

# Integrated Report

January 2023–December 2023

# 2024



# 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 2024 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. and 141 consolidated subsidiaries (36 in Japan, 105 overseas). Context changes are duly noted in the text.

### ■ Timeline

This report covers FY2023 (January 1, 2023 to December 31, 2023), with the exception of one overseas subsidiary. Some content makes references to dates outside of this time period.

## Reference Guidelines

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



### Cautionary Note Concerning Forward-Looking Statements

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 2024



Securities Reports



Corporate Governance Report



Interim Business Report "To Our Shareholders"



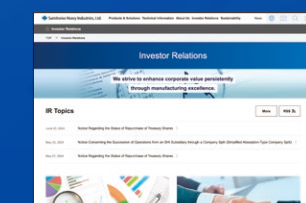
Sumitomo Heavy Industries Technical Review

## Our Website

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

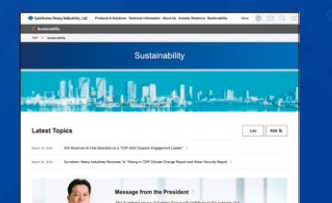
### Investor Relations

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



### Sustainability

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





To Our Stakeholders

The Sumitomo Heavy Industries Group enhances society and those within it with compassion through our ownership and vision



*T. Shimizu*  
Representative Director,  
Chairman of the Board

*Shimizu*  
Representative Director,  
President and CEO

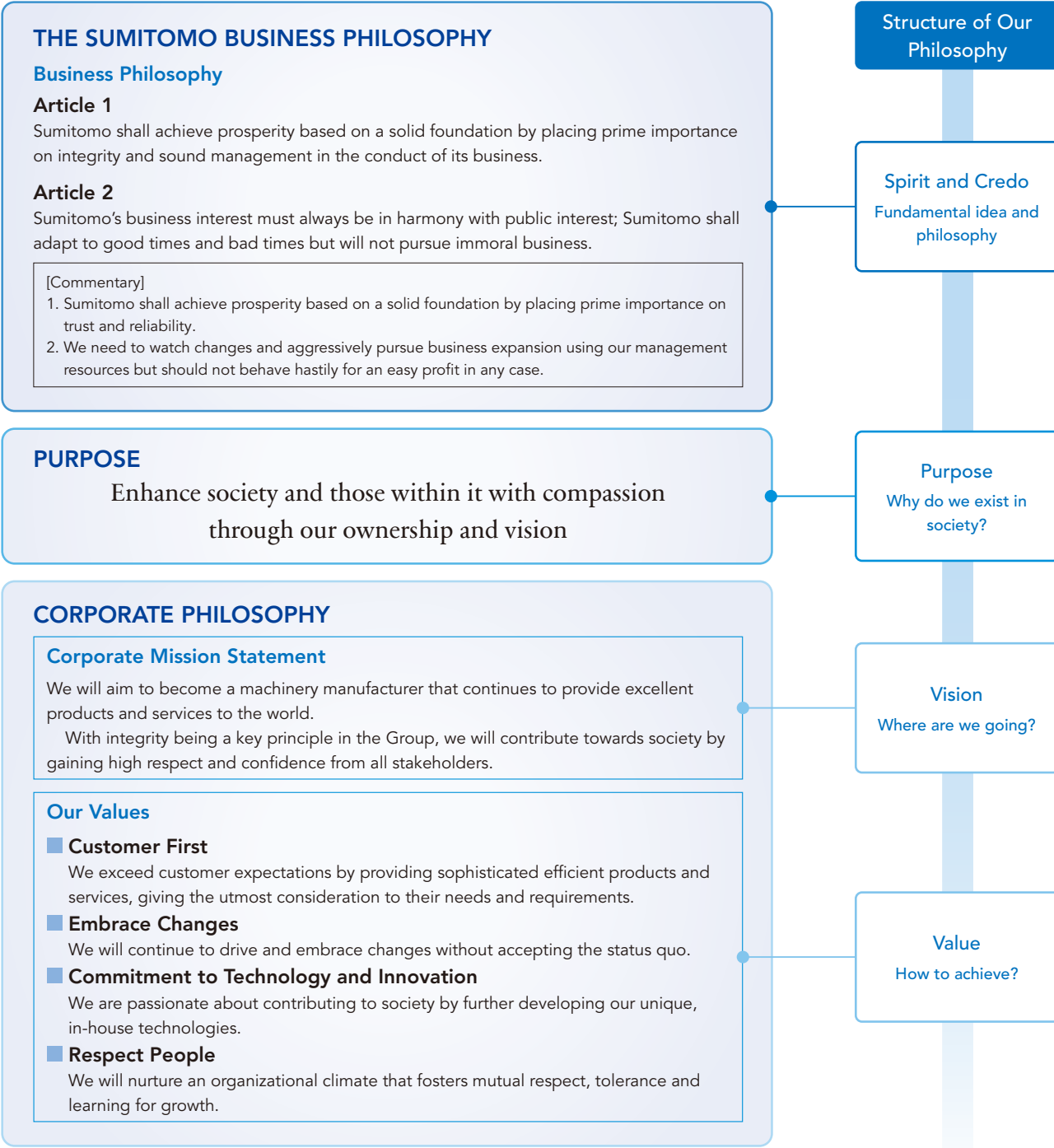
The Sumitomo Heavy Industries (SHI) Group has evolved along with the development of society and industry since it was established in 1888 as a machinery production and repair shop for the Besshi Copper Mine, the founding business of the Sumitomo Group. We are committed to fulfilling our corporate mission 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.

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 2024, we discuss our thoughts, business strategies, and corporate social responsibilities as we seek to fulfill our Purpose and corporate mission. We also explain current business conditions and our future outlook.

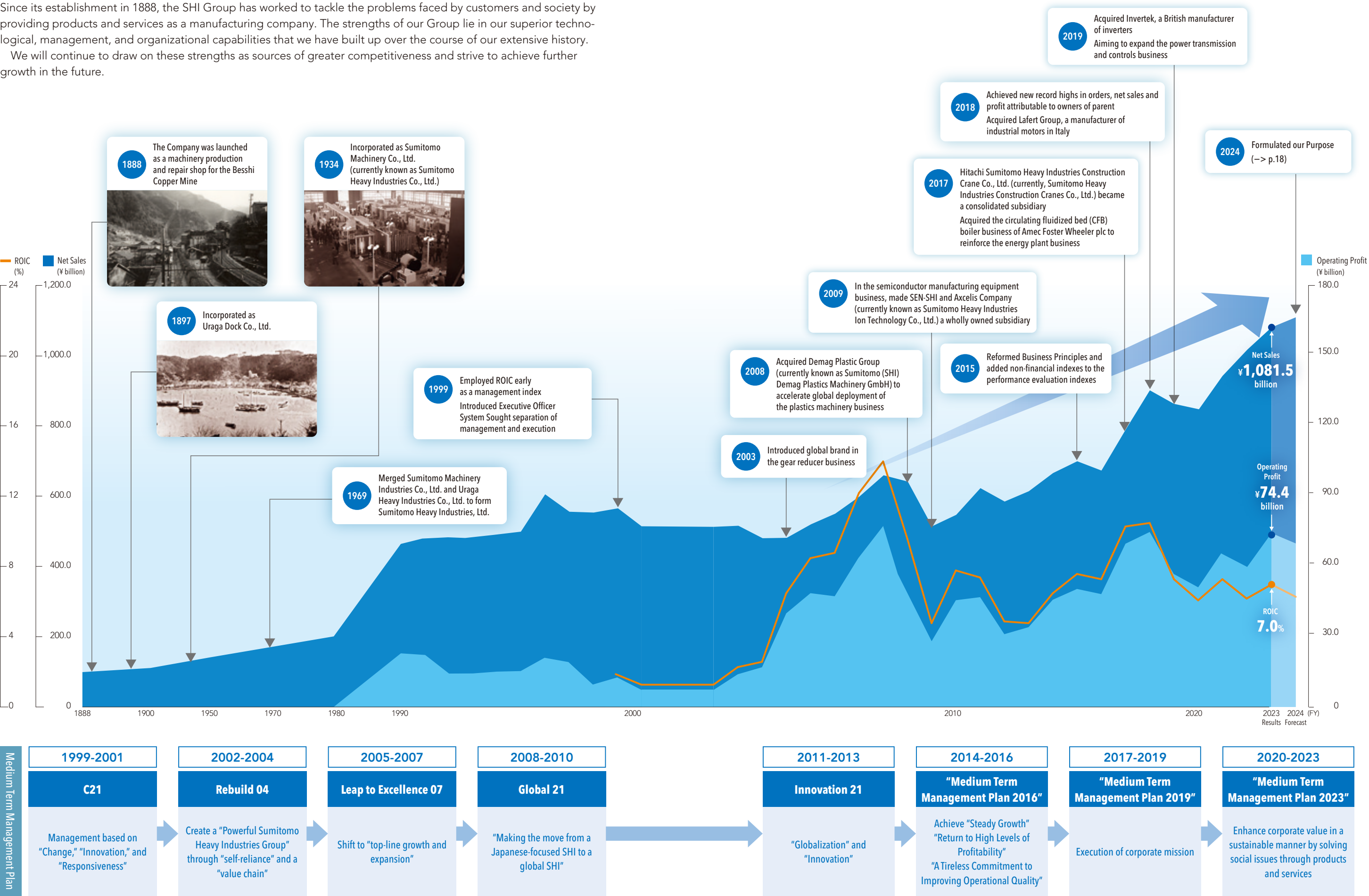
We hope the report will help deepen your understanding of the SHI Group.



# 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.





# Value Creation Process

The SHI Group helps create value for customers and contributes to the sustainable development of society through products and services. This has been made possible by the diverse management resources that we have cultivated through our long history, as well as our superior management capabilities that leverage these resources to create social value and corporate value. We position our Purpose as a polestar that guides us in management as we help realize a sustainable society.

