figures in parentheses are FY2022 results that have been converted to figures for the period from January to December as reference values.

Mechatronics		Industrial Machinery	
Net Sales	Operating Profit	Net Sales	Operating Profit
¥181.4 billion (197.9)	¥9.5 billion (9.2)	¥224.9 billion (264.3)	¥21.3 billion (26.5)
R&D Expenses ¥2.3 billion	Capital Investment ¥12.4 billion	R&D Expenses ¥8.7 billion	Capital Investment ¥21.2 billion
Key Businesses Power transmission business, Precision machinery & control equipment, Industrial control systems business Main Products Power transmission & control equipment, Motors, Inverters, Precision positioning equipment		Key Businesses Plastics machinery business, Cryogenic equipment business, Semiconductor production equipment business, Medical equipment business, Industrial equipment & forging presses business, Industrial machinery/dust collectors/precision air conditioning business, Precision grinders & coolant equipment business Main Products Plastics machinery (injection molding machines), Cryogenic equipment, Precision parts, Semiconductor production equipment, Medical/advanced/cyclotron equipment, Forging presses, Industrial/environmental equipment, Precision grinding machine, Defense equipment	

Environment • Developing high-efficiency motors



High-efficiency gearmotors (Bevel Buddybox® H Series with an IE5 motor)

• Expanding our lineup of inverter controls



High-efficiency motors with inverters (Lafert HPI Series)

Society • Improving labor productivity through robotics technology



High-precision gear reducers for robots (Cyclo® DA Series)



3D inspection systems

Environment • Reducing energy consumption through electrification of injection molding machines



Injection Molding Machine

• Reducing resource consumption through high-precision molding



Cryocoolers

• Saving energy through power semiconductor production



Semiconductor Production Equipment

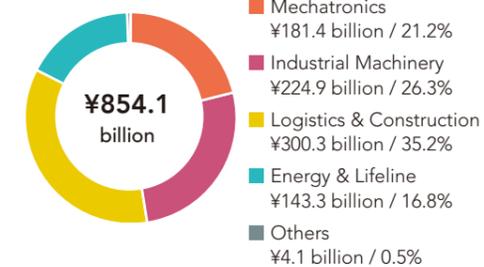
Society • Contributing to a more IT-oriented society through semiconductor production

• Cancer diagnosis and treatment

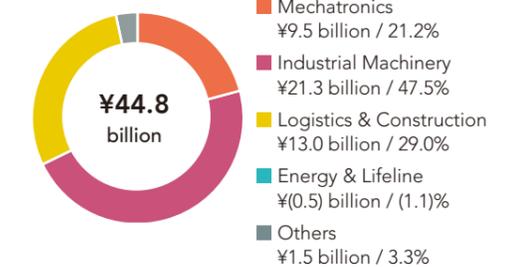


BNCT

FY2022 Net Sales Ratio



FY2022 Operating Profit Ratio



Logistics & Construction	
Net Sales	Operating Profit
¥300.3 billion (357.2)	¥13.0 billion (16.6)
R&D Expenses ¥4.6 billion	Capital Investment ¥6.1 billion
Key Businesses Hydraulic excavators business, Mobile cranes business, Material handling systems business Main Products Hydraulic excavators, Road machinery, Mobile cranes, Material handling systems, Logistic systems	

Environment • Reducing CO₂ emissions during use through ICT and electrification



Hydraulic Excavators

Crawler Cranes

Society • Responding to infrastructure upgrades



Remote-controlled RTG

• Improving labor productivity through smart logistics



High-density Automated Warehouses

Energy & Lifeline	
Net Sales	Operating Profit
¥143.3 billion (193.4)	¥0.5 billion (5.6)
R&D Expenses ¥1.8 billion	Capital Investment ¥4.4 billion
Key Businesses Energy plants business, Water treatment plants business, Turbines & pumps business, Ships business Main Products Energy and environmental equipment, Water treatment systems, Turbines, pumps, pressure vessels, chemical instruments, Food processing machinery, Ships	

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



Biomass Power Plant (Oji Green Energy Tokushima Co., Ltd.)

Others	
Net Sales	Operating Profit
¥4.1 billion (5.6)	¥1.5 billion (2.1)
Main Products Real estate, Software	



Taiji Tsuchiya

Executive Vice President and General Manager, Mechatronics segment

Segment strengths

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

Value we aim to provide

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

Segment features

Gear reducers are power transmission devices that reduce the number of revolutions in motors to generate greater power.

Such devices are combined with motors and inverters for use in a wide range of settings to drive equipment around the world, thereby supporting our daily life via many production and sales bases both within Japan and abroad.

In terms of precision machinery/control devices and industrial control systems, we provide laser annealing systems that take advantage of laser control and processing technologies as well as various other types of processing systems, precision positioning equipment and control systems that respond to the need for ultra or high precision, collaborative robots, and 3D visual inspection systems.

Looking back on fiscal 2022

Despite some lingering effects of COVID-19, the capital investment market conditions started recovering to some extent. By region, there were industry-specific ups and downs in Japan, but the order situation was more or less the same compared to the previous year. In terms of our overseas situation, the level of orders remained strong in Europe and the United State but showed signs of calming down. Meanwhile, China and Southeast Asia—which were affected by lockdowns during the first quarter—started recovering in the second half of the year. Market conditions for annealing systems and stages for semiconductor-related applications were also strong, reflecting the brisk semiconductor market.

Our overall orders increased year on year due to

strong demand for small and medium-sized gear reducers, high-precision gearboxes for robots, and inverters in Japan, Europe, and the United States. Net sales and operating profit also rose year on year in line with the higher volume of orders.

Note that, due to supply chain disruptions caused by shortages that included semiconductors, electronic components, castings, electromagnetic steel sheets, and raw materials, the cost of raw materials and other materials used for production continued to soar, ultimately leading to increased costs for us. Although we continued to pass the higher cost of products we sell to our customers, the increasing price of procured goods had a greater negative effect in fiscal 2022.

Outlook for fiscal 2023/Future plans (directions and new initiatives)

Assuming that market conditions remain strong overall, we expect the level of orders to remain about the same as last year. Our net sales are expected to increase year on year due to both strong orders in fiscal 2022 and our large number of backlogs. We also assume that our operating profit will remain about the same year on year.

In terms of gear reducers, we have identified “logistics,” “robotics,” “food,” and “environment and energy” as our key areas, and we will strive to expand our market share in these areas. At the same time, as an installed-base business, we seek to improve our ability to propose new solutions to end users in addition to

the services we currently offer.

In terms of precision machinery/control devices and industrial control systems, we will strive to enhance our ability to develop and supply new products given that medium to long-term growth of the semiconductor market is expected.

Regarding the segment as a whole, we will target electric motor control, robotics, and semiconductors—all of which boast high growth potential—as our key areas as we work to respond to demand related to social electrification and energy saving.

Directions

- Launch high-growth, high-profit business based primarily on electric motor control technologies via mechatronic innovation
- Achieve semiconductor-related business growth
- Explore business related to robot components, modules, and systems

New initiatives

- Develop electric drive modules that fuse electric motor control technologies
- Develop new semiconductor-related equipment in cooperation with other segments
- Develop actuator modules and systems in the robotics area

(FY2022)*

Orders

¥204.1 billion

Net Sales

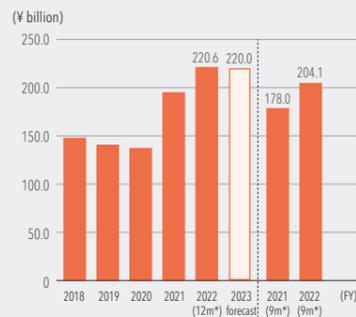
¥181.4 billion

Operating Profit

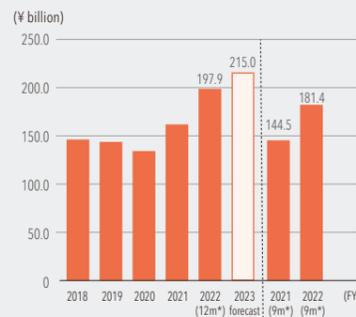
¥9.5 billion

* These figures are FY2022 results. Due to a change in our accounting period, FY2022 will be a nine-month accounting period.

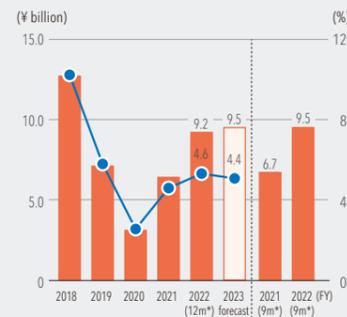
Orders



Net Sales



Operating Profit/Operating Profit Ratio



* Here, (12m) indicates twelve-month reference values, while (9m) indicates the results for nine months.

Due to a change in our accounting period from fiscal 2022, fiscal 2022 will be a nine-month accounting period from April 2022 to December 2022. The year-on-year comparisons in “Looking back on fiscal 2022” are based on reference values that assume a nine-month accounting period for fiscal 2021 in Japan, while the year-on-year comparisons in “Outlook for fiscal 2023” are based on reference values that assume a twelve-month accounting period for fiscal 2022 in Japan.



Kazuo Hiraoka

Director, Executive Vice President, and General Manager, Industrial Machinery segment

Segment strengths

- Mechanical system technologies
 - Materials processing, control, actuators
- Advanced applied physical technologies
 - Cyclotron, cryogenic, and vacuum technologies

Value we aim to provide

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

Segment features

Injection molding machines are plastic machinery that fabricates various products by injecting hot plastic into metallic molds. We specialize in the molding field, which demands both precision and high productivity.

Our cryocoolers is not only used in medical devices such as MRI and in advanced scientific fields (especially in the fields of physics and chemistry) but also in cryopumps to create the ultra-high vacuum environment required for semiconductor production processes. We also focus on initiatives necessary to achieve a decarbonized society,

such as nuclear fusion and hydrogen energy.

For semiconductor production equipment, we manufacture ion implanters that implant ions with high precision into silicon wafers to give them semiconductor electrical properties.

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

Looking back on fiscal 2022

Our business-specific situation in fiscal 2022 was as follows: as for plastic machinery business, in terms of our electrical and electronic business, demand for computers and smartphones was slow to recover, and, in terms of our automobile business as well, investment was slow to recover. However, demand related to our medical, food, container, and general good business rose, including COVID-19 testing applications and the like. In China and Europe, which saw strong orders in fiscal 2021, demand calmed down and declined year on year, but net sales stayed about the same due to the number of backlogs. Meanwhile, our operating profit declined year on year due to the soaring cost of raw materials resulting from supply chain disruptions.

In terms of our cryocooler business, our semiconductor business was strong—including a rise in the MRI and physics/chemistry sectors in China in particular—and our

orders, net sales, and operating profit rose year on year.

In terms of semiconductor production equipment, there was active capital investment by semiconductor manufacturers due to high semiconductor demand around the world. This resulted in the demand for semiconductor production equipment remaining high and the market continuously expanding since fiscal 2021, which caused a year-on-year rise in orders and a year-on-year rise in net sales and operating profit as well.

In terms of our medical equipment, industrial equipment, and forging press business, our net sales and operating profit increased year on year as a result of us receiving orders for multiple medical-equipment-related projects as well as a considerable increase in orders related to semiconductor production equipment, which is included in industrial equipment.

Outlook for fiscal 2023/Future plans (directions and new initiatives)

In terms of plastic machinery, there is economic uncertainty in various regions that makes it difficult to come up with a clear outlook regarding market conditions. That said, regarding our electrical and electronic business, we do expect investment in virtual reality equipment, etc. Similarly, regarding our automobile business, we also expect investment in electronic vehicles. At the same time, a certain level of ongoing demand related to our medical, food, container, and general good business is assumed, so we expect the overall demand for our injection molding machines to stay about the same compared to last year. Given the above, we assume that orders will be about the same as last year and that net sales will rise year on year due to the existence of backlogs. At the same time, we assume that our operating profit will stay about the same as last year due to the lingering effects of the soaring cost of raw materials.