## PURPOSE

Enhance society and those within it with

compassion through our ownership and vision

## CAPITALS ⇒ P.28-52

## BUSINESS ACTIVITIES ⇒ P.54-63

## SHI MATERIALITY ⇒ P.65-78

## OUTPUT

## OUTCOME

### Manufacturing Capital

- Total capital investment ¥111.2 billion
- 7 Division group
- Major subsidiaries' manufacturing companies (18 domestic companies, 28 overseas companies)

### Intellectual Capital

- Total R&D expenses ¥64.0 billion
- Total number of patents obtained 8,050 (Number of patents obtained overseas 4,062)

### Financial Capital

- Stockholders' Equity Ratio 51.6%
- Net Interest-Bearing Debt Ratio 4.8%
- ROIC 7.0%

### Human Capital

- Number of employees 25,303
- Annual training expenses per employee ¥69,305
- Annual training hours per employee 10.9 hours

### Social Capital

- Number of suppliers 5,658 companies

### Natural Capital

- Energy consumption 438,961MWh
- Renewable energy consumption 72,617MWh
- Water consumption 1,436 thousand m³

### Mechatronics



### Industrial Machinery



### Logistics & Construction



### Energy & Lifelines



### Key investment areas

### Robotics/automation fields

### Semiconductor field

### Advanced medical equipment field

### Environment/energy fields

### Priority issues for value creation

- Reduce environmental burden
- Create better ways to live and work

- Prioritize employee safety, health, and development
- Emphasize coexistence and co-prosperity with local communities
- Strengthen governance

- Building of sustainable corporate supply chains

- Ensure high product quality

### Priority issues for strengthening our business foundation

Optimization of products to conserve energy and resources

Contribute to action against climate change and the creation of a recycling-oriented society

Automation of products to save manpower

Enhance labor productivity and safety for clients

Application of advanced technologies (beam control, cryogenics, vacuum technology, etc.)

Foster well-being and improve quality of life

Help resolve social issues by strengthening sustainability management

### Financial targets for 2030

- Operating profit: ¥130.0 billion
- ROIC: 10% or more

### Non-financial targets for 2030

#### E

- CO<sub>2</sub> emission reduction (compared to FY2019)
  - At time of manufacturing products: 50% reduction
  - At time of using products: 30% reduction

#### S

- (Further advancement of automation technology)
  - Female manager ratio: more than 8% (on a consolidated basis in Japan)
  - Spending for social contribution activities: 1% of operating profit
  - Ratio of engagement activities held with potential high-risk suppliers: 100%

#### G

- Ratio of female directors: 30%
- Number of serious incidents related to products: 0

Creation of shared value

### Megatrends

Climate changes/Resource scarcity

Change in demographic structure

Rapid urbanization

Shift of economic powers

Evolution of technologies

Information network revolution



# Message from the President



Guided by our purpose,  
we will advance the  
MTMP26 to achieve  
our future vision

**Shinji Shimomura**

Representative Director,  
President and CEO

## Purpose

### Formulation Process

We recently formulated and announced the following purpose statement in order to define the Group's reason for existence: *Enhance society and those within it with compassion through our ownership and vision.* We formulated this purpose with the intention of reaffirming the importance of a longer-term perspective, partly because we developed both the Medium-Term Management Plan 2023 and the Medium-Term Management Plan 2026 by backcasting from ideal state in 2030. Furthermore, many of the businesses in the Group have pursued a course of autonomous management recently, so we keenly felt the sense of mobilizing the Group's collective strengths, the fact that we were losing sight of the direction we should

be heading in, and the need to embark on the path of true globalization.

That is why we came to the conclusion that we needed a permanent guidepost to point the Group in the right direction, which ultimately led to the formulation of the aforementioned purpose.

In formulating the purpose, we conducted interviews and held discussions with approximately 500 employees from various divisions and levels. From these discussions, we identified what the Group's unique values and strengths are, the kind of organization we want to be in the future, and what society demands of us. We therefore crafted our purpose statement by imbuing each word with meaning and emotion.

### Understanding and Awareness

To be honest, I feel that many may think our purpose statement does not align with the Group's image, which is often associated with large, heavy-duty products. The statement embodies our belief that, for future growth, we must continuously generate added value for our customers and society. The added value we want to offer is expressed with the word "compassion." In practice, through the provision of products and services to people and society, we aim to reduce the burdens of the laborer, promote healthier and more comfortable living, and mitigate environmental impact so that we can alleviate negative aspects, make progress and improvements. Unlike specialized manufacturers, because we offer a wide range of products and services, formulating a purpose statement that

encompasses the entire Group inevitably led to an abstract expression, so gaining widespread understanding and acceptance will require considerable time and effort. First, each division will need to think about how their respective products and services can deliver compassion to society, and having everyone resonate with this concept will be key. To that end, we have developed and implemented a number of awareness programs. Personally, I am facilitating understanding through informal discussions with executives in Japan and overseas, as well as during meetings when I visit our business sites across Japan. By entrenching this purpose throughout the Group and embedding it into our management framework, we will look to drive the transformation and further growth of the Group.

## Review of the Medium-Term Management Plan 2023

In the Medium-Term Management Plan 2023, while we managed to record net sales and orders in excess of ¥1 trillion, we fell short of our operating profit and ROIC targets, in particular.

During this period, there was the COVID-19 pandemic and Russia invaded Ukraine, and issues in the supply chain occurred due to shortages of semiconductors. Inflation also ran rampant, including sky-high raw material costs and increases in personnel expenses. Considering these circumstances, I believe we made

relatively smooth progress on our initiatives during the period of the plan, and our earnings could be considered close to a passing grade.

So, even though we achieved some positive results in the Medium-Term Management Plan 2023, bolstering our earnings capacity, developing new products, and implementing business growth strategies are the outstanding tasks that need to be actioned in the Medium-Term Management Plan 2026.

## Medium-Term Management Plan 2026

### Towards Achieving our 2030 Vision

In the Medium-Term Management Plan 2023, we set out a policy to transform the Company in order to achieve our vision for 2030 of becoming a company that contributes to an affluent society through core technologies and realizes CSV.

The Medium-Term Management Plan 2023 was the first step towards that vision and we therefore sought to lay the foundations for solving social issues. We reorganized our businesses into four segments and transitioned from operating relatively small business units with a focus on profitability and avoiding losses to managing larger business segments that leverage

synergies for growth.

In the Medium-Term Management Plan 2026, we aim to build a business portfolio to solve social issues and focus on growth strategies, such as strengthening new business exploration functions and promoting business portfolio reformation. We have also set ourselves a couple of key objectives: improving profitability and enhancing capital efficiency. By achieving the aims of these strategies and objectives, I believe we can build a resilient organization and be the company we aspire to become.



## Message from the President



We will deploy a business portfolio geared towards solving social issues

### Business Portfolio Reshuffle

To realize our 2030 vision, I believe we must focus more than ever before on growth businesses and adopt drastic measures for businesses that need restructuring. This is why one of our corporate strategies is to promote business portfolio reformation.

For growth, we have established four key investment areas in which we plan to aggressively invest. Of these, we have high expectations for the semiconductor field. In this field, we boast a top-class domestic and global track record in ion implanters and laser annealing systems used in semiconductor production. We also see strong growth prospects in components such as cryopumps and precision positioning equipment given their high performance capabilities and our track record of successful deliveries. We intend to promote the development of next-generation models

to accommodate market growth, ramp up our global presence, increase our market share with existing customers, and pursue synergies between products. In order to target net sales of more than ¥200 billion by 2030 (from ¥82 billion in 2023), we must first achieve our 2026 targets and make it a cornerstone of our growth strategy.

Meanwhile, we recently announced our withdrawal from new shipbuilding business. The announcement of the withdrawal was made at this time so that we could take necessary measures to minimize the impacts on customers and on the local community with regard to matters of employment. The personnel, facilities, and other resources related to the new shipbuilding business will be effectively utilized as part of the strategy for the Energy & Lifeline segment.

### Measures to Improve ROIC

For nearly two decades now the Group has practiced ROIC management. We have emphasized capital efficiency and propelled business operations whereby each business unit takes responsibility for profitability.

In the Medium-Term Management Plan 2026, we have decided to disclose ROIC targets for each business segment. Even when setting these targets, we employed a backcasting approach to work backwards from our 2030 vision. For stakeholders to view SHI in a positive light, company-wide ROIC of at least 10% is needed. We set operating profit targets first, and then

considered the amount of investment required and changes in capital structure to establish ROIC targets for each segment in the Medium-Term Management Plan 2026.

Moreover, we have publicly disclosed not only the targets, but also the process for achieving them on a segment-by-segment basis. By disclosing this information, we are making a commitment to external stakeholders and holding ourselves accountable to a management approach that places an even greater emphasis on ROIC.

### Approach to Cash Allocation

In the Medium-Term Management Plan 2026, we plan to make active use of capital expenditure and engage in R&D by generating cash flow from ROIC improvement and utilizing interest-bearing debt. For the four key investment areas in particular, we have earmarked ¥80 billion for capex and ¥54 billion for R&D expenses to underpin growth.

We also intend to actively advance returns to

shareholders. To ensure that we pay dividends commensurate with shareholder equity, we are switching our target indicators from dividend payout ratio to DOE (dividend on equity) and the total return ratio. We are targeting a DOE of at least 3.5%. And, by implementing agile share buybacks, we aim to achieve a total return ratio of 40% or higher.

## Sustainability

### Environmental Initiatives

In terms of our CO<sub>2</sub> emissions, we have announced 2030 reduction targets for Scope 1 and 2 emissions, as well as the goal of achieving carbon neutrality by 2050. I believe it is crucial that we first double down on addressing these targets. In fact, in our product mix, we have stopped taking new orders for coal-fired boilers, which emit high volumes of CO<sub>2</sub> emissions. I therefore believe we are making relatively solid progress on reducing Scope 3 emissions. In addition, for one of our mainstay products, hydraulic excavators, we are switching from engines to battery power in line with global trends, which we expect will further reduce emissions.