In terms of cryocoolers, we expect demand to remain strong. However, regarding our semiconductor business in particular, the market has entered a correction phase, so we expect active customer orders to slow down, which

will likely lead to a year-on-year decline in orders. That said, we expect our net sales and operating profit to rise year on year due to the existence of backlogs.

In terms of semiconductor production equipment, the semiconductor market has temporarily slowed down, and recovery is not expected until the second half of 2023 or later. Therefore, we expect orders to decline year on year. In contrast, we expect net sales to increase slightly year on year due to the existence of backlogs, but we also expect our operating profit to decline year on year due to a change in the lineup of models we sell. Note that, in October of 2022, we also completed a new production building in Saijo, Ehime Prefecture. We started up production activities at the new building in December of 2022.

In terms of medical equipment, industrial equipment, and forging presses, we expect overall orders for all models to decline year on year. However, we also expect our net sales for semiconductor production equipment—which is included in industrial equipment—and forging presses to rise year on year along with our overall operating profit.

Directions

- (Plastics Machinery)
 - Develop eco-friendly plastics and technologies, including recycled plastics
 - Strengthen global collaboration and regional strategies
- (Others)
 - Establish a competitive advantage in advanced semiconductor production equipment fields
 - Expand automobile-related businesses in line with the shift to electrification
 - Achieve business growth in advanced medical fields
 - Reduce supply chain CO₂ emissions by saving energy

New initiatives

- Target advances in automation/electric molding
- Emphasize materials recycling
- Achieve large, highly efficient cryocoolers for large-capacity applications

(FY2022)*

Orders

¥266.7 billion

Net Sales

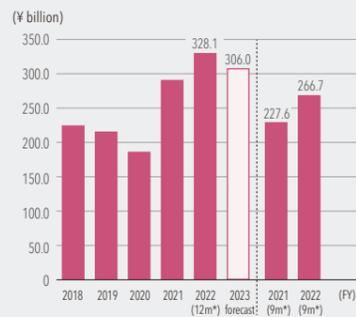
¥224.9 billion

Operating Profit

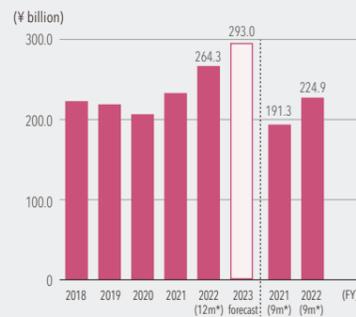
¥21.3 billion

* These figures are FY2022 results. Due to a change in our accounting period, FY2022 will be a nine-month accounting period.

Orders



Net Sales



Operating Profit/Operating Profit Ratio



* Here, (12m) indicates twelve-month reference values, while (9m) indicates the results for nine months.

Due to a change in our accounting period from fiscal 2022, fiscal 2022 will be a nine-month accounting period from April 2022 to December 2022. The year-on-year comparisons in "Looking back on fiscal 2022" are based on reference values that assume a nine-month accounting period for fiscal 2021 in Japan, while the year-on-year comparisons in "Outlook for fiscal 2023" are based on reference values that assume a twelve-month accounting period for fiscal 2022 in Japan.



Segment strengths

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

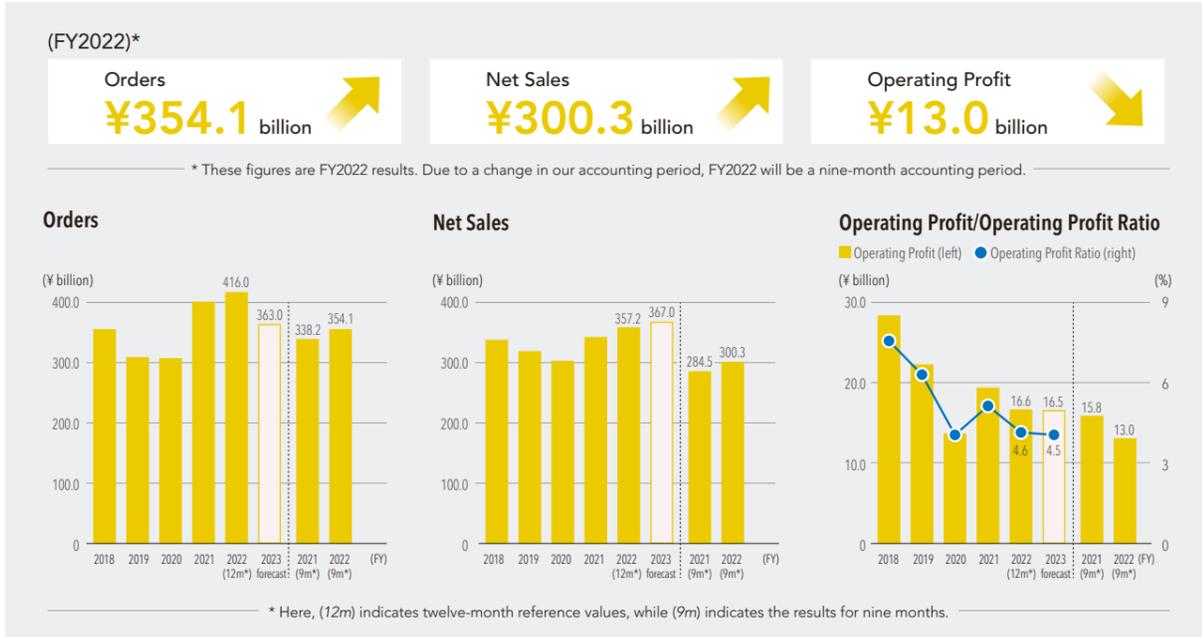
Value we aim to provide

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

Segment features

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

Industries Construction Cranes Co., Ltd. mainly sells crawler cranes in Japan and overseas (except in the Americas), with a market share of over 40% in Japan. In North America, Link-Belt Cranes, L.P., LLLP mainly manufactures and sells truck cranes and has a top-class share of the local market. In the area of material handling systems, we manufacture industrial material conveyance systems, logistics systems such as automated warehouses, as well as automated parking systems.



Due to a change in our accounting period from fiscal 2022, fiscal 2022 will be a nine-month accounting period from April 2022 to December 2022. The year-on-year comparisons in "Looking back on fiscal 2022" are based on reference values that assume a nine-month accounting period for fiscal 2021 in Japan, while the year-on-year comparisons in "Outlook for fiscal 2023" are based on reference values that assume a twelve-month accounting period for fiscal 2022 in Japan.

Looking back on fiscal 2022

Our business-specific situation in fiscal 2022 was as follows: in terms of our hydraulic excavator business, China's market demand declined considerably due to both economic slowdown and city lockdowns resulting from COVID-19, which caused a major slump in demand for construction machinery by foreign-affiliated companies in particular. In contrast, market conditions in Japan and North America remained firm. In addition, demand in European regions other than Russia remained about the same year on year, and there was ongoing high demand for resources, etc. in Asian regions other than China. As a result, orders for our overall business rose slightly year on year. However, as was the case last year as well, there was a supply shortage of parts used for production, and logistical disruptions negatively affected shipments. As a result, our net sales remained about the same year on year, and our operating profit declined year on year due

to a decline of net sales in China's market as well as the appropriation of reserves for accounts receivable. In terms of mobile cranes, regarding our business in Japan, our orders and net sales rose year on year both for North America—where the market has been firm since last year—and for Asian regions—where we saw growth due to the weaker yen. However, our operating profit declined year on year due to the soaring cost of materials. Regarding our North American business, crane market demand remained strong, and—combined with the effects of the weaker yen—this caused a year-on-year rise in orders, net sales, and operating profit. In terms of material handling systems, we saw an increase in material conveyance system projects—especially for ports and power—which resulted in a year-on-year rise in our orders, net sales, and operating profit.

Outlook for fiscal 2023/Future plans (directions and new initiatives)

In terms of demand for hydraulic excavators by region, public investment in building national resilience and restoration work undertaken to address the damage caused by frequent natural disasters will sustain a certain level of demand in Japan. Meanwhile, in North America—although the housing market, which has been strong so far, is starting to show signs of a slump due to rising interest rates—we assume that demand will be sustained by commercial and public works other than building housing. We also assume that Europe—where demand peaked in 2021 and then declined following the invasion of Ukraine by Russia—will enter a recessionary phase. In the ASEAN region, although demand is firm in general, we assume that China will continue to see a decline in both overall demand and foreign-affiliated company demand. In terms of our overall business, we expect our orders to decline year on year. However, given the existence of backlogs, we also expect our net sales to rise year on year, which—despite yen appreciation and delays in terms of passing price increases onto consumers—should lead to a year-on-year rise in our operating profit.

In the area of mobile cranes, demand in Japan is expected to decline year on year, while we assume that demand in North America will remain firm. Although we expect orders in Japan to decline year on year, net sales and operating profit are expected to rise year on year owing to strong orders last year. In terms of our business in the United States—although the outlook suggests that the economy will worsen—we expect a year-on-year rise in orders due to ongoing demand related to oil and gas as well as strong infrastructure investment. We also expect a year-on-year rise in net sales due to increased production. However, our operating profit is expected to decline slightly year on year, partially as a result of exchange effects. In terms of material handling systems—although demand is firm—we expect our orders and net sales to decline year on year due to a change in our model lineup compared to last year. We also expect our operating profit to decline year on year due to the soaring cost of materials and exchange effects.

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

New initiatives

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



Eiji Kojima

Representative Director,
Executive Vice President, and General Manager, Energy & Lifeline segment

Segment strengths

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

Value we aim to provide

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

Segment features

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

In the area of water and wastewater treatment plants, we offer services that include the design, construction, and operation management of irrigation and drainage facilities with a focus on water treatment business in the public and private sectors. In recent years, we have also started

focusing on waste liquid methane fermentation and energy recovery equipment in the form of energy-creating models.

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

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

Looking back on fiscal 2022

In terms of the situation of our core products in fiscal 2022, in the area of energy plants, we delivered four CFB boiler power plants utilizing Japan's FIT (Feed-in Tariff) scheme and got orders for two new biomass power plants. Overseas, Sumitomo SHI FW got an order for one boiler plant. However, due to differences in project value, both our orders and net sales declined year on year as a result. Our operating profit also saw a considerable year-on-year decline due to both the decline in net sales and decreased large-project profitability in Europe.

In terms of water and wastewater treatment plants—due to the transfer of our general waste treatment business in April of 2022, the reversion of large-lot projects from the previous year, and other factors—our orders declined year on year. Our net sales also declined year on year due to the business transfer in spite of old backlog and project increases. Our operating profit also

saw a similar year-on-year decline in spite of increased sales due to changes to our model lineup as well as our changed accounting period causing the delivery date of publicly demanded projects to be shifted to next year.

In terms of turbines and pumps, our orders declined year on year, due in part to the reversion stemming from large-lot overseas projects last year. Our net sales rose year on year due to the existence of backlogs from last year, but our operating profit stayed about the same as last year due to the soaring cost of materials.

In the area of ships, we received orders for four new vessels—one more than last year—and we have back-orders for eight ships, both of which ensured approximately two years of operation as of the end of December of 2022. Our net sales saw a slight year-on-year decline, while our operating profit rose year on year despite the soaring cost of steel and other materials.

Outlook for fiscal 2023/Future plans (directions and new initiatives)

In terms of energy plants, although we assume that there will be a reduction in the scale of our business in Japan due to there being fewer projects to which the FIT scheme applies as well as stricter judging criteria, we are working on contemplating new business schemes, such as transitioning to the FIP (Feed-in Premium) scheme, the fuel conversion away from inefficient fossil fuels, and the shift to renewable energy. Emerging ASEAN economies, particularly Indonesia, have begun to engage with the prospect of fully launching biomass co-firing projects, with new projects starting to appear. On the other hand, the decarbonization movement in Europe is gaining speed, and the market for large boilers is shrinking rapidly. Due to an increase in large biomass power generation facility projects, we expect our orders to rise year on year. At the same time, we expect our net sales to decline year on year due to a decline in backlogs. Meanwhile, since the profitability of our projects decreased last year,

we expect our operating profit to rise year on year.

In terms of water and wastewater treatment plants—although there is a gradual rise in capital investment in the private-demand market due to the recovery of corporate performance, and we have been receiving inquiries, while we assume that the public-demand market will be the same as usual—it will take a while for any projects to pan out, so we expect a year-on-year decline in orders, net sales, and operating profit.

In terms of turbines and pumps, given that the market has been slow to recover due to COVID-19, we expect a year-on-year decline in orders, and we expect our net sales to be about the same as last year. At the same time, we expect our operating profit to decline year on year due to the ongoing soaring cost of materials.

In terms of ships, we expect to see a decline in our year-on-year orders to two ships, so we will aim for increased profitability.

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

New initiatives

- Develop models that contribute to decarbonization as well as CO₂ reusing technologies
- Further enhance our plant operation management technologies

(FY2022)*

Orders

¥155.2 billion



Net Sales

¥143.3 billion



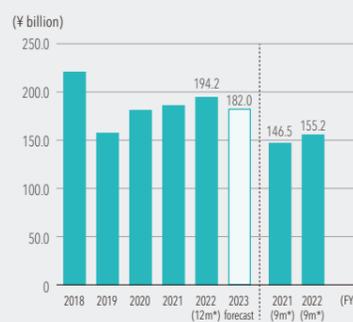
Operating Profit

¥(0.5) billion

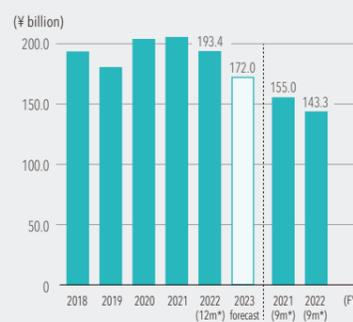


* These figures are FY2022 results. Due to a change in our accounting period, FY2022 will be a nine-month accounting period.

Orders



Net Sales



Operating Profit/Operating Profit Ratio

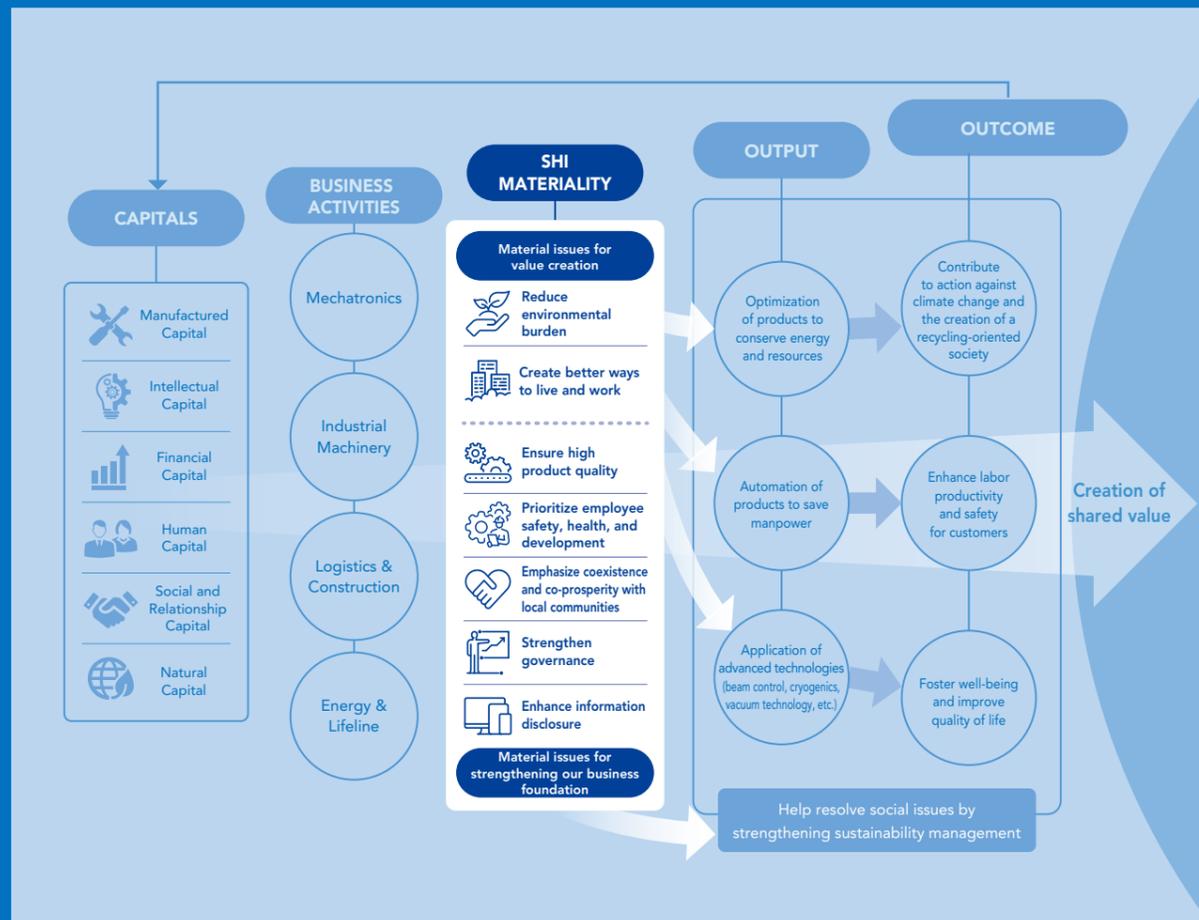


* Here, (12m) indicates twelve-month reference values, while (9m) indicates the results for nine months.

Due to a change in our accounting period from fiscal 2022, fiscal 2022 will be a nine-month accounting period from April 2022 to December 2022. The year-on-year comparisons in "Looking back on fiscal 2022" are based on reference values that assume a nine-month accounting period for fiscal 2021 in Japan, while the year-on-year comparisons in "Outlook for fiscal 2023" are based on reference values that assume a twelve-month accounting period for fiscal 2022 in Japan.

SHI MATERIALITY

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



Sustainability at the SHI Group

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

Basic Sustainability Policy

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



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

Process for Identifying Material Issues

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

Identification Process

(1) Extraction of Issues

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

(2) Narrowing Down of Issues

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

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

(3) Expert Hearings

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

(4) Resolutions at the Board of Directors Meetings

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

The Seven Material Issues

	Material issues	Relevance to business	Major action items	Related major indicators and targets
Material issues for value creation	Reduce environmental burden 	Our Group recognizes the importance of both reducing the environmental burden of our production activities and reducing the environmental burden of our customers when they use our products, so we engage in related efforts. We are also working on creating a circular economy by taking steps that include reducing waste through the effective utilization of resources and reducing the environmental burden associated with the procurement of raw materials.	<ul style="list-style-type: none"> Optimizing products to conserve energy and resources Reducing the environmental impact of business activities 	<ul style="list-style-type: none"> CO₂ emissions Water consumption Waste generation Number of environmental accidents VOC emissions [Targets] • 2050 carbon neutrality target • 2030 CO ₂ reduction target (Details are provided on p. 42.)
	Create better ways to live and work 	We are working to help alleviate the operational burden on our customers and end-users, implement work-style reforms, and improve safety through the automation and digitalization of our products. We hope to contribute to work-style reforms and better lifestyles for people working in various industries through the further strengthening of these efforts.	<ul style="list-style-type: none"> Automating products to save manpower Enhancing product safety Applying advanced technology to products 	<ul style="list-style-type: none"> Reducing the on-site customer workload through automation and optimization Increasing the sophistication of medical care by utilizing advanced technology and promoting a digital society
Material issues for strengthening our business foundation	Ensure high product quality 	We believe that it is our responsibility to continue to provide our customers with a stable supply of high-quality, safe, and reliable products and services. We also believe that product quality is not only about the product's functional properties but also involves important attributes such as its safety for users. We therefore focus on improving our product safety.	<ul style="list-style-type: none"> Enhancing quality management Ensuring product safety Complying with laws and regulations 	<ul style="list-style-type: none"> ISO 9001 acquisition rate of major production and business divisions Number of serious legal violations related to product safety
	Prioritize employee safety, health, and development 	We believe that the management of human capital is a particularly significant theme for our Group in order to accelerate globalization and provide products and services that meet the needs of society. Based on our ethos of "People are our most important asset," which runs throughout the SHI Group, we not only put safety first in all our business operations but also actively engage in activities that include health management, human resource development, and diversity promotion.	<ul style="list-style-type: none"> Occupational health and safety Health management Human resource development Organizational development Promoting work-life balance Promoting diversity 	<ul style="list-style-type: none"> Occupational accident frequency rate Work-related fatalities Annual training hours and expenses per employee [Targets] Diversity targets by January 2027 (Details are provided on p. 31.)
	Emphasize coexistence and co-prosperity with local communities 	With our numerous business sites, we believe that fostering a spirit of coexistence and co-prosperity with local communities is essential for business continuity. We therefore contribute to the development of local communities by engaging in social contribution activities that leverage the resources and strengths of our Group. Through such activities, we seek to strengthen employee engagement and raise social and environmental awareness.	<ul style="list-style-type: none"> CSR activities Donations 	<ul style="list-style-type: none"> Social contribution expenditures (Cash donations, in-kind donations, personnel expenses, etc.) Cooperating with NGOs/NPOs
	Strengthen governance 	As a corporate group with a global value chain, we believe that robust compliance and risk management are essential building blocks for the sustainable growth of our business. We are also continuously strengthening our corporate governance in order to enhance the soundness and transparency of management.	<ul style="list-style-type: none"> Enhancing risk management Ensuring thorough compliance Enhancing corporate governance Formulating BCM/BCP Enhancing supply chain management 	<ul style="list-style-type: none"> Compliance training attendance rate [Targets] Number of female directors as of January 2027: two
	Enhance information disclosure 	We recognize that building stronger relationships with our stakeholders is fundamental to our management, and we strive to disseminate information and interact with them through various mediums. Through ongoing interaction with all our stakeholders, we are committed to understanding the diverse expectations they have of our Group and further refining our model of sustainability-oriented management.	<ul style="list-style-type: none"> Timely disclosure Increasing the quantity of disclosed information Improving the quality of disclosed information Actively interacting with investors 	<ul style="list-style-type: none"> Company's evaluation score as determined by an ESG evaluation agency

Human Rights

One of the values emphasized in our Group's Corporate Philosophy is to respect people, so we promote corporate management based on respect for human rights. In our Compliance Manual established in 2004, we spelled out items to comply with that include sections on respect for human rights and prohibition of unfair discrimination, and we have strived to foster a corporate culture built on respect for human rights. In addition, due to the advancement of business globalization, there is a stronger awareness than ever of the importance of respecting human rights throughout the value chain. We therefore formulated the Human Rights Policy for the Sumitomo Heavy Industries Group and are enhancing our efforts to respect human rights as a Group.

Human Rights Policy

In February 2023, we formulated the Human Rights Policy for the Sumitomo Heavy Industries Group based on a resolution passed by the Board of Directors. The policy consists of nine provisions: 1. Basic Concept, 2. Role of This Policy and Scope of Application, 3. Compliance with International Standards, Laws, and Regulations, 4. Responsibility for Respecting Human Rights, 5. Human Rights Due Diligence, 6. Dialog, 7. Training, 8. Access to Remedy, and 9. Information Disclosure.

The policy is also based on the opinions of outside experts and NGOs as well as international standards that include the UN's Guiding Principles on Business and Human Rights and the guidelines* of the Ministry of Economy, Trade and Industry.