We are already pressing ahead with numerous

initiatives for expanding the use of solar power generation as part of our plans to utilize clean energy sources. Room to expand our use of solar power going forward is limited, but we will make every effort to further increase our uptake to the extent possible in the future.

On the other hand, motors pose a major challenge in terms of CO<sub>2</sub> emissions. The fundamental issue here is that there is currently little scope for improvement. Accordingly, achieving our 2050 carbon neutrality goal will hinge on the scale of our efforts to bring to market and popularize carbon-negative products. With this goal in mind, we are presently accelerating our R&D.

### HR Initiatives

In recent years, the importance of human resources in various settings has come to the fore. Even SHI is being affected by Japan's shrinking population, and accordingly, it is becoming increasingly difficult to recruit talent. The source of sustainable business growth lies in the growth and development of people and organizations, and as such, we consider human resources to be our greatest asset. This is why it is a key theme of the Medium-Term Management Plan 2026.

Even though the hiring of personnel is an important element of human capital management, I believe we should be focusing not only on recruitment efforts, but also on strengthening our training infrastructure. As

such, we are promoting projects like PRIDE-PJ to help employees realize that their work is worthwhile.

This is where dialogue is so important. We previously adhered to the belief that employees learn by watching their superiors, but this approach is no longer effective. We are working on creating a workplace centered on dialogue, and by making clear what the role of each employee is, we can then explain how that role contributes to career development.

The implementation of this initiative is being monitored through employee awareness surveys and the like and improvements will be made as necessary.



## Message from the President

### Corporate Governance Initiatives

To realize the Group's vision, initiatives for strengthening governance are essential. One such initiative is making the necessary improvements by evaluating the effectiveness of the Board of Directors. In the fiscal 2023 evaluation, strengthening the supervisory function of the board was identified as an issue to be addressed going forward.

While everyone agrees in principle on strengthening

the supervisory function of the board, there are differing opinions among stakeholders on exactly how supervision should be implemented, its scope, and the responsibilities of each board member. Therefore, this year, we plan to hold meetings to exchange opinions on the theme of strengthening the board's supervisory function in order to establish a clear direction going forward.

### To our Shareholders and Investors

Having kicked off the Medium-Term Management Plan 2026, we have announced our purpose and clarified the direction we ought to take going forward. Up ahead, we will attach a great deal of importance to dialogue with shareholders, investors, and all other stakeholders as we work towards achieving the Medium-Term Management Plan 2026 and becoming the organization we want to be in the future. I hope all stakeholders have strong expectations for the growth

of the Group and I look forward to their continued support in the future.

Representative Director,  
President and CEO




## Roundtable Discussion with External Directors



The Sumitomo Heavy Industries Group is strengthening its corporate governance for the purpose of establishing an efficient and highly transparent management structure. In particular, we place a great deal of importance on external perspectives and the wide-ranging opinions of the Group's external directors. In this roundtable discussion, three external directors reflected on the past year, summed up the outcomes of the Medium-Term Management Plan 2023, and discussed, from multiple angles, the formulation of the new Medium-Term Management Plan 2026 (MTMP26) and efforts made to evaluate the effectiveness of the Board of Directors. (Conducted on March 28, 2024 at the Head Office conference room)

### Reflecting on the Medium-Term Management Plan 2023

**Hamaji** In fiscal 2023, the final year of the Medium-Term Management Plan 2023, the Company achieved its sales target, but fell short of the profit and ROIC targets. The direct cause of this was the skyrocketing costs of energy, as well as materials and parts centering on semiconductors, which the Company struggled to fully pass on to customers in the form of price hikes. While this trend will continue up ahead, I believe it is inevitable that competition will intensify.

As such, the fundamental solution to this is to ensure that the Company remains immune to these factors; in other words, making sure that SHI's products and services are more attractive than those of its rivals. I think the Company has recognized anew just how important it is to continuously produce high-quality products. In fact, I have heard that the products in the precision equipment business are highly regarded by customers, and that price pass-on requests were accepted relatively quickly. Going forward, for businesses with a low level of customer satisfaction, it will be more important than ever to differentiate products and services and to manage the business with a sense of urgency by bringing products to market faster than the competition.

**Takahashi** During the period of the plan, the Company faced a number of upheavals in the external environment, including the COVID-19 pandemic followed by sharp commodity price increases, supply chain disruptions, an escalation in US-China tensions, and the slowdown of the Chinese economy. Nonetheless, management made an effort to improve earnings throughout this period, and as a result, results have progressively improved, which is truly commendable.

On the other hand, upon closer examination, there remains some doubt as to whether the Company's ability to generate profits has genuinely improved. Some might be thinking that the Company's capacity to generate earnings in areas where it used to excel has declined, or that it could have also achieved slightly more growth in new areas. Also, speaking from a management perspective, I see challenges for SHI in asset efficiency and capital efficiency, as typified by ROIC.

While I do think that an awareness of the importance of earning capacity and asset efficiency/capital efficiency has become quite well entrenched within the organization, the main tasks for the next medium-term plan will be to look at what concrete actions can be taken to realize improvements and how they can lead to overall earnings growth.



# Roundtable Discussion with External Directors

## Discussions Surrounding the Formulation of the Medium-Term Management Plan 2026

**Takahashi** When the MTMP26 was being formulated, I argued the case that rather than planning the extension of the usual short-term forecasts, the focus should first be on clearly defining a long-term vision and then developing the plan by backcasting from that vision. Given that the Company reorganized its business segments during the period of the previous plan, I also suggested that this time, the planning should focus on larger units rather than just segments. By analyzing the gap between the long-term vision and where the Company would be based on the extension of near-term forecasting, management can identify what is lacking and what needs reinforcing, and should be able to allocate resources and personnel accordingly. I believe the current plan has been formulated based on this approach.

**Hamaji** In the sense that it depicts the Company's future direction, it was good to see the portfolio reformation outlined in the MTMP26. Specifically, growth strategies concerning semiconductors and restructuring strategies in the shipbuilding business were clearly articulated. In particular, the shipbuilding business has been under scrutiny in recent years, and as external directors of the Company, we continually appealed to management that some definitive answers were needed on the matter. Ultimately, the Company announced an ambitious plan to withdraw from new shipbuilding business, embark on a full-scale expansion into offshore wind power-related business, and utilize business assets to establish production site for cranes and hydraulic excavators. In my view, this is a dynamic business transformation that harnesses the underlying technologies and assets honed thus far. In connection with this, I feel that ROIC, despite being a metric used for a long time

to evaluate business performance, had not been appropriately utilized at the operational level. On this matter too, I believe we were able to thoroughly examine all of the business units in each segment, and by deploying the use of a ROIC tree, we managed to discuss in detail what improvements need to be pursued in the manufacturing, sales, and other divisions.



**Morita** I believe we were also able to have thoroughgoing discussions about the digital field, which happens to be my area of expertise. In fact, when making the transition to all things digital in the manufacturing industry, the processes themselves need to be overhauled. And it is not just about adopting ICT tools because the impacts generated by this transformation can be really significant. Considering the return on investment, the Company will have to examine which processes can be digitalized for greater efficiency, what benefits can be had from connecting products through digital networks, and then draw up a grand design for its digital strategy.

## Assessment of the MTMP26, the Company's Long-term Vision, and its Purpose

**Takahashi** Ahead of the formulation of the MTMP26, the Company established a long-term vision with a view to the year 2030. SHI aims to maximize both corporate value and social value by 2030, but before this vision was established, discussions and initiatives on how it could specifically address issues in society were lagging. This time around, however, we were able to properly discuss the maximization of social value, including aspects like diversity and management transparency, and I believe we also succeeded in setting some clear goals. We are now entering the execution phase, and I intend to keep an eye on how the Company specifically balances the creation of both social and corporate value.

**Hamaji** This time, a purpose was established in connection with the MTMP26 and the Company's long-term vision. The Company's purpose is to "enhance society and those within it with our compassion." However, when I first heard this concept, I found it quite abstract and difficult to

understand. But when aligned with the four key investment areas incorporated into the MTMP26, it becomes clear that each area undoubtedly corresponds to being kind to people and the planet. In particular, initiatives like the LAES that demonstration project will commence next year, look set to make significant contributions to solving environmental issues. In this way, I think the purpose is something that ties together all of the Company's various businesses under a common direction for the future.

**Morita** The fact that the Company's purpose incorporates "vision (the ability to look ahead to the future)" gets high marks from me. For a company like SHI that manufactures products with a long lifecycle, thinking about what will be necessary in the distant future and working backwards from there is crucial. I have high expectations for SHI to work towards becoming the company it aspires to be by anticipating the future and swiftly adapting to the present with a so-called agile management style.

## Human Capital Initiatives

**Takahashi** In recent years, intangible assets such as human capital and intellectual capital have increasingly been in the spotlight as sources of corporate competitiveness. My theory is that both the economy and corporate management, in essence, depend on people to enhance growth potential. The very accumulation of human capital at a company is what yields R&D results, which in turn accumulate as intellectual property. Human capital is at the core of everything, a mindset that has been gaining traction even at SHI.

Once this awareness has taken root, the next step is methodology. The typical on-the-job training usually employed by Japanese companies has its limitations, especially if it fails to accumulate the necessary know-how and knowledge required for future society. In formulating the MTMP26, it became clear what resources are needed and the kind of talent needed to fill the gaps in resources. As a result, I believe it is necessary to once again embed the idea of "developing people" into this concrete theory, while also considering methods that make use of external resources, such as open innovation.