* The Guidelines on Respecting Human Rights in Responsible Supply Chains, which were formulated in September 2022

Human Rights Management Structure

Our efforts to respect human rights are supervised by the Board of Directors, and our Executive Vice President and General Manager of the Corporate Planning Group, who is appointed by the Presidents and CEO, is in charge of promoting such efforts. The status of these efforts is regularly reported on and discussed at meetings of the Board of Directors and Sustainability Committee (which convenes twice per year).

Given that initiatives related to human rights are related to all of our Group's business activities and stakeholders, we launched a company-wide human rights risk project in December 2021 in an effort to enhance cooperation between related divisions.

Based on the action policies and plans determined via the human rights risk project, our divisions and



Group companies work together to pursue initiatives aimed at respecting human rights.

Human Rights Due Diligence

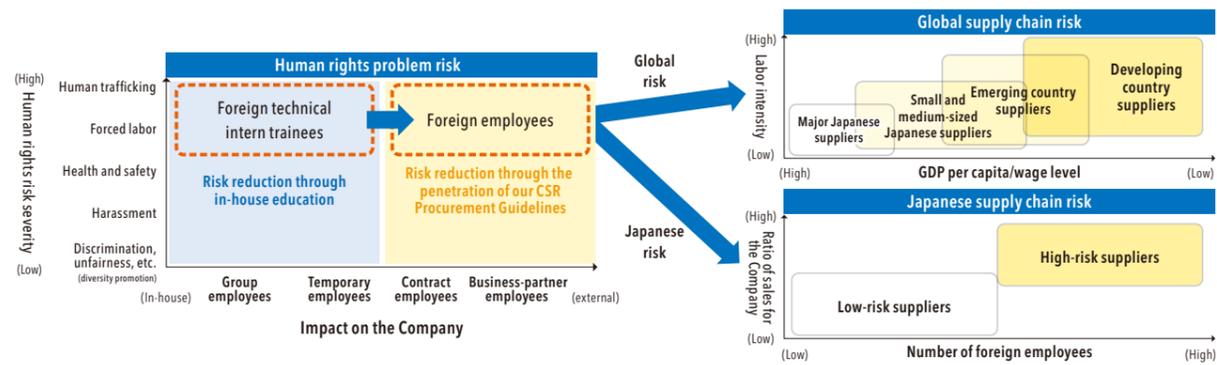
As a first step towards identifying, preventing, and reducing adverse effects on human rights based on the UN's Guiding Principles on Business and Human Rights, in FY2022, we started conducting working environment surveys targeting foreign technical intern trainees working at our Group's manufacturing sites as well as workers in our supply chain.

Human rights risk identification process

Given that our Group has built a global supply chain and has manufacturing sites around the world, we recognize the protection of the human rights of workers from a global point of view to be an extremely important issue. In light of recent international concerns and given that risks related to our technical intern trainees have already become apparent, we started by conducting a working environment survey targeting foreign technical intern trainees at our Company's manufacturing sites. To ensure that in-house parties share the same awareness of risk, we organized the survey areas into two axes: "human rights risk severity" and "impact on the company." (See the left-hand figure on the next page.)

Given that our Japanese supply chain includes many technical intern trainees and foreign workers, we identified suppliers that have a high "ratio of sales for the company" and "number of foreign employees" as high-risk suppliers. (See the lower right figure on the next page.)

In addition, in terms of our overseas supply chain, we also identified suppliers in regions that have high "labor intensity" and a low "regional wage level (GDP per capita)" as high-risk suppliers. (See the upper right figure on the next page.)



Working environment survey of our foreign technical intern trainees and supply chain

Based on our human rights risk identification process, in FY2022, we started conducting working environment surveys covering foreign technical intern trainees working at our Group's manufacturing sites as well as our overseas-site employees and overseas suppliers. To further increase both the effectiveness and objectivity

of these surveys, we conduct them in collaboration with The Global Alliance for Sustainable Supply Chain (called ASSC below), an NGO that supports the building of sustainable corporate supply chains. We discuss the findings received from the ASSC during the course of these surveys as part of our human rights risk project, and we then specify an order of priority and endeavor to make improvements.

Surveys	Survey date	Survey methodology	Survey results
1) Working environment survey of our Group's foreign technical intern trainees (five business divisions/ around 200 people)	July 6, 2022, to May 26, 2023	<ul style="list-style-type: none"> Checking internal documents and reports On-site inspections of working environments and living spaces as well as interviews with trainees 	We did not identify any current or imminent human rights issues related to human rights violations, safety, or human health. However, we did confirm the items below, which could result in future human rights issues. (ASSC findings)
2) Working environment survey of overseas-site employees	March 7, 2023	<ul style="list-style-type: none"> Checking internal documents and reports On-site inspections of working environments and interviews with employees 	Japanese survey 1) <ul style="list-style-type: none"> Comprehensively posting information in the native languages of employees Training to call police, firefighters, and others during emergencies, etc.
3) Working environment survey of overseas-supplier employees	March 8, 2023	<ul style="list-style-type: none"> Checking internal documents and reports On-site inspections of working environments and interviews with employees 	Overseas surveys 2) and 3) <ul style="list-style-type: none"> Paying attention to the health of people who work long hours Posting evacuation routes, etc.
4) Foreign worker employment survey of Japanese suppliers	Starting on February 17, 2023	Currently conducting a questionnaire covering 409 essential suppliers (small and medium-sized Japanese business partners who cannot be replaced)	

Employee education

As part of our efforts related to human rights due diligence, we provide human rights education. When we formulated our Human Rights Policy in February 2023, we distributed an explanatory video by our President and CEO in three languages—Japanese, English, and Chinese—to all of our employees to make everyone aware of the purpose and

importance of the policy. We also provide human rights education in various other ways, including incorporating human rights education into our e-learning and level-specific education as well as running a “human rights feature” in our Group newsletter, and we thereby strive to raise employee awareness of human rights.



Human rights consultation service (grievance mechanisms)

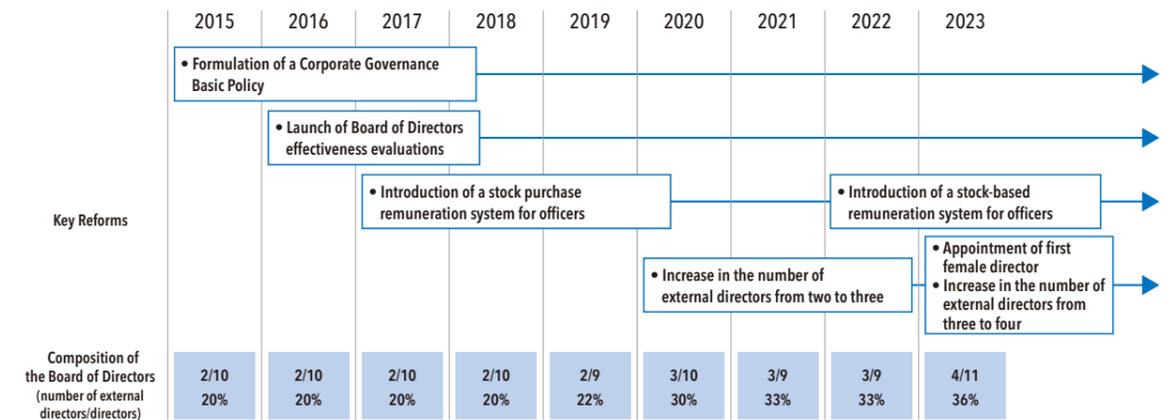
To enable more employees to effectively use the SHI Group Ethics Hotline, our existing whistleblowing system, we are working on providing support in multiple languages, including Vietnamese, Tagalog, and Indonesian. We are also preparing ways to provide relief to injured parties through suitable processes and information management.

Strengthening Our Corporate Governance

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

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

Our Initiatives to Strengthen Corporate Governance

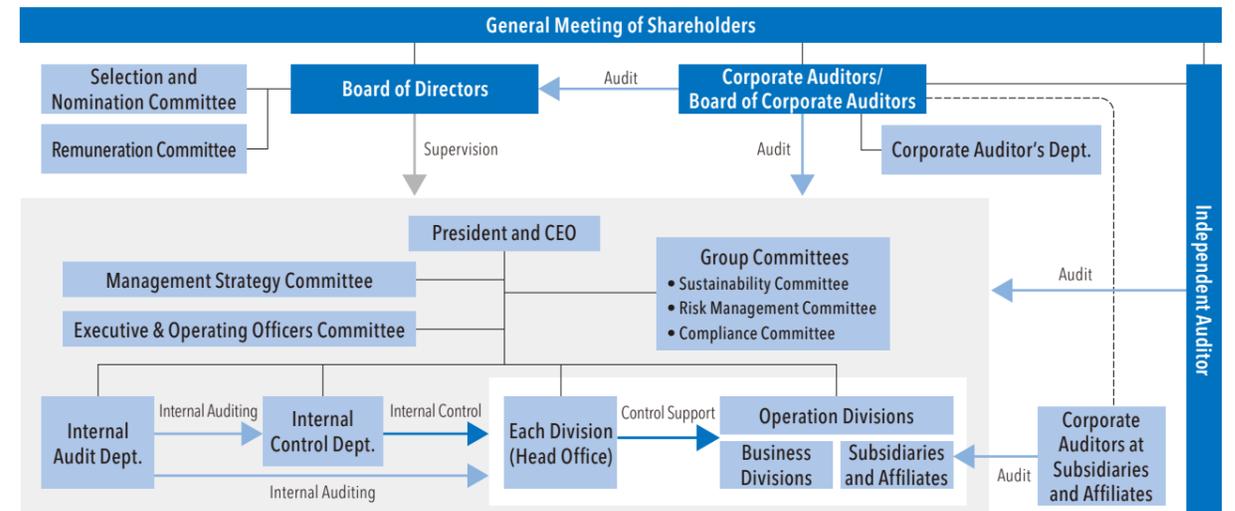


Corporate Governance System

Sumitomo Heavy Industries (SHI) has adopted a governance system of a company with a board of corporate auditors. The system is supported by a dual checking function based on management supervision via 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. In addition, we have introduced an executive officer system as part of the above framework, and we keep the business execution function and supervisory function separate in terms of our management. This structure is believed to be the most appropriate institutional design for ensuring an effective supervisory function for SHI with its highly diversified business domains.

Corporate Governance System Chart



Supervision

● Management Strategy Committee

The Board of Directors is comprised of 11 directors (limited to 12 directors). They include the Chairman of the Board, who chairs the Board of Directors, and four 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 utilizing the Internal Auditing Department and 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. Each committee is chaired by an external director with a view to ensuring objectivity.

● Board of Corporate Auditors

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

The Board of Corporate Auditors meets once a month in principle but may meet at any time as appropriate.

We have also established the Corporate Auditor's Department to support the corporate auditors, and we have assigned dedicated staff to assist the corporate auditors with the execution of auditing duties and ensure the smooth provision of information to them. In order to increase the independence of the staff from the directors and ensure the effectiveness of the instructions of the corporate auditors, we also require the agreement of the corporate auditors when it comes to personnel transfers and performance evaluations of the staff.



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 Company and the Group companies, the status of the Group's 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 on 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 Company and 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.