**Hamaji** In light of the HR strategy that Mr. Takahashi just spoke about, I think the next step the Company must take is the transformation of its corporate culture. Sumitomo's business philosophy emphasizes sound management, but in this current era of VUCA, a serious nature requires something extra. In that sense, I applaud the inclusion of the keywords "independence," "initiative," and "challenge" as

part of the Company's efforts to strengthen its foundation for human resource development. SHI should free itself of the passive and serious corporate style and look to create an environment in which embracing challenges is fun. This is something I believe both the leadership team and employees can work on more proactively together.

**Morita** As for diversity of human resources, since becoming a director, I have had the opportunity to meet with many of the Company's female executives during my visits to 18 sites in Japan. While every individual has their own challenges, I felt that for the Company as a whole, progress is being made in terms of inclusion. Going forward, I intend to make some suggestions, mainly at the meetings of the Board of Directors, regarding some issues that I think can be resolved by management.



## Evaluation of the Effectiveness of the Board of Directors

**Takahashi** To evaluate the effectiveness of the Board of Directors, a mechanism akin to the PDCA cycle is in place, which involves a questionnaire completed by all directors, followed by interviews. The results are compiled so that improvements can be made for the following year.

Even though I do think the self-assessment process is making progress, I also believe it is necessary to pause and reconsider whether effectiveness is actually being ensured. For instance, more time has been allocated to discussing management strategies and issues during board meetings, but I think we need to go back to basics and check whether we have really secured enough time and whether the outcomes of our discussions are properly reflected in strategies.

**Hamaji** In evaluating the effectiveness of the board, as external directors, we held our own separate discussions to examine two issues. One of those issues is the need for more in-depth deliberations on the Company's medium- to

long-term management policy and business portfolio, as mentioned by Mr. Takahashi. The other issue is the need for oversight regarding the allocation of management resources, including human capital and intellectual property. The second point in particular is considered a weakness and I believe the board should be deeply involved in strengthening the Company's intangible assets.

**Morita** I learnt a thing or two about myself from the whole process, but upon reviewing the results of the effectiveness evaluation questionnaire, I feel it is quite difficult to understand the reasons behind the outcomes of the topics we discussed. I am also not confident that I expressed my opinion in the best possible way considering my supervisory position. I would like to ask the Company's executives to provide sufficient information as possible to us external directors. I believe I need to further refine my approach as an external director so that I can make even better suggestions.



# Roundtable Discussion with External Directors

## Regarding the TSE’s “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

**Hamaji** The Company has announced a capital policy, clearly outlining how it intends to allocate cash inflows—comprising operating cash flow plus interest-bearing debt—to investments and returns to shareholders as cash outflows. Particularly regarding returns to shareholders, the Company has adopted DOE as a key indicator to emphasize its commitment to investors to provide long-term, stable dividends. DOE is based on shareholders’ equity and therefore less susceptible to fluctuations. As such, the Company is gradually adopting a stance that is more conscious of the capital markets, and on top of that, it now has a greater awareness of ROIC. Instead of aiming for 8%, typically thought to be the cost of capital, the Company is emphasizing ROIC even more by targeting higher levels, such as 10% for businesses with growth potential, taking into account the business environment of each segment.

**Takahashi** I agree with Mr. Hamaji, but I would venture to say that I think the Company is addressing the requests of the Tokyo Stock Exchange with utmost sincerity. PBR is the product of ROE and PER. What the Company is currently doing is enhancing returns to shareholders through share buybacks and higher dividends to improve ROE. Also, the next step must be to raise PER as well. In other words, a growth strategy is needed to enhance added value. Formulating a convincing growth strategy and aggressively investing in IT and personnel to achieve the aims of the strategy will lift the Company’s expected rate of return and anticipated growth rate. I think SHI must steadily press ahead with both measures.

## The Road Ahead for Sumitomo Heavy Industries



**Takahashi** Even though the Company’s long-term vision for 2030 was recently formulated, the year 2030 is actually just around the corner, so in the normal scheme of things, efforts to raise social value should be looking further ahead, much like the 2050 carbon neutrality goals. On that basis, I think it is ideal that the Company sets goals for 2030 and hammers out a strategy geared towards balancing both corporate and social value. I think the goal for 2030 should be to develop new technologies for decarbonization and

expand into the medical equipment field in line with the Company’s purpose. These endeavors will actually open up the possibility for improvements in corporate value and increase the sustainability of SHI’s businesses.

**Morita** If I were to touch upon what the Company should be doing, as opposed to what it has its sights set on, I think in these times of digital transformation, I would like to see SHI step up its global expansion and become a company that can develop new products and new businesses at an even faster pace. I already have high expectations for the Company’s existing products and technologies, so I hope to see them integrated with digital solutions, subjected to data management, and deployed globally.

**Hamaji** The Company is a conglomerate with many different businesses and a wide array of technologies, and I believe it has the capacity to transform itself. As expressed in its purpose, I hope to see it become a company that looks to the future, continues to transform with the aim of balancing both social and corporate value, and further still, brings wonder to the world.

# Message from Newly Appointed External Director



Leveraging my legal background to contribute to stronger corporate governance

Yaeko Hodaka  
External Director

Having served as an external corporate auditor of the Company for three terms, I have now been appointed as a director. When I assumed the role of corporate auditor, I had the impression that SHI was a very conservative and rigid company, given that it was formerly part of one of Japan’s industrial conglomerates and operates in the heavy industry. Therefore, I did harbor some concerns about how much I could contribute as an external officer, or to put it another way, I was unsure to what extent the opinions and advice of an outsider would be accepted. However, what I have felt over the last three years is that the Company has disclosed plenty of information and provided explanations repeatedly in response to the questions posed by the external officers and has always responded in some way or another to the suggestions made. In a good sense, my preconceptions of the Company were proven wrong.

Going forward, even though my position will change to that of an external director, I feel that the Company will want me to contribute particularly in the area of corporate governance because of my background as a lawyer. The Company’s governance framework has fundamentally been well constructed. On the other hand, since there are many businesses under the umbrella of the four reportable segments, there is no hiding the fact that ensuring appropriate governance across all businesses requires significantly more time and effort compared to a company engaged in just one line of business. Moreover, to meet the requirements of Japan’s Corporate Governance Code and other standards, the governance systems of the past

have become increasingly misaligned. I believe the Company must preserve the parts of the current structure that work well, and at the same time, continue to update its approach to corporate governance.

I think the key issue for SHI that both external officers and investors attach a great deal of importance to is indeed promoting business portfolio reformation. The Company has reorganized its wide array of businesses into four segments. That in itself was a significantly big step forward, and consolidating them into segments that share the same fundamental technology and customers was a telling move in the sense that promising results are already materializing, particularly with regard to the speed of development of new technologies. Nevertheless, as some investors will point out, it is clear that the transformation still has some way to go. As the Company presses ahead with business operations under the segment structure, I think there will be times when it is compelled to reassess the makeup of its segments and make further decisions on the selection and concentration of businesses. Decisions concerning the portfolio transformation are inseparably linked to the vision of what kind of company SHI aspires to become in the future. As to how far the Company can drive the transformation, assuming that there are advantages to be had from operating a rather broad range of businesses, I think it is crucial that the Company exhaustively discusses what those merits are, and, moving forward, clearly communicates what kind of timeline and metrics with which it intends to pursue the transformation.



The Sumitomo Heavy Industries Group defined its reason for existence by unveiling its Purpose in January 2024. We view our Purpose as a polestar in management, bringing together the group's collective strengths for future growth.



## Purpose Statement

Enhance society and those  
within it with compassion  
through our ownership and vision

## Key Objectives of the Purpose



### 1. Clarifying strategic focus areas and their significance

- Clearly define the values that support sustainable growth, leveraging Sumitomo Heavy Industries Group's strengths and uniqueness.
- Optimize our business portfolio, which is the foundation of our sustainable growth.



### 2. Boosting employee engagement

- Cultivate a sense of importance, value, and pride through part of the Sumitomo Heavy Industries Group.
- Inspire employees to take ownership and proactive action toward achieving the goals of our Medium-Term Management Plan 2026.



### 3. Enhancing corporate brand value

- Define a corporate brand image centered on our Purpose and establish a corporate identity (CI).

## Thoughts behind Our Purpose Statement

Our Purpose Statement is the result of extensive discussions involving our president, board members, and a wide range of employees, focusing on what makes "Sumitomo Heavy Industries unique," "our strengths," and "our vision for the future."

What is  
"ownership"

- The term "ownership" reflects a commitment to continually pursue excellence in technology, work quality, customer satisfaction, and outcomes through personal responsibility and tenacity.
- The spirit of "ownership" is ingrained in every employee's mindset and approach.

What is  
"our vision"

- We emphasize a collaborative approach with stakeholders that includes both inside and outside the company.
- The term "vision" highlights our readiness and proactive stance in the face of changes in the market, society, and customer needs.
- We aim to build this proactive stance as a core organizational capability.

What is  
"society and  
those within it"

- The phrase "society and those within it" indicates that we will provide value to each individual living in society, as well as society as a whole.

What is  
"with compassion"

- The term "compassion" embodies our dedication to resolving "negative" impacts while promoting progress and improvement for people and society.
- It also illustrates our employees' willingness and resolve to understand and tackle the challenges and needs of people and society, which is the premise for providing value as described above.

What is  
"Enhance"

- Through the value that we provide as part of our "compassion," we strive to meet the needs of people and society to enhance their lives, solve challenges, and contribute to a happier, more well-being-oriented world.



# Medium-Term Management Plan 2026

## Message from the General Manager of Corporate Planning Group

### Aiming to be “a company that contributes to an affluent society through core technologies and realizes CSV”

The Medium-Term Management Plan 2026 (MTMP26) has been developed by backcasting from our vision for 2030, similar to MTMP23. A key feature of MTMP26 is the detailed outline of our ideal state for 2030, including both financial and non-financial targets. Additionally, we have established our Purpose as a long-term strategic direction.

MTMP26 also focuses on the full-scale advancement of the segment activities that were initiated in MTMP23. We are now setting clear financial targets for each segment and executing strategies both at the corporate and segment levels with the aim of building a robust business structure, which is our fundamental business policy. Moreover, having identified four key investment areas to drive growth, we are planning to make proactive investments in these areas at 1.5 times the scale compared to MTMP23.

Under MTMP26, we are committed to deepening and exploring our businesses to achieve our vision for 2030. This includes implementing a business portfolio aimed at solving social issues.



**Masaki Arai**

Vice President & General Manager  
of Corporate Planning Group

## Medium-Term Management Plan to Date

### Medium-Term Management Plan 2016

#### “Steady Growth”

“Return to High Levels of Profitability”  
“Exhibit persistent efforts at the improvement of the quality of operations”

#### Achievements and Challenges

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

### Medium-Term Management Plan 2019

#### Execution of 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

### 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

## “Medium-Term Management Plan 2023” Targets and Actual Results

In fiscal 2023, the final year of MTMP23, economic recovery was gradual and some capital investments softened. However, both orders and net sales exceeded ¥1 trillion. While operating profit was approximately on target, ROIC stalled at 7%.

		Targets of “Medium-Term Management Plan 2023” (Revised in May 2022)	FY2021 Actual	FY2022 Actual (12 months)	FY2023 Actual
Earnings results	Orders	¥1,070.0 billion	¥1,075.3 billion	¥1,164.8 billion	¥1,008.7 billion
	Net sales	¥1,050.0 billion	¥944.0 billion	¥1,018.3 billion	¥1,081.5 billion
	Operating profit	7.2% (¥76.0 billion)	7.0% (¥65.7 billion)	5.9% (¥60.0 billion)	6.9% (¥74.4 billion)
	ROIC	7.5% or more	7.3%	6.2%	7.0%
	(Ref.) ROE	8.0%	8.5%	3.0%	5.5%
Investments	Capital investment (3 years)	¥117.0 billion	¥111.2 billion		
			¥32.2 billion	¥36.5 billion*	¥42.5 billion
	Research and development (3 years)	¥68.0 billion	¥64.0 billion		
			¥21.8 billion	¥17.4 billion*	¥24.8 billion
Currency exchange rate (US dollars)		¥120	¥112	¥133	¥139

\* Results for 9 months

## “Medium-Term Management Plan 2023” Summary and Future Issues

Strong demand for capital investment led to an increase in net sales, and operating profit almost reached the planned level through improvements such as price adjustments. However, due to factors such as an increase in inventory assets and fixed assets from capital investments, we did not meet our ROIC target. For the next medium-term management plan, our key challenges include fostering growth in highly profitable businesses, strengthening profitability, and managing with an awareness of capital costs.

	Summary of “Medium-Term Management Plan 2023”	Issues to be addressed to fulfill “Medium-Term Management Plan 2026”
<b>Financial targets</b>	<ul style="list-style-type: none"> <li>● The topline growth target was achieved and the semiconductor-related product business expanded</li> <li>● Operating profit was as planned but ROIC targets were not met</li> </ul>	<ul style="list-style-type: none"> <li>● Strengthen profitability by reinforcing existing businesses and fostering growth in highly profitable businesses</li> </ul>
<b>Investment-related</b>	<ul style="list-style-type: none"> <li>● Insufficient investment in growth sectors (semiconductor and electric control-related)</li> <li>● Profit contribution from previously acquired businesses has been experiencing a delay</li> </ul>	<ul style="list-style-type: none"> <li>● Concentrate investments on key areas (including M&amp;A)</li> <li>● Improve the M&amp;A evaluation process</li> </ul>
<b>Enhancing corporate and social values</b>	<ul style="list-style-type: none"> <li>● The business portfolio started to undergo reshuffling, and a transition was made to a new segment-based framework</li> <li>● An organization was established to create new businesses</li> <li>● Carbon neutrality targets and a human rights policy were established, Human rights DD* was initiated and diversity was promoted</li> </ul> <p>* Human rights DD: human rights due diligence</p>	<ul style="list-style-type: none"> <li>● Establish ROIC targets for each segment, implement a growth strategy, and promote business portfolio reformation</li> <li>● Develop a commercialization process and foster intrapreneurs</li> <li>● Implement initiatives for achieving CO<sub>2</sub> reduction targets and execute a personnel strategy focused on human capital</li> </ul>

- Operating profit was almost in line with the target as a result of promoting price pass-on and other measures, although affected by a prolonged surge in material costs and increased fixed costs
- ROIC targets were not met due to the following factors: difficulties in procuring parts and materials resulting from supply chain disruptions; an increase in inventory assets driven by decreased production efficiency; and a rise in fixed assets due to investments aimed at increasing production, etc.



## Medium-Term Management Plan 2026

### Our Ideal State in 2030

Based on our Purpose established in January of this year, we have defined our ideal state as “a company that contributes to an affluent society through core technologies and realizes CSV,” and have set both financial and non-financial targets in line with this vision. To achieve our financial goals, in addition to strengthening the revenue base of our existing businesses, we have established four key investment areas based on our core technologies.

Purpose		Enhance society and those within it with compassion through our ownership and vision	
Ideal state in 2030		A company that contributes to an affluent society through core technologies and realizes CSV	
Financial targets for FY2030			
Operating profit: ¥130.0 billion		ROIC: 10% or more	
While strengthening the revenue bases for the existing businesses, achieve growth in the following key investment areas based on core technologies in the four segments, thereby aiming to create new value and improve corporate value			
[Key investment areas]			
• Robotics/automation fields      • Semiconductor field • Advanced medical equipment field   • Environment/energy fields			

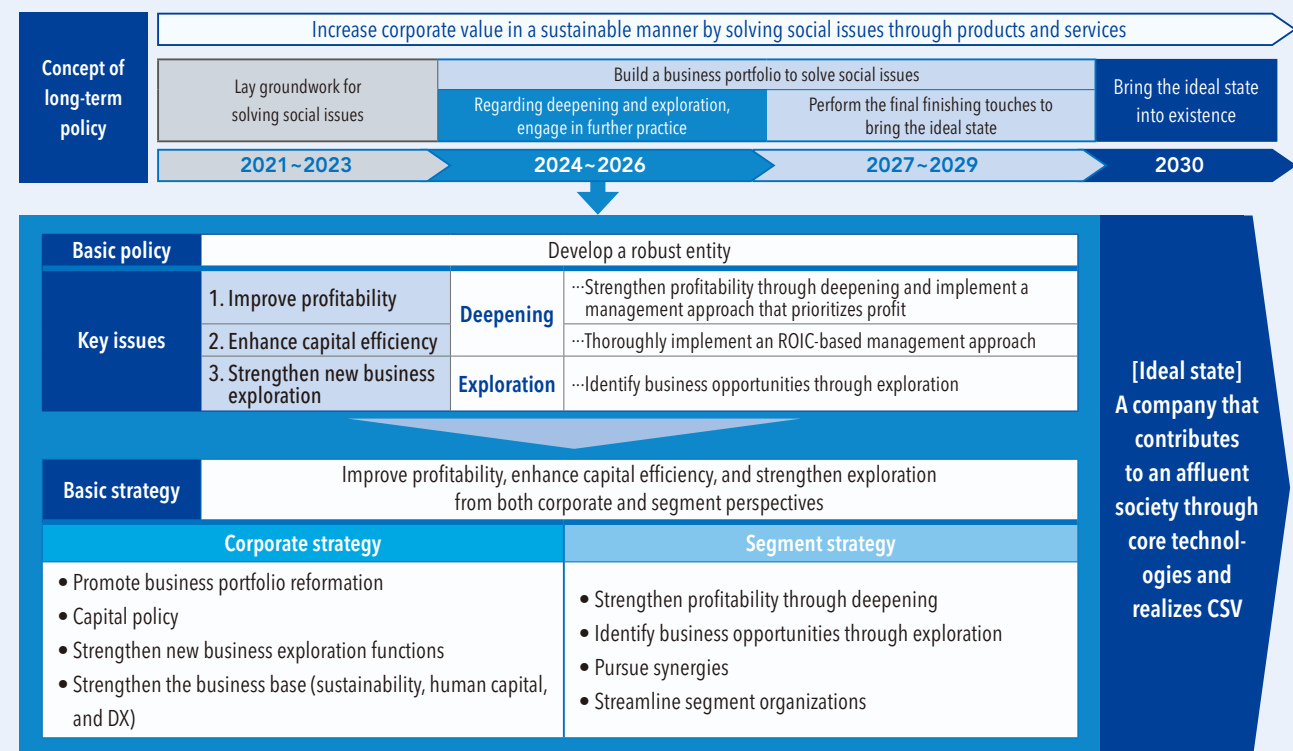
Material issues of sustainability		Non-financial targets for 2030	
E	Reduce environmental Burden	CO <sub>2</sub> emission reduction (compared to 2019) • At time of manufacturing products: -50% • At time of using products: -30%	
	Create better ways to live and work Prioritize employee safety, health, and Development	(Further advancement of automation technology) • Female manager ratio: more than 8% (on a consolidated basis in Japan) • Spending for social contribution activities: 1% of operating profit • Survey on high risk suppliers: 100%	
S	Emphasize coexistence and co-prosperity with local communities		
	Establish a sustainable supply chain		
G	Strengthen governance	• Ratio of female directors: 30%	
	Ensure high product quality	• Number of serious incidents related to products: 0	

Establish financial and non-financial targets to maximize our corporate and social values

The financial targets are set to achieve profitability that continuously surpasses capital costs

### Basic Policy and Key Framework

MTMP26 aims to realize this ideal state in 2030. It sets “building a resilient enterprise” as its basic policy centered around the four segments materialized in MTMP23. We will execute strategies from both the corporate (page 24) and segment (page 56) perspectives to achieve three key challenges.