Key Areas of Deliberation for the Board of Directors

General Meetings of Shareholders	• Convocation of Ordinary General Meetings of Shareholders	Sustainability	• Formulation of the Basic Sustainability Policy • Establishment of reduction targets for CO ₂ emissions • Formulation of Human Rights Policy
Settlement of accounts, etc.	• Budgets and financial results	Compliance	• Reports on the deliberations of the Compliance Committee
Medium-term management plans	• Reports on the progress of medium-term management plans from each business division	Technology/Quality	• R&D strategies • Status of product quality improvements
Governance	• Taking action in response to Japan's revised Corporate Governance Code • Board of Directors effectiveness evaluations • Implementation of dialogues with shareholders • Revision of the stock-based remuneration system for officers • Progress of succession plan for the CEO and other top executives • Appointment of officers and other key HR matters • Segment organization	Risk management	• Reports on the deliberations of the Risk Management Committee • BCP establishment
		Group management	• Mergers with subsidiaries • Acquisition of additional subsidiary shares
Audits	• Reports on the plans and results of audits conducted by corporate auditors	Other matters	• Capital investments
Human resources	• Human resource hiring plan • Revision of various human resource systems		

Evaluation of Effectiveness of the Board of Directors

The Company evaluates the effectiveness of the Board of Directors every year aiming to improve the function of the Board of Directors through the ongoing process to verify if the Board of Directors is functioning properly and take necessary measures to improve the issues and reinforce it based on the results.

Overview of the FY2022 Effectiveness Evaluation

Date	December 2022 to March 2023
Targets	All directors (9) and corporate auditors (4)
Evaluation process	Step 1: Discuss and formulate the questionnaire survey content at a meeting of external officers Step 2: Conduct a questionnaire survey targeting all of the directors and corporate auditors Step 3: Based on the questionnaire survey results, assign a certain external director as the interviewer to interview all of the external officers as well as some of the directors and corporate auditors Step 4: Discuss the results of the Board of Directors effectiveness evaluation at a meeting of external officers Step 5: At a Board of Directors meeting, have all of the directors and corporate auditors deliberate on the results of the Board of Directors effectiveness evaluation and finalize these results
Questionnaire survey items	The major items are listed below. In general, each question is evaluated on a four-level scale. There is also a free comment field for each item. 1. Roles and responsibilities of the Board of Directors 2. Composition of the Board of Directors 3. Support related to Board of Directors operations and officers 4. Relationships with shareholders and other stakeholders 5. Other (Board of Directors in general (free comment entry))
Evaluation results	Conclusion: As a result of the fiscal 2022 effectiveness-evaluation questionnaire survey, interviews, discussions at meetings of external officers, and deliberation by the Board of Directors, we confirmed that the effectiveness of the Board of Directors was ensured and that it functioned effectively in fiscal 2022.

Issues to Continue Handling and Our Future Response

Issue	FY2022 evaluation	Main opinions in the questionnaire surveys and interviews	Future response
Enhancing the supervisory function of the Board of Directors	In fiscal 2022, although we made progress on considering how the Board of Directors should be, including reviewing matters to be discussed by the Board of Directors in line with the materialization of segment organization, we need to continue considering how to transfer authority to business executing departments so as to enhance the board's supervisory function.	<ul style="list-style-type: none"> Due to the transition to a segment-based system, we need to make progress in terms of transferring authority and further strengthen the supervisory function of the Board of Directors. The Board of Directors needs to strengthen involvement in our management strategy and business direction. While it is true that we need to enhance the supervisory function, given the diversity of the Company's business, simply making decisions regarding our major management policies will not be enough to enhance this function, and involvement in decision-making related to specific deals is necessary as well. 	We will further consider how to transfer business execution authority so as to enhance the supervisory function of the Board of Directors based on how the board should be as well as its roles, responsibilities, and future direction.
Discussion of our long-term strategies and business portfolio composition	Although we are deliberating on how the Company's management should be based on the long-term perspective, including our business portfolio, via meetings that are attended by all members of the Board of Directors, including external officers, and provide the opportunity to discuss our long-term strategies, more detailed discussions of long-term strategies as well as the optimal compositions of both company-wide and segment-specific business portfolios are still necessary.	<ul style="list-style-type: none"> There is not enough discussion of the optimal composition of the business portfolio based on our long-term strategies. As we discuss our long-term strategies, we need to more comprehensively consider selection and concentration as well as backcasting. 	As we formulate our next Medium-Term Management Plan, we will deepen and accelerate discussions of how the Company's management should be in the long term, our strategies, and the optimal composition of both company-wide and segment-specific business portfolios.
Deliberation based on an awareness of capital costs	Although we engage in reporting and deliberation based on an awareness of ROIC, more detailed discussions of our policies for improving our ROIC in the long term are still necessary.	The deliberation of the Board of Directors is now based on a stronger awareness of ROIC, but we need to more comprehensively discuss how to improve our ROIC in the long term.	Based on optimal segment and business division-specific KPIs in line with the Medium-Term Management Plan and long-term strategies, we will make our plans and strategies for achieving our target ROIC more concrete, and we will have the Board of Directors discuss this in more detail as we formulate our next Medium-Term Management Plan.
Supervision of human capital, intellectual property, and other management resource allocation	We need to hold more detailed discussions of our policies and focused investment approach for investing in intellectual property and human capital to ensure the diversity of our human resources.	<ul style="list-style-type: none"> Instead of simply hiring a lot of people and investing a lot of money, we need to discuss whether we are investing in fields we should be focusing on. We need to continue to improve the diversity of the Group as a whole. 	In terms of enhancing our investment in human capital and intellectual property as well as allocating resources appropriately, we will further discuss our policies and focused investment approach during the formulation of the next Medium-Term Management Plan.

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.

Executive Compensation

Compensation for the Company's directors and executive officers comprises basic remuneration, performance-linked remuneration, and stock-based remuneration. The approximate component ratios are 60%, 30%, and 10%, respectively. Basic remuneration is a fixed form of remuneration determined for each position. An allowance is added to the remuneration for directors, 85% of which is fixed remuneration. Performance-linked remuneration comprises dividend-based remuneration that fluctuates in response to the Company's annual dividend, as well as performance-based remuneration that fluctuates in response to the consolidated business results for directors and executive officers of the Head Office and to the performance of operation divisions for directors and executive officers in charge of such divisions. The component ratios are 50% and 50%, respectively. The dividend-based remuneration is calculated by multiplying a standard amount for each position by a coefficient determined based on the Company's annual dividend. 15% of the directors' allowance is variable as it is multiplied by the coefficient used for calculating dividend-based remuneration. Performance-based remuneration linked to the performance of operation divisions is calculated by multiplying a standard amount for each position by a coefficient determined according to the ranks A to E based on the three indicators of net sales, amount of operating profit, and operating profit ratio, and takes into account additional factors such as safety records and compliance status, with the President and CEO as the final decision-maker.

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

Stock-based remuneration is intended to clarify the

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

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

Classification	Amount of Compensation (¥ million)	Amount by Type of Compensation (¥ million)				Number of Eligible Officers
		Monetary Remuneration			Non-Monetary Remuneration	
		Basic Remuneration	Performance-Linked Remuneration	Stock Purchase Remuneration	Stock-Based Remuneration	
Directors (excluding external directors)	253	150	80	8	15	8
Corporate auditors (excluding external corporate auditors)	53	53	-	-	-	3
External officers	42	42	-	-	-	5

Selection and Nomination Committee

This committee is chaired by an independent external director, and the majority of its members are independent officers who include external directors and external corporate auditors. 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 FY2022, the committee met twice 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

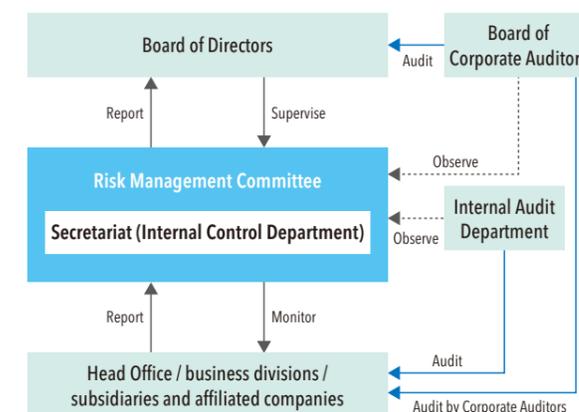
This committee is chaired by an independent external director, and the majority of its members are independent officers who include external directors and external corporate auditors. On the advice of the Board of Directors, the Remuneration Committee deliberates on the system and standards of compensation of directors and executive officers and related matters and then 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 FY2022, the committee met three times to report on the revision of executive compensation for FY2022 and discussed a desirable executive compensation system for the future, including the introduction of a stock-based remuneration system.

Basic Concept

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

Management Structure

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



Risk Assessment Process

The Group has established the Risk Management Committee to identify all management-related risks.

Risks are categorized into two main categories: 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. These risks are then further subdivided into standard categories and subcategories, and we have identified a total of 71 risks.

Each fiscal year, the Risk Evaluation Subcommittee, which has been established under the Risk Management Committee, performs an assessment of the identified risks. Following this assessment, specific risks that need to be addressed are categorized as

"significant Group risks," and risk reduction activities are promoted in response to these risks under the leadership of the head office divisions with jurisdiction over the risks.

Significant Group risks for fiscal 2023: climate change risks (risks associated with the transition to a decarbonized economy and physical risks of increasingly extreme weather events), geopolitical risks, risks associated with large-scale disasters and infectious diseases, risks associated with quality-related misconduct and data tampering, information security risks, and risks associated with serious accidents.

Overview of Risks

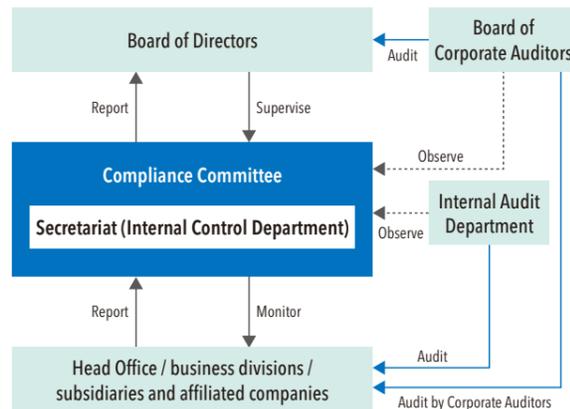
Business risks		Operational risks
Management-level risks	Business-level risks	
Group governance, Responding to medium- to long-term management issues [Delays in addressing climate change and next-generation research and development], Information disclosure	External environment, Sales and services, Research, 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

Basic Concept

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

Management Structure

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



Initiatives to Strengthen Compliance

● Creation of Compliance Tools

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



● Compliance Awareness Survey

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

● Obtaining a Pledge of Compliance

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

Anti-bribery Measures

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

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

Establishment of Systems for Reporting and Consulting

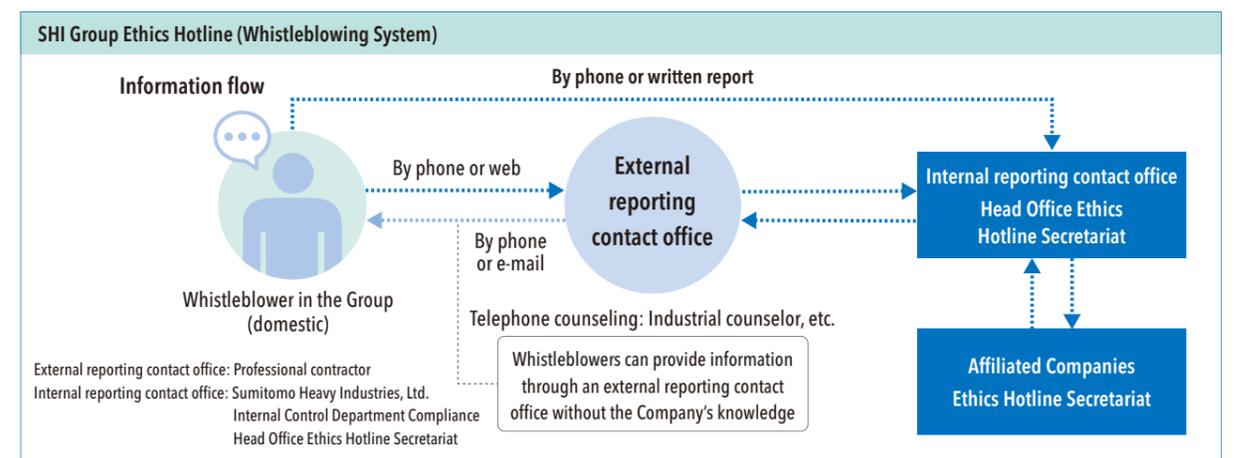
The SHI Group Ethics Hotline was established as a whistleblowing system that allows officers and employees of the SHI Group (including former employees who have departed the Group in the past one-year period) to report and consult on any violations of laws, regulations, or internal rules, as well as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

consultation service dedicated to handling workplace harassment issues.