### External Environment and Management Challenges

We recognize that the external environment surrounding our company is becoming increasingly uncertain due to the unpredictable global economy, discontinuous business environments, and changing social norms. Based on this recognition, we will address the challenges of strengthening our management base, continuing to promote Business Portfolio Reformation, and strengthening profitability with a focus on capital costs and return on capital.

An era marked by discontinuity and uncertainty, wherein existing growth strategies and business assumptions no longer apply

External environment Economy, society, security	Uncertain global economy	<ul style="list-style-type: none"> <li>Softening of the global economic growth rate and inflation concerns</li> <li>The delay in the Chinese economy's recovery and its impact on the global economy</li> </ul>
	Discontinuous business environment	<ul style="list-style-type: none"> <li>Call for expanding economic security measures (from the semiconductor sector to encompass the green field)</li> <li>Supply chains affected by the emergence of economic blocs and economic diversification</li> <li>Increased demand by shareholders and investors for cost of capital and stock prices</li> </ul>
	Changing social style	<ul style="list-style-type: none"> <li>Reformation of life and work styles, driven by the advancement of digitization</li> <li>Emergence of a hyper-aging society and shortage of human resources in major advanced countries</li> </ul>

Management challenges	To strengthening the business base	<ul style="list-style-type: none"> <li>Reformation of the management foundation and business portfolios in preparation for environmental changes</li> </ul>
	Mindset shift	<ul style="list-style-type: none"> <li>Strengthening profitability with a focus on capital costs and return on capital</li> <li>A mindset shift to provide products and services of higher value</li> </ul>
	Organizational/ business reformation	<ul style="list-style-type: none"> <li>Business process reformation utilizing DX</li> <li>Transition to an environment and culture that fosters mutual growth and development among people and organizations</li> </ul>

### Earnings Forecasts and Investments Plans

Under MTMP26, we plan to achieve ¥1.28 trillion in orders and ¥1.25 trillion in net sales. Additionally, we aim for an operating profit of ¥100.0 billion (8% profit rate), and an ROIC of 8%. To achieve these goals, we will invest ¥190.0 billion over three years, focusing on key capital investment areas, and significantly expand our R&D investment to ¥90.0 billion.

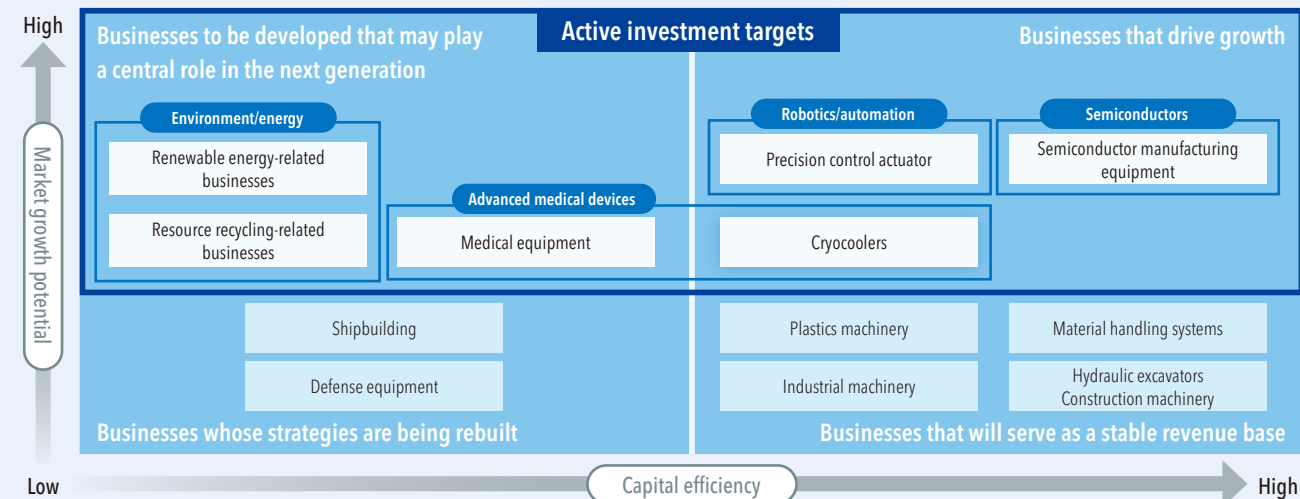
		"Medium-Term Management Plan 2023" Actual	Forecast FY2024	"Medium-Term Management Plan 2026" Plans (targets for FY2026)
Earnings results	Orders	¥1,008.7 billion	¥1,120.0 billion	¥1,280.0 billion
	Net sales	¥1,081.5 billion	¥1,110.0 billion	¥1,250.0 billion
	Operating profit	6.9% (¥74.4 billion)	6.3% (¥70.0 billion)	8.0% (¥100.0 billion)
	ROIC	7.0%	6.2%	8%
	(Ref.) ROE	5.5%	6.5%	10%
Investments	Capital investment (3 years)	¥111.2 billion	¥190.0 billion (including ¥80.0 billion allocated to key investment areas)	
	Research and development (3 years)	¥64.0 billion	¥90.0 billion (including ¥54.0 billion allocated to key investment areas)	
Currency exchange rate (US dollars)		¥139	¥135	



## Medium-Term Management Plan 2026

## Corporate Strategy: Promoting Business Portfolio Reformation

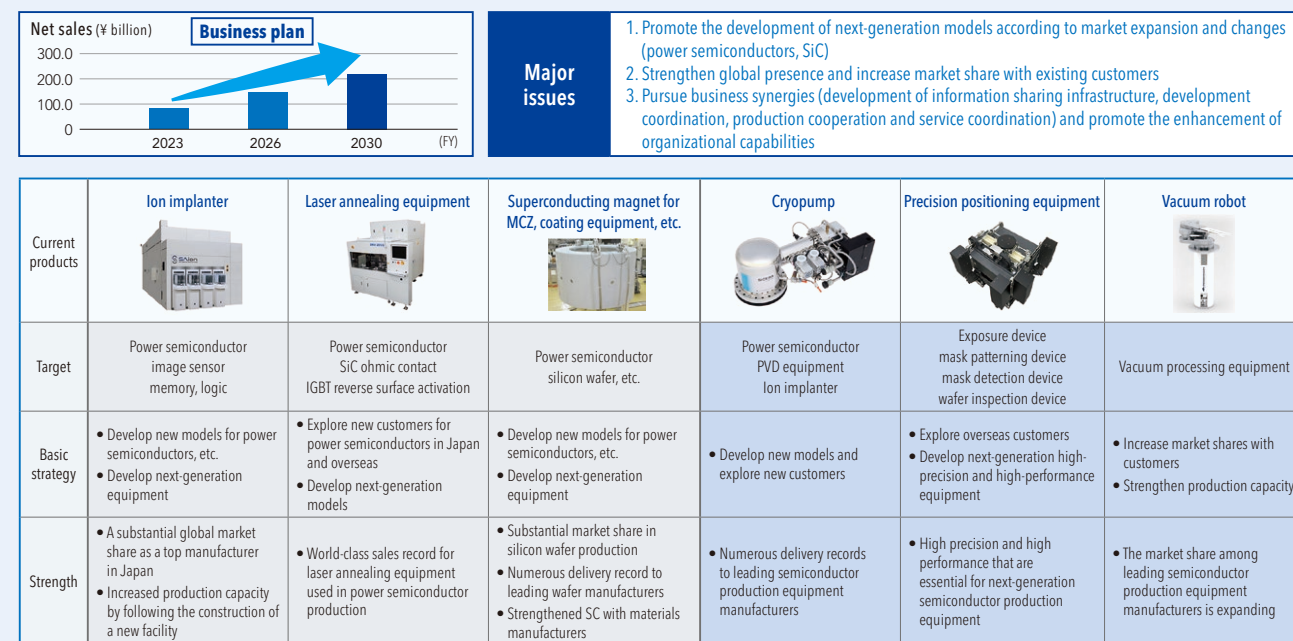
To clarify our businesses' positioning and concentrate management resources on high-growth potential investment areas, we have categorized our businesses into four areas based on capital efficiency and market growth potential. We will actively invest in high-growth potential businesses to drive growth while implementing strategic restructuring for low-growth, low-profit businesses.



- Concentrate management resources on businesses in key investment areas with growth potential, thereby expanding our businesses
- Rebuild a strategy for businesses with low growth and low profitability

Corporate Strategy: Businesses Driving Growth  
(Strategies for the Semiconductor Field)

In the semiconductor field, which we expect to be a growth driver, we are developing products such as ion implanter, laser annealing equipment, and cryopump. We will promote the development of next-generation models in response to market expansion and changes in the market for power semiconductors and other products, and aim to increase our market share by strengthening global development.



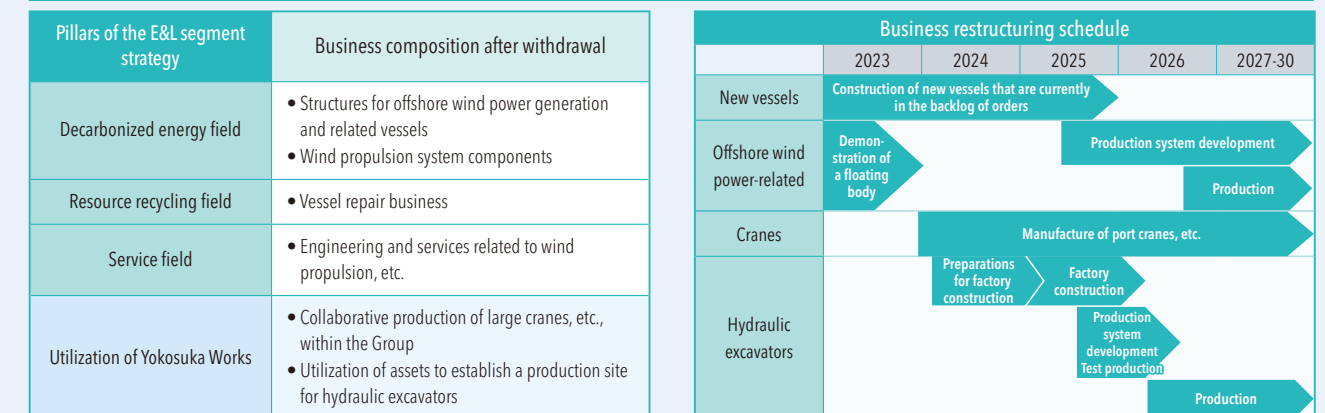
SC: supply chain Equipment Component

Corporate Strategy: Businesses Whose Strategies Need to Be Rebuilt  
(Shipbuilding Business)

Since the shipbuilding business is undergoing strategic restructuring, we will cease new orders for general commercial shipbuilding from fiscal 2024 and cease operations after completing the delivery of existing orders. Moving forward, we will promote business reforms in decarbonizing energy, resource circulation, and services as part of the Energy & Lifeline segment strategy.

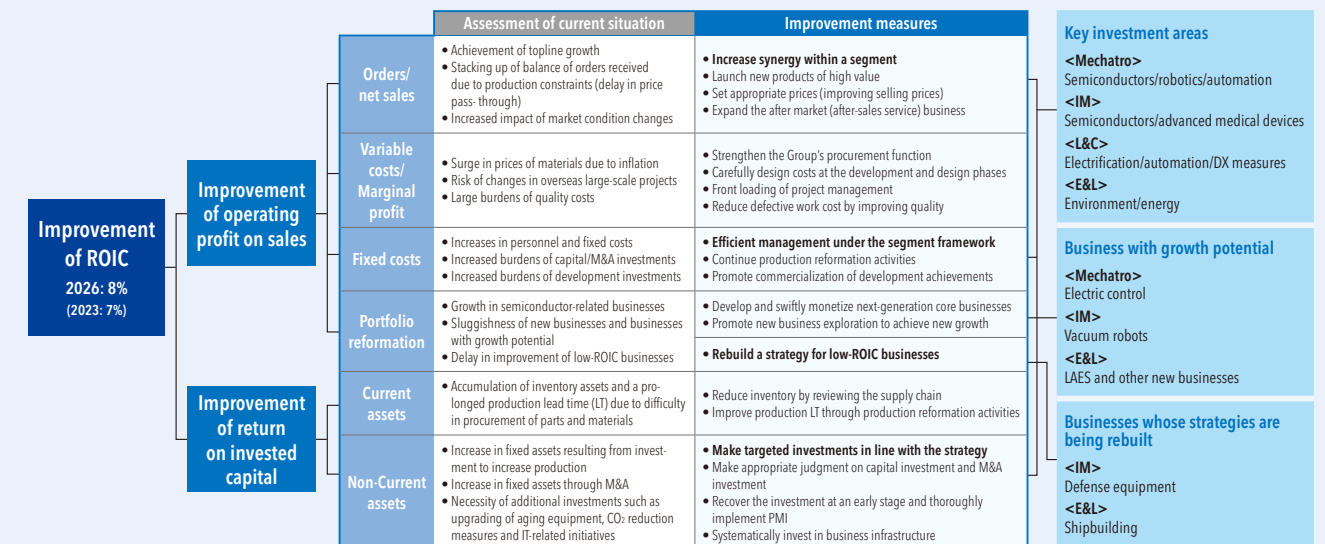
## Withdrawing from New Shipbuilding Business:

- Beginning in FY2024, we will no longer accept new orders for the construction of general commercial vessels. The business will be concluded by delivering the vessels currently in the backlog of orders
- Promote business restructuring in line with the strategy for the Energy & Lifeline segment



## Corporate Strategy: Assessment of Current Situation and Improvement Measures to Increase Capital Efficiency

To improve capital efficiency, we are advancing reviews and improvement measures using the ROIC tree. Currently, the delay in profit contribution from new businesses and growth potential businesses is the biggest challenge in strengthening our earning power. Going forward, we will focus investments on the four key investment areas and strategically restructure low-ROIC businesses to enhance capital efficiency.



- Make significant investments in key areas and rebuild a strategy for low-ROIC businesses
- Expand synergies and implement efficient management using the segment-based framework



## Corporate Strategy: Capital Policy (Cash Flow Allocation)

In MTMP26, we aim to strengthen our cash flow generation capability while utilizing interest-bearing debt without compromising financial soundness with the aim of allocating funds for investments and shareholder returns.

We aim for stable dividends proportional to shareholder equity, with the indicator set as dividend on equity (DOE). Our basic policy targets a DOE of 3.5% or higher, a minimum dividend of ¥125, and a total return ratio of 40% or more. If we meet our financial goals, we plan to return ¥80.0 billion to shareholders over three years by achieving stable dividends and flexible share buybacks.

During MTMP26, we anticipate a total return ratio exceeding 50% through improved DOE and continued share buybacks.

- Strengthen cash flow generation by promoting ROIC improvement measures. Allocate cash to investments and shareholders by utilizing interest-bearing debts as well
- Our basic policy for shareholder returns is to attain a DOE of 3.5% or higher, maintain a minimum dividend of ¥125, and ensure a total return ratio of 40% or more. During the MTMP26 period, we aim to deliver ¥80.0 billion in shareholder returns through consistent dividend distributions and treasury stock repurchases
- For FY2024, we have decided to increase the per-share dividend forecast by ¥5 to ¥125 and repurchase ¥10 billion worth of treasury shares
- During the MTMP26 period, we anticipate achieving a total return ratio of 50% or more by increasing the DOE to 3.5% or higher and consistently repurchasing treasury shares

### Cash in

Operating cash flow (before deduction of research & development costs) ¥300.0 billion	<ul style="list-style-type: none"> <li>• <b>Improve profitability</b> Enhance cash flow generation</li> <li>• <b>Reduce working capital</b> Improving production lead time through production reformation activities</li> <li>• <b>Restructure low-ROIC businesses</b></li> </ul>
Interest-bearing debts ¥60.0 billion	<ul style="list-style-type: none"> <li>• <b>Utilize interest-bearing debts</b> Utilizing interest-bearing debts to an extent that does not compromise sound financial conditions</li> </ul>

### Cash out

Capital investment (including M&As) ¥190.0 billion	<ul style="list-style-type: none"> <li>• <b>Investment in key areas: ¥80.0 billion</b> Significant investments are made in robotics/automation, semiconductor, advanced medical devices and environment/energy fields.</li> </ul>
Research & development cost ¥90.0 billion	<ul style="list-style-type: none"> <li>• <b>Investment in key areas: ¥54.0 billion</b> Significant investments are made in robotics/automation, semiconductor, advanced medical devices and environment/energy fields.</li> </ul>
Shareholder returns ¥80.0 billion	<ul style="list-style-type: none"> <li>• <b>Consistently distribute dividends commensurate with shareholders' equity</b> DOE of 3.5% or higher The minimum dividend is JPY125/share</li> <li>• <b>Repurchase treasury stock, taking the capital policy into consideration</b> Total return ratio of 40% or more</li> </ul>

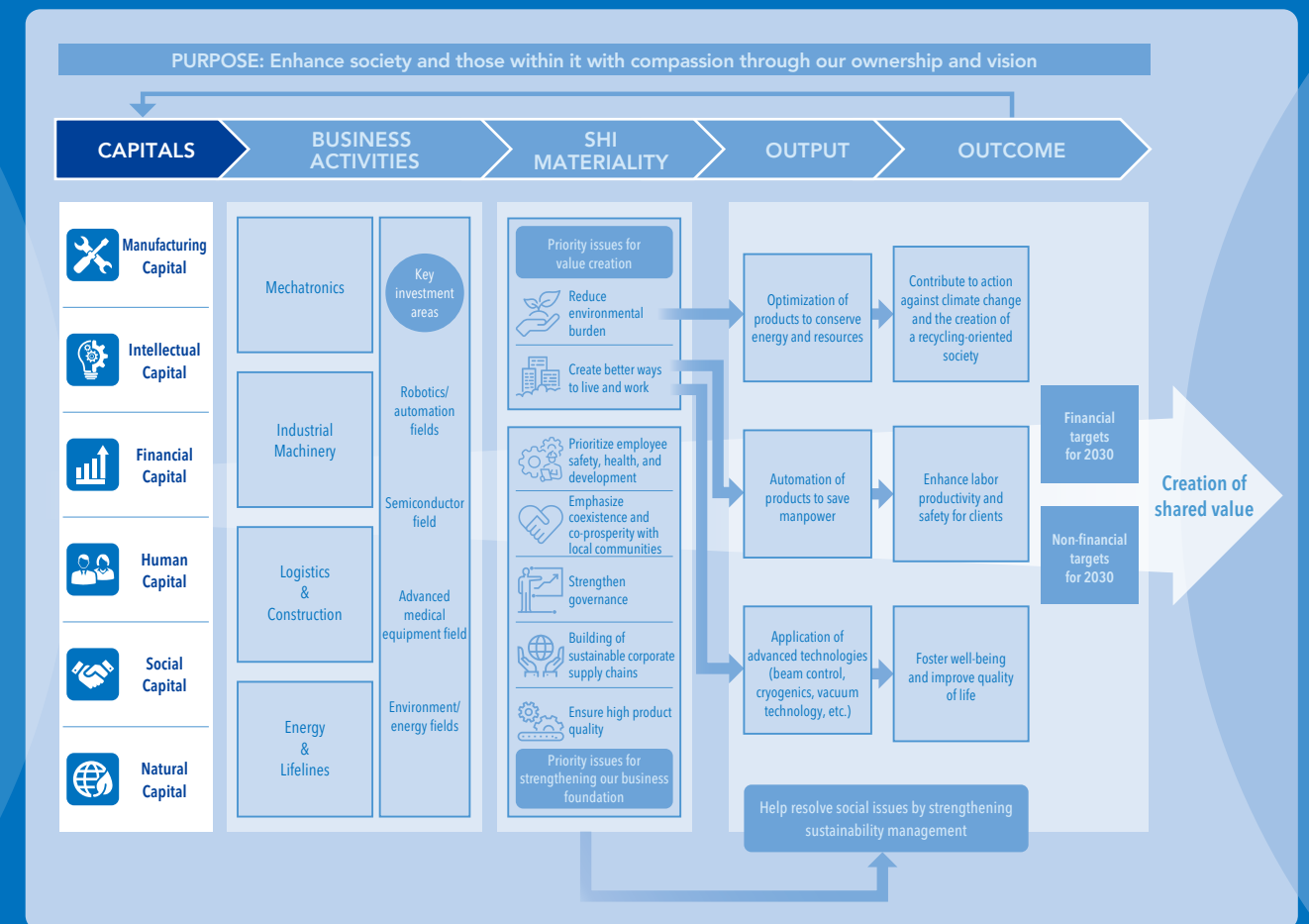
## Corporate Strategy: Strengthening the Business Base (Sustainability)

To achieve sustainability, we have set seven key ESG Material issues and Targets 2026. We aim to transform the risks of social and environmental changes into opportunities to enhance corporate value. Accordingly, we will set specific KPIs for 2026 and translate these into concrete actions.