All reports are investigated and handled by the Head Office Ethics Hotline Secretariat.

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

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



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, general managers 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 and raise awareness of compliance through the regular reading of the Compliance Manual and regular compliance education at the workplace	Conducted on a regular basis
		Raise awareness of compliance through education and training using the case method, in which participants are divided into groups to discuss and present compliance case studies	Once per year
E-learning	Group companies' employees	Deepen knowledge of compliance through test-based education and training on 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	Upon assignment to sales departments

Directors, Corporate Auditors, and Executive Officers

Board of Directors

(As of March 30, 2023)



Tetsuya Okamura

Representative Director, Chairman of the Board

1980 Joined the Company
2022 Representative Director, Chairman of the Board



Shinji Shimomura

Representative Director, President and CEO

1982 Joined the Company
2019 Representative Director, President and CEO



Eiji Kojima

Representative Director, Executive Vice President

1984 Joined the Company
2022 Representative Director, Executive Vice President



Kazuo Hiraoka

Director, Executive Vice President

1985 Joined the Company
2020 Director, Executive Vice President



Toshihiko Chijiwa

Director, Executive Vice President

1984 Joined the Company
2022 Director, Executive Vice President



Toshiro Watanabe

Director, Senior Vice President

1986 Joined the Company
2022 Director, Senior Vice President



Tatsuro Araki

Director, Senior Vice President

1986 Joined the Company
2023 Director and Senior Vice President



Susumu Takahashi

External Director

2014 External Director of the Company



Hideo Kojima

External Director

2015 External Director of the Company



Akio Hamaji

External Director

2020 External Director of the Company



Sumie Morita

External Director

2023 External Director of the Company

Corporate Auditors

(As of March 30, 2023)



Hideo Suzuki

Standing Corporate Auditor

1982 Joined the Company
2022 Auditor



Shoji Uchida

Standing Corporate Auditor

1981 Joined the Company
2023 Auditor



Masaichi Nakamura

External Corporate Auditor

2017 Auditor of the Company



Yaeko Hodaka

External Corporate Auditor

2021 Auditor of the Company

Necessary Attributes of the Board of Directors (Areas of Expected Expertise and Contributions)

Name	Current position	Gender	Areas of expected expertise and contributions						
			Corporate management	Compliance/risk management	ESG/sustainability	Business strategy/marketing	Global	Technology/IT/production	Finance/accounting
Tetsuya Okamura	Representative Director, Chairman of the Board	Male		○		○	○	○	
Shinji Shimomura	Representative Director, President and CEO	Male	○	○	○		○	○	
Eiji Kojima	Representative Director	Male		○	○	○		○	
Kazuo Hiraoka	Director	Male		○		○	○	○	
Toshihiko Chijiwa	Director	Male		○	○			○	
Toshiro Watanabe	Director	Male		○	○				○
Tatsuro Araki	Director	Male		○		○		○	
Susumu Takahashi	External Director	Male	○	○	○				
Hideo Kojima	External Director	Male		○	○				○
Akio Hamaji	External Director	Male	○	○	○			○	○
Sumie Morita	External Director	Female		○	○			○	

Male Female

Reasons for selecting necessary attributes of the Board of Directors

Item	Necessity and reasons for selection
Corporate management	In the midst of a substantially changing environment surrounding businesses, it will become necessary to indicate the direction of the Company (corporate strategies) and make quick business decisions, based on business principles, in order to respond to changes quickly, develop in a sustainable manner and improve corporate value
Compliance/risk management	Under Sumitomo's business philosophy, it will be required for the continued Company group's sustainable development and improvement of corporate value, in order to promote risk management, taking into account compliance based on business principles and the ethics code
ESG/sustainability	In the midst of emphasizing the role of companies for the realization of a sustainable society, it will become necessary to improve social value as a company while solving social issues, in order for the Company Group to develop in a sustainable manner and improve corporate value
Business strategy/marketing	It will be necessary to develop and implement realistic and specific business and marketing strategies in order to realize corporate strategies and achieve the Medium-Term Management Plan we commit to
Global	Experience in global business, and extensive experience in understanding overseas cultures, environments, etc. will be necessary to continue providing excellent products and services to the world
Technology/IT/production	In order to be a machinery manufacturer that continues to provide excellent products and services to the world, it will be necessary to continue providing high-quality products and solutions, supported by solid technologies, and this will in turn require knowledge and experience in technology, IT and production
Finance/accounting	Knowledge and experience in finance and accounting will be required to realize accurate financial reporting, development of a resilient corporate structure, and growth investments that contribute to sustainable development and improvement of corporate value

Composition of each committee in 2023

Name	Current position	Tenure (Years) (Note)	Selection and Nomination Committee	Remuneration Committee	Management Strategy Committee	Executive & Operating Officers Meeting	Sustainability Committee	Risk Management Committee	Compliance Committee	Attendance at Meetings of the Board of Directors/ Board of Corporate Auditors
Tetsuya Okamura	Representative Director, Chairman of the Board	4 years and 9 months	○	○	○	○	○			Meetings of the Board of Directors: 13/13 (100%)
Shinji Shimomura	Representative Director, President and CEO	6 years and 9 months	○	○	◎	◎	◎	◎	◎	Meetings of the Board of Directors: 13/13 (100%)
Eiji Kojima	Representative Director	5 years and 9 months			○	○	○	○	○	Meetings of the Board of Directors: 13/13 (100%)
Kazuo Hiraoka	Director	2 years and 9 months			○	○	○			Meetings of the Board of Directors: 13/13 (100%)
Toshihiko Chijiwa	Director	9 months			○	○	○	○	○	Meetings of the Board of Directors: 9/9 (100%) * Appointed in Jun. 2022
Toshiro Watanabe	Director	9 months			○	○	○	○	○	Meetings of the Board of Directors: 9/9 (100%) * Appointed in Jun. 2022
Tatsuro Araki	Director	New Candidate				○	○			* Appointed in March, 2023
Susumu Takahashi	External Director	8 years and 9 months	○	○		○	○			Meetings of the Board of Directors: 13/13 (100%)
Hideo Kojima	External Director	7 years and 9 months	◎	◎		○	○			Meetings of the Board of Directors: 13/13 (100%)
Akio Hamaji	External Director	2 years and 9 months	○	○		○	○			Meetings of the Board of Directors: 13/13 (100%)
Sumie Morita	External Director	New Candidate	○	○		○	○			* Appointed in March, 2023
Hideo Suzuki	Standing Corporate Auditor				○	○	○	○	○	Meetings of the Board of Directors: 13/13 (100%) Meetings of the Board of Corporate Auditors: 9/9 (100%) * Appointed in Jun. 2022
Shoji Uchida	Standing Corporate Auditor				○	○	○	○	○	* Appointed in March, 2023
Masaichi Nakamura	External Corporate Auditor		○	○		○	○			Meetings of the Board of Directors: 12/13 (92%) Meetings of the Board of Corporate Auditors: 13/13 (100%)
Yaeko Hodaka	External Corporate Auditor		○	○		○	○			Meetings of the Board of Directors: 13/13 (100%) Meetings of the Board of Corporate Auditors: 13/13 (100%)

◎: Chairperson ○: Committee member

Note: At the end of the General Meeting of Shareholders in March 2023

Executive Officers

	Title	Name	Appointments
○	President	Shinji Shimomura	CEO
	Executive Vice President	Toshiharu Tanaka	General Manager of Globalization Dept.
○	Executive Vice President	Kazuo Hiraoka	General Manager, Industrial Machinery Segment
	Executive Vice President	Tatsuya Endo	General Manager, Logistics & Construction Segment; Chairman of Sumitomo Construction Machinery Co., Ltd.; General Manager of Ehime Works
	Executive Vice President	Taiji Tsuchiya	General Manager, Mechatronics Segment
○	Executive Vice President	Eiji Kojima	General Manager, Energy & Lifeline Segment; General Manager of Export Administration Dept.; General Manager of Corporate Planning Group
○	Executive Vice President	Toshihiko Chijiwa	General Manager of Corporate Technology Management Group
	Senior Vice President	Hiroo Morita	In charge of Internal Control Group, Corporate Legal Dept., Internal Audit Dept. and General Administration Group; Regional General Manager of Kansai Office; Chairman of Sumitomo Heavy Industries (China), Ltd.;
	Senior Vice President	Morihiro Kondo	General Manager of New Business Exploration Dept.
	Senior Vice President	Yasunobu Kazumi	Representative Director, President & CEO of Sumitomo Construction Machinery Co., Ltd. Representative Director, President & CEO of Sumitomo Construction Machinery Sales Co., Ltd.
	Senior Vice President	Shaun Dean	General Manager of EMEA HQ, Power Transmission & Controls Group, Lafert S.p.A. Director & CEO, Invertek Drives Ltd. Director & CEO
○	Senior Vice President	Tatsuro Araki	General Manager of Power Transmission & Controls Group
○	Senior Vice President	Toshiro Watanabe	General Manager of Corporate Finance, Accounting & Administration Group
	Vice President	Shigeru Tajima	General Manager of Process Machinery Center; Representative Director & President of Sumitomo Heavy Industries Process Equipment Co., Ltd.
	Vice President	Kazutoshi Shiraishi	General Manager of Human Resources Group
	Vice President	Mitsukuni Tsukihara	Representative Director, President & CEO of Sumitomo Heavy Industries Ion Technology Co., Ltd.
	Vice President	Takanori Nagai	Representative Director, President & CEO of Sumitomo Heavy Industries Environment Co., Ltd.
	Vice President	Haruhiko Tsuzuki	Representative Director, President & CEO of Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
	Vice President	Melvin Porter	LBCE Holdings, Inc. President & CEO
	Vice President	Yoichi Kato	General Manager of Energy & Environment Group
	Vice President	Isamu Mitsuhashi	Assisting the President of Sumitomo Construction Machinery Co., Ltd., in the Sumitomo Construction Machinery business

(○ designates concurrent position as a director)

CORPORATE DATA

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

Eleven-Year Summary and Key Financial Data

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

(unit: million yen)

FY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*8	2022 (Jan. to Dec.) Reference values*9
Summary of Income (for the financial year):												
Net sales	¥ 585,871	¥ 615,271	¥ 667,099	¥ 700,838	¥ 674,328	¥ 791,025	¥ 903,051	¥ 864,490	¥ 849,065	¥ 943,979	¥ 854,093	¥ 1,018,261
R&D expenses	9,835	10,718	11,415	12,299	11,276	14,805	16,836	18,753	19,434	20,143	17,381	—
Operating profit	31,288	34,329	45,998	50,568	48,431	69,921	75,244	56,806	51,342	65,678	44,803	59,950
EBITDA*1	49,570	52,946	62,279	70,289	68,742	92,925	101,219	84,758	81,089	96,609	74,437	—
Ordinary profit	30,997	33,000	45,113	49,131	48,274	67,466	72,623	52,642	49,544	64,847	43,253	58,837
Profit attributable to owners of parent	5,865	17,891	24,348	33,133	33,613	34,660	45,650	32,807	26,764	44,053	5,782	16,259
Cash Flows (for the financial year):												
Cash flows from operating activities	¥ 2,660	¥ 63,661	¥ 62,170	¥ 18,315	¥ 38,158	¥ 71,111	¥ 55,173	¥ 36,263	¥ 64,131	¥ 61,679	¥ 21,366	¥ —
Cash flows from investing activities	(19,660)	(27,622)	(14,112)	(15,350)	(25,852)	(37,810)	(54,973)	(57,752)	(43,729)	(49,678)	(37,279)	—
Free cash flows*2	(17,000)	36,039	48,058	2,965	12,306	33,301	199	(21,489)	20,402	12,000	(15,913)	—
Cash flows from financing activities	(11,428)	(9,498)	(36,889)	(23,789)	(17,809)	(10,146)	(13,314)	35,964	(7,959)	(28,106)	21,677	—
Cash and cash equivalents at the end of the period	46,476	76,418	90,324	68,625	61,017	85,503	69,776	83,630	96,242	84,992	93,727	—
Financial Position (at financial year-end):												
Total assets	¥ 647,724	¥ 724,182	¥ 786,027	¥ 782,859	¥ 796,484	¥ 894,835	¥ 954,051	¥ 996,111	¥ 1,030,684	¥ 1,094,930	¥ 1,148,870	¥ —
Interest-bearing debt	98,547	107,433	83,644	68,232	60,460	64,181	73,311	124,669	124,439	111,251	160,765	—
Net interest-bearing debt*3	50,732	29,607	(8,779)	(2,572)	(3,360)	(24,052)	(278)	37,602	24,921	22,468	63,289	—
Total net assets	292,826	331,059	365,101	382,817	409,171	444,964	465,001	477,648	504,928	566,843	576,922	—
Amounts per Share of Common Stock: (unit: yen) *4												
Earnings*5	¥ 9.56	¥ 29.17	¥ 39.71	¥ 54.06	¥ 54.85	¥ 282.83	¥ 372.56	¥ 267.77	¥ 218.46	¥ 359.61	¥ 47.20	¥ —
Net assets	470.69	532.28	587.37	614.51	650.47	3,517.33	3,701.01	3,790.99	4,005.43	4,501.11	4,647.20	—
Cash dividends	8.00	7.00	12.00	16.00	16.00	85.00	112.00	91.00	65.00	115.00	90.00	—
Financial Indexes: (unit: %)												
Operating profit ratio	5.3	5.6	6.9	7.2	7.2	8.8	8.3	6.6	6.0	7.0	5.2	5.9
EBITDA ratio	8.5	8.6	9.3	10.0	10.2	11.7	11.2	9.8	9.6	10.2	8.7	—
R&D expenses ratio to net sales	1.7	1.7	1.7	1.8	1.7	1.9	1.9	2.2	2.3	2.1	2.0	—
Return on assets (ROA)	0.9	2.5	3.1	4.2	4.2	3.9	4.8	3.3	2.6	4.0	0.5	1.4
Return on equity (ROE)	2.1	5.8	7.1	9.0	8.7	8.4	10.3	7.1	5.6	8.5	1.0	3.0
Stockholders' equity ratio	44.6	45.1	45.8	48.1	50.0	48.2	47.5	46.6	47.6	50.4	49.5	—
Interest-bearing debt ratio	15.2	14.8	10.6	8.7	7.6	7.2	7.7	12.5	12.1	10.2	14.0	—
D/E ratio (times)	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.3	0.3	0.2	0.3	—
ROIC*6	4.9	4.8	6.5	7.6	7.3	10.3	10.5	7.3	6.1	7.3	4.6	6.2
Investment in Plant and Equipment and Others:												
Capital expenditures*7	¥ 29,888	¥ 20,329	¥ 20,670	¥ 23,721	¥ 27,539	¥ 30,432	¥ 33,713	¥ 39,435	¥ 39,885	¥ 46,729	¥ 44,629	¥ —
Depreciation	18,282	18,617	16,281	19,720	20,311	23,003	25,975	27,953	29,746	30,930	29,634	—

*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) = $\frac{(\text{Operating profit} + \text{Interest and dividend income}) \times (1 - \text{Effective tax rate}^)}{(\text{FY average of stockholders' equity} + \text{FY average of interest-bearing debt})}$ * Effective tax rate = 45% until FY2013, 40% for FY2014, 35% for FY2015 and FY2016, 31% from FY2017

*7. Capital expenditures are capitalized and recorded as assets.

*8. Due to a change in our accounting period, FY2022 will be a nine-month accounting period from April 2022 to December 2022.

*9. To compare our FY2022 results to past accounting periods, the FY2022 (nine-month accounting period) results have been converted to figures for the period from January to December.

Non-Financial Key Data

Target period: For fiscal 2022, the target period is the 12 months from January to December of 2022.
(Although the accounting period for fiscal 2022 is the nine months from April to December of 2022,
the period for non-financial information is generally the above 12 months to ensure comparability, etc.)

Environment

Addressing Climate Change

		Unit	2018	2019	2020	2021	2022
GHG Emissions (Scope 1)	Total	t-CO ₂	37,674	40,200	37,028	37,880	38,913
	Data Coverage	%	80.1	85.9	85.9	92.6	91.1
GHG Emissions (Scope 2)	Total*1	t-CO ₂	147,695	150,378	145,088	153,024	154,892
	Data Coverage	%	80.1	85.9	85.9	92.6	91.1
GHG Emissions (Scope 1, 2 total)	Total*1	t-CO ₂	185,369	190,579	182,117	190,904	193,806
	Data Coverage	%	80.1	85.9	85.9	92.6	91.1
GHG Emissions (Scope 3)	Cat-01 Raw Materials	t-CO ₂	312,242	313,670	356,805	351,365	406,638
	Cat-02 Capital Goods	t-CO ₂	143,234	165,751	128,805	154,343	147,464
	Cat-03 Energy Usage	t-CO ₂	9,949	20,162	20,280	21,349	26,859
	Cat-04 Logistics (upstream)	t-CO ₂	11,984	11,562	11,046	11,082	11,045
	Cat-05 Waste Treatment	t-CO ₂	8,679	6,958	5,767	5,578	5,355
	Cat-06 Business Trips	t-CO ₂	1,962	2,120	2,171	3,761	3,277
	Cat-07 Employee Commuting	t-CO ₂	5,723	6,006	6,179	11,138	11,322
	Cat-08 Lease Asset (upstream)	t-CO ₂	0	0	0	0	0
	Cat-09 Logistics (downstream)	t-CO ₂	—	—	—	—	—
	Cat-10 Processing of Products to Be Sold	t-CO ₂	—	—	—	—	—
	Cat-11 Use of Sold Products	t-CO ₂	—	225,549,245	123,029,056	136,614,107	79,946,933
	Cat-12 Disposal of Unsold Products	t-CO ₂	—	—	—	—	—
	Cat-13 Lease asset (downstream)	t-CO ₂	—	—	—	—	—
	Cat-14 Franchise	t-CO ₂	Not subject				
	Cat-15 Investment	t-CO ₂	2,244	2,060	1,852	2,422	2,873
Total	t-CO ₂	496,016	226,077,535	123,561,961	137,175,145	80,561,766	
Data Coverage	%	91.5	97.9	96.8	96.5	94.6	
CO ₂ Emission Intensity	Results	t-CO ₂ /¥ million	5.1	4.7	5.0	5.3	4.6
	Data Coverage	%	80.1	85.9	85.9	92.6	91.1
Energy Consumption	Fuel Consumption	MWh	194,399	208,620	192,857	195,722	199,304
	Electricity Usage	MWh	291,271	297,220	291,011	308,872	294,733
	Water Chilling/Heating	MWh	11,193	6,582	9,307	10,249	9,306
	Total	MWh	496,863	512,422	493,175	514,843	503,343
Data Coverage	%	80.1	85.9	85.9	92.6	91.1	
Renewable Energy Consumption	Total	MWh	336	323	1,223	1,298	14,203
	Data Coverage	%	80.1	85.9	85.9	92.6	91.1

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

Environmental Management

		Unit	2018	2019	2020	2021	2022
ISO 14001 Certification Status	Number of Certifications Acquired	Instances	55	56	58	58	57
	Acquisition Rate	%	80.0	80.1	80.6	79.4	75.2
Serious Violations of Environmental Laws and Regulations*2	Number of Cases	Instances	0	0	0	0	0
	Data Coverage	%	80.0	80.1	80.6	79.4	75.2

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

Water Resources Preservation

		Unit	2018	2019	2020	2021	2022
Water Consumption	Municipal Water Supply	thousand m ³	715	760	725	737	736
	Tap Water	thousand m ³	622	622	610	618	613
	Industrial Water	thousand m ³	—	—	—	—	—
	Fresh Water	thousand m ³	0	0	0	0	0
	Ground Water	thousand m ³	191	176	179	198	181
Total	thousand m ³	1,527	1,558	1,514	1,554	1,530	
Data Coverage	%	79.9	80.6	77.1	76.5	80.2	
Wastewater Discharge	Total	thousand m ³	468	454	478	460	448
	Data Coverage	%	50.9	51.3	51.6	47.5	43.6

Pollution Prevention and Waste Management

		Unit	2018	2019	2020	2021	2022	
Volume of Waste Disposed	Waste Generation	t	55,032	64,165	60,866	62,591	58,403	
	Recycled Volume (Total Amount of Recovered and Reused Waste, etc.)	t	31,905	24,860	29,686	25,843	24,431	
	Amount of Waste Incinerated Followed by Energy Recovery	t	3,986	4,048	2,497	2,702	2,506	
	Amount of Waste Incinerated Not Followed by Energy Recovery	t	17	1,904	290	224	386	
	Final Disposal Volume	t	760	8,234	1,235	1,294	1,004	
Data Coverage	%	83.6	85.6	85.5	84.2	84.5		
Volume of Harmful Waste Disposed	Waste Generation	t	4,079	303	818	708	693	
	Amount of Waste Incinerated Followed by Energy Recovery	t	—	—	235	222	209	
	Amount of Waste Incinerated Not Followed by Energy Recovery	t	—	—	168	118	46	
Target		SHI Group (Japan)						
Volume of Volatile Organic Compounds (VOC)	Total	t	736	685	690	716	733	
	Data Coverage	%	87.4	87.8	88.6	86.0	87.2	
	Breakdown of domestic	Toluene	t	129	122	99	100	91
		Xylene	t	351	305	267	258	280
Ethylbenzene		t	167	155	158	149	154	
Volume of NOx Emissions	Total	t	2.9	3.1	4.1	3.3	4.7	
	Data Coverage	%	49.5	49.1	46.9	45.3	43.8	
Volume of SOx Emissions	Total	t	0.81	0.64	0.50	0.18	0.22	
	Data Coverage	%	49.5	49.1	46.9	45.3	43.8	
Discharge into Water	COD	t	1.7	1.8	1.6	1.5	1.5	
	T-N	t	5.7	6.8	6.6	6.2	5.6	
	T-P	t	0.5	0.5	0.5	0.5	0.5	
	Total	t	7.8	9.0	8.7	8.1	7.6	
	Data Coverage	%	50.9	51.3	51.6	47.5	43.6	

Social

Employee Data

		Unit	2018	2019	2020	2021	2022
Employees (consolidated)	Male	Number of employees	—	—	—	—	21,260
	Female	Number of employees	—	—	—	—	4,281
	Ratio of women	%	—	—	—	—	16.8
	Total	Number of employees	22,543	23,635	24,050	24,584	25,541
Employees (SHI)	Male	Number of employees	2,675	2,719	2,960	2,965	3,350
	Female	Number of employees	327	349	396	405	499
	Ratio of women	%	10.9	11.4	11.8	12.0	13.0
	Total	Number of employees	3,002	3,068	3,356	3,370	3,849
Managers	Male	Number of employees	817	835	904	916	3,332
	Female	Number of employees	13	14	17	22	226
	Ratio of women	%	1.6	1.6	1.8	2.3	6.4
	Total	Number of employees	830	849	921	938	3,558
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Consolidated	
Assistant Managers	Male	Number of employees	—	—	—	—	1,834
	Female	Number of employees	—	—	—	—	180
	Ratio of women	%	—	—	—	—	8.9
	Total	Number of employees	—	—	—	—	2,014
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Consolidated	
Employees by Age Group	Under 30	Number of employees	527	523	551	529	4,652
	30-39	Number of employees	738	777	889	869	7,154
	40-49	Number of employees	757	778	831	839	6,143
	50-59	Number of employees	770	777	852	872	5,403
	Above 60	Number of employees	210	213	233	261	2,189
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Consolidated	
Average Length of Service by Gender	Male	Years	17.0	16.8	16.6	16.6	14.4
	Female	Years	12.0	11.9	11.9	12.1	10.5
	Total	Years	16.4	16.2	16.1	16.1	14.2
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated	
Employment Ratio of Disabled People	Total	%	2.32	2.39	2.32	2.36	2.39
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated

Employee Data

	Unit		2018	2019	2020	2021	2022
Percentage of Employees Covered by Collective Bargaining Agreements	Total	%	60.3	63.4	64.2	60.4	63.4
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Rounds of Collective Bargaining (Labor-Management Consultations) with Labor Unions	Total	Rounds	—	—	—	106	74
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
New Graduate Hires	Male	Number of employees	124	129	139	119	236
	Female	Number of employees	28	30	22	31	35
	Ratio of women	%	18.4	18.9	13.7	20.7	12.9
	Total	Number of employees	152	159	161	150	271
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated
Career Hires	Male	Number of employees	86	97	59	90	299
	Female	Number of employees	15	11	7	8	40
	Ratio of women	%	14.9	10.2	10.6	8.2	11.8
	Total	Number of employees	101	108	66	98	339
	Ratio of Mid-career Hires to Full-time Workers	%	39.9	40.4	29.1	39.5	55.6
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated	
Wage Difference Between Men and Women*3	Full-Time Employees	%	—	—	—	—	70.6
	Non-Full-Time Employees	%	—	—	—	—	66.3
	All Workers	%	—	—	—	—	68.6
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	
Total Turnover Rate	Male	%	—	—	—	2.4	2.7
	Female	%	—	—	—	4.2	3.1
	Total	%	2.7	2.5	2.4	2.6	2.7
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated	
Turnover Rate for Personal Reasons	Male	%	—	—	—	2.1	2.0
	Female	%	—	—	—	3.0	2.3
	Total	%	1.7	2.2	1.6	2.2	2.0
Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated	
Working Hours Per Year	Total	Hours	2,029	1,989	1,975	1,987	1,972
	Target		Non-consolidated (general employees)				Japanese consolidated (general employees)
Employee Engagement Survey Results	Percentage of Highly Engaged Employees	%	48	—	49	—	48
	Target		SHI and 30 consolidated subsidiaries	—	SHI and 30 consolidated subsidiaries	—	SHI and 30 consolidated subsidiaries
Percentage of Employees Taking Paid Vacations	Total	%	74.1	75.9	73.6	68.6	75.3
	Target		Non-consolidated (general employees)				Japanese consolidated (general employees)
Childcare Leave Utilization Ratio	Male	%	63.1	85.8	71.4	68.9	69.2
	Female	%	100.0	100.0	100.0	100.0	100.0
	Total	%	64.6	86.8	75.4	72.0	71.9
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated
Average Number of Days of Childcare Leave Taken by Male Employees	Total	Days	12.3	11.4	11.0	33.3	23.1
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated
Employees Utilizing Shortened Working Hours for Employees with Childcare Needs	Male	Number of employees	—	—	—	—	7
	Female	Number of employees	—	—	—	—	82
	Total	Number of employees	—	—	—	—	89
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Japanese consolidated
Annual Training Hours Per Employee *4	Total	Hours	—	—	—	4.2	11.1
	Target		—	—	—	Japanese consolidated	Japanese consolidated
Annual Training Expenses Per Employee	Total	Yen	—	—	49,230	79,228	53,222
	Target		—	—	Non-consolidated	Non-consolidated	Japanese consolidated

*3 Female wages as a % of male wages

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

Occupational Health and Safety/Health Management

	Unit		2018	2019	2020	2021	2022
Fatalities	Total	Number of employees	0	0	0	0	0
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Consolidated
Occupational Accident Frequency Rate (employees)	Frequency rate	%	0.5	0.0	0.0	0.3	0.4
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Occupational Accident Frequency Rate (employees and contract workers)	Frequency rate	%	0.3	0.2	0.2	0.6	0.5
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated
Percentage of Companies with ISO 45001 Certification	Total	%	—	—	33.3	50.0	66.6
	Target		—	—	Domestic Main Works	Domestic Main Works	Domestic Main Works
Percentage of Smokers	Total	%	30.6	27.9	27.7	26.6	23.1
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated

CSR Activities

	Unit		2018	2019	2020	2021	2022
Social Contribution Expenditures	Total	¥ million	82	35	301	33	26
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated

Supply Chain Management

	Unit		2018	2019	2020	2021	2022
Supplier Status by Region (procurement amount ratio)	Japan	%	—	69.7	72.7	68.9	62.2
	China		—	10.7	10.9	12.1	12.0
	South Korea		—	2.8	2.5	2.4	2.4
	Taiwan		—	0.2	0.2	0.3	0.3
	Asia, etc.		—	5.1	4.7	6.3	8.3
	North America and Latin America		—	6.0	3.5	3.4	6.9
	Europe		—	5.5	5.5	6.6	7.7
	Other Areas		—	0.0	0.0	0.0	0.0
Number of Suppliers	Number of Tier 1 Suppliers	Companies	—	7,559	7,537	7,481	6,230
	Number of Critical Tier 1 Suppliers	Companies	—	288	288	409	409
Supplier Survey	Number of Surveys	Companies	—	288	288	409	409
	Implementation Rate	%	—	3.8	3.8	5.5	6.6
% of Purchasing Division Employees Who Received Sustainable Procurement Training		%	—	—	—	—	9.5
	Target		—	—	—	—	SHI and 9 consolidated subsidiaries

Product Safety and Product Quality

	Unit	2018	2019	2020	2021	2022
ISO 9001 Certification Acquisition Rate of Major Production and Business Divisions	%	—	—	—	—	93
Number of Serious Legal Violations Related to Product Safety	Instances	0	0	0	0	0

Governance

Corporate Governance

	Unit		2018	2019	2020	2021	2022	2023
Composition of Directors*5	Total Number	Number of directors	10	9	10	9	9	11
	Executive Directors	Number of directors	8	7	7	6	6	7
	Non-executive Directors	Number of directors	2	2	3	3	3	4
	External Directors	Number of directors	2	2	3	3	3	4
	Female Directors	Number of directors	0	0	0	0	0	1
Average Attendance Rate at Board of Directors Meetings	Average	%	99.3	100.0	99.2	98.5	96.6	—
	Average Tenure of Directors*5	Years	4.3	4.3	4.0	4.7	3.8	3.7
Composition of Corporate Auditors*5	Total Number	Number of directors	4	4	4	4	4	4
	External Corporate Auditors	Number of directors	2	2	2	2	2	2
	Female Corporate Auditors	Number of directors	0	0	0	1	1	1
	Non-Japanese Corporate Auditors	Number of directors	0	0	0	0	0	0
Average Attendance Rate at Board of Corporate Auditors Meetings	Average	%	—	—	—	100.0	100.0	—

*5 Information that was current as of the end of the General Meeting of Shareholders for each year is shown.

Business Ethics

	Unit		2018	2019	2020	2021	2022	
Compliance Education by E-learning	Total	Number of employees	12,231	12,838	14,599	14,489	—	
	Implementation Rate (% of all employees who have completed the program)	%	54.3	54.3	60.7	58.9	—	
Employees Who Submitted the Compliance Pledge	Total	Number of employees	2,748	2,745	2,852	3,217	3,217	
	Submission Rate (% of all employees who submitted the pledge)	%	12.2	11.6	11.9	13.1	12.6	
Number of Cases Reported to Ethics Hotline	Total	Instances	83	125	143	156	136	
	Break-down	Harassment	Instances	—	—	50	71	61
		HR and Labor	Instances	—	—	50	38	41
		Violations of Company Regulations and Rules	Instances	—	—	17	13	14
	Other matters	Instances	—	—	26	34	20	
Cases for Which Corrections Were Made	Instances	—	—	59	71	41		
Amount of Political Donations	Total	¥ million	—	—	1.5	1.5	1.5	
	Target		—	—	Non-consolidated	Non-consolidated	Non-consolidated	

Company Name Sumitomo Heavy Industries, Ltd.
 Head Office 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
 Tel +81-3-6737-2331
 URL <https://www.shi.co.jp/english/index.html>
 Founded 1888
 Incorporated November 1, 1934
 Paid-In Capital ¥30,871,651,300

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, Imazaiki, 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 December 31, 2022)

Stock Information

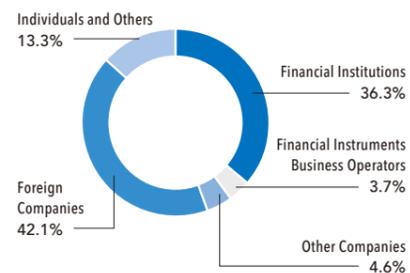
Transfer Agent Sumitomo Mitsui Trust Bank, Limited
 Stock Exchange Listing Tokyo
 Shares Outstanding 122,905,481
 Number of Shareholders 33,705

Major Shareholders

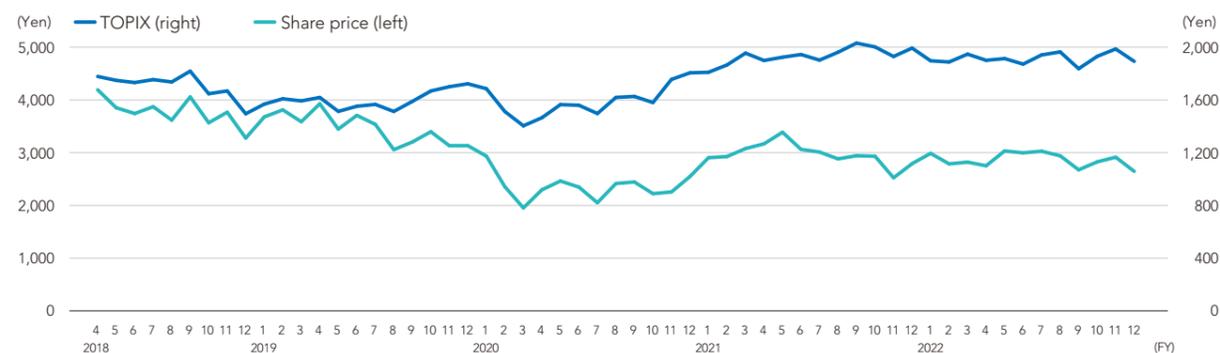
Name of shareholder	Number of shares held (thousands of shares)	Ownership ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	19,955	16.3
Custody Bank of Japan, Ltd. (Trust account)	10,121	8.3
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	7,816	6.4
Sumitomo Life Insurance Company	4,333	3.5
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,760	3.1
Sumitomo Heavy Industries, Ltd. Kyoaikai	3,227	2.6
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	2,998	2.4
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	2,573	2.1
THE BANK OF NEW YORK MELLON 140042	2,079	1.7
BNYM AS AGT/CLTS NON TREATY JASDEC	2,030	1.7

Note: Ownership ratios are calculated less treasury stock (342,350 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.

Distribution of Shareholders



Share Price Chart



Recognition from Society (as of end of June 2023)



FTSE Blossom Japan Sector Relative Index



S&P/JPX Carbon Efficient Index



SOMPO Sustainability Index



EcoVadis



CDP (Climate Change: B Water: C)



Platinum Kurumin Certification awarded by MHLW



4rd Nikkei SDGs Management Survey



6th Nikkei Smart Work Management Survey



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 Sumitomo Heavy Industries, Ltd.