"Medium-Term Management Plan 2026" Basic Sustainability Policy		By strengthening measures to achieve SDGs and the Group's goal of achieving carbon neutrality by 2050, as well as transforming risks associated with changes in the social environment into opportunities, we aim to enhance corporate value		
Category	Material issues	Actual 2023	Targets 2026	Details of "Medium-Term Management Plan 2026" initiatives
Issues of value creation	E Reduce environmental burden (Details on p.45-52)	CO <sub>2</sub> emission reduction (compared to 2019) • At time of manufacturing products: +2% • At time of using products: -65% *Actual 2022	CO <sub>2</sub> emission reduction (compared to 2019) • At time of manufacturing products: -35% • At time of using products: -50%	<ul style="list-style-type: none"> <li>• Drafting reduction targets, investment plans and initiatives (ensuring consistency across segments/BUs)</li> <li>• Third-party verification (Initiating a feasibility study to obtain company-wide Cat. 1 CO<sub>2</sub> data for Scope 3 emissions)</li> <li>• Study on addressing new issues such as biological diversity</li> </ul>
	S Create better ways to live and work (Details on p.38-42)	(Further advancement of automation technology)	(Further advancement of automation technology)	<ul style="list-style-type: none"> <li>• Continue trial measurements to assess the value of reducing burdens at production sites through product use</li> </ul>
Issues of strengthening the business base	S Prioritize employee safety, health, and development (Details on p.38-42)	• Female manager ratio: 2.1% (on a consolidated basis in Japan)	• Female manager ratio: 3.7% (on a consolidated basis in Japan)	<ul style="list-style-type: none"> <li>• Human capital management, diversity (promotion of women's advancement), healthy management (White 500, etc.)</li> </ul>
	S Emphasize coexistence and co-prosperity with local communities (Details on p.43-44)	• Spending for social contribution activities: JPY150 million	• Spending for social contribution activities: JPY200 million	<ul style="list-style-type: none"> <li>• Promote policy-based activities and collaborate with communities and diverse stakeholders</li> </ul>
	S Establish a sustainable supply chain (Details on p.43-44)	• A trial run began	• Survey on high risk suppliers: 100%	<ul style="list-style-type: none"> <li>• Human rights due diligence (Expand human rights initiatives in the supply chain)</li> </ul>
	G Strengthen governance (Details on p.69-72)	• Number of female directors: 1	• Number of female directors: 2	<ul style="list-style-type: none"> <li>• Strengthen the supervisory function of the board of Directors and promote diversity</li> </ul>
	G Ensure high product quality (Details on p.28-29)	• Number of serious incidents related to products: 0	• Number of serious incidents related to products: 0	<ul style="list-style-type: none"> <li>• Implement reforms towards ISO effectiveness evaluation and enhance the governance function for product safety</li> </ul>

# 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.



# Manufacturing Capital

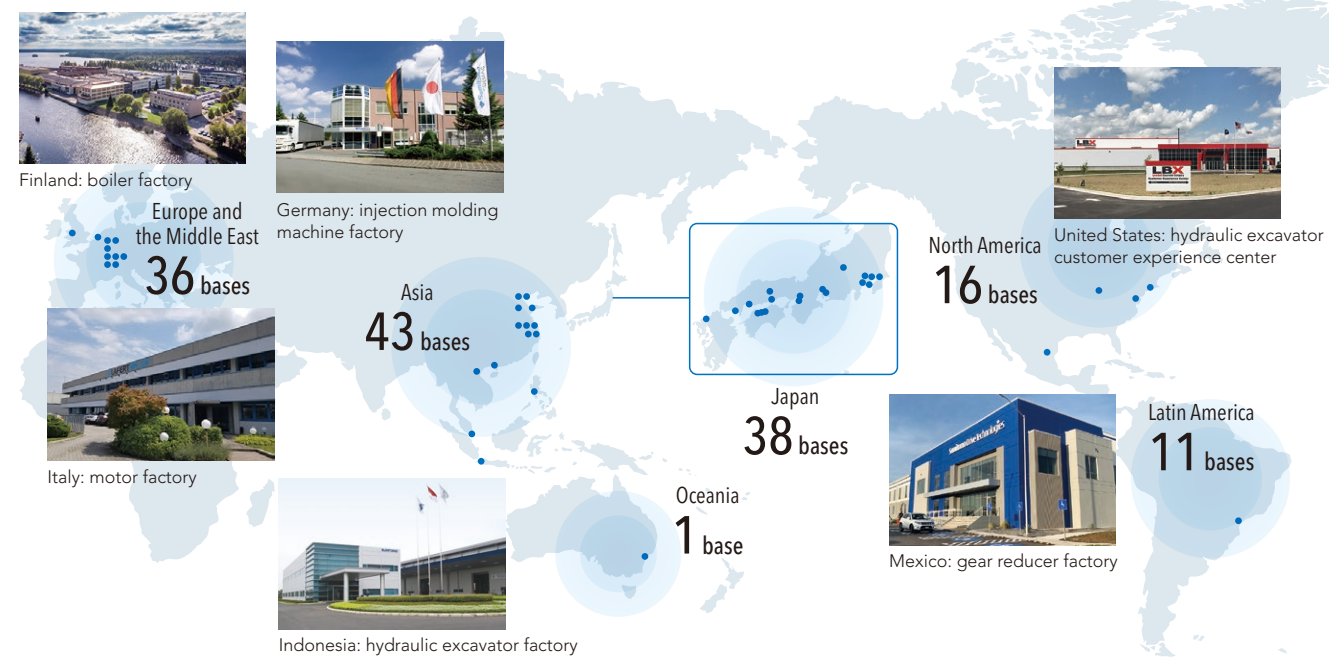
Meeting diverse needs with our global production system and quality control system

Divisions: **7** Major domestic subsidiaries' manufacturing companies: **18** Major overseas subsidiaries' manufacturing companies: **28**

Total capital investment (MTMP2026) over three years (planned): **¥190.0 billion** (Total capital investment under the previous MTMP over three years: ¥111.2 billion)

## 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

Under MTMP2023, which concluded in fiscal 2023, we invested a total capital of ¥111.2 billion (¥42.5 billion invested during fiscal 2023).

Under MTMP2026, which began in fiscal 2024, we plan to invest a total capital of ¥190 billion (¥54.3 billion to be invested during fiscal 2024). This plan will focus on key investment areas such as "robotics and automation" "semiconductor" "advanced medical equipment" and "environmental and energy." We will commit ¥80 billion over three years to these priority fields.

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



New Technology Research Center Scheduled for Completion in January 2025

## 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 the end 2023, approximately 94% 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 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

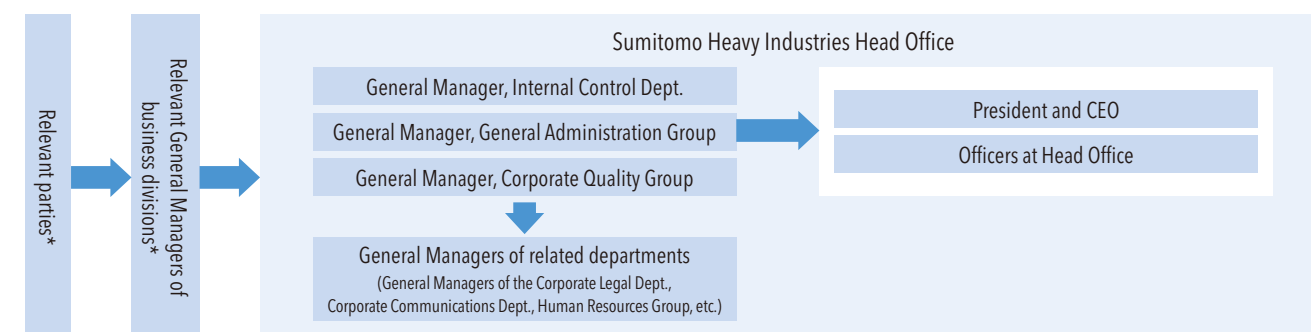
The SHI Group considers the assurance of product safety and quality to be a key priority that all employees should be deeply conscious of. In general, quality control education will be conducted for all new employees (including new graduates and career hires) when they join the company. We have also 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.



# Intellectual Capital

Strengthening our product capabilities to achieve sustainable growth

Total R&D expenses  
(MTMP2026)  
over three years (planned):

**¥90.0 billion**

(Total R&D expenses under the previous MTMP  
over three years: ¥64.0 billion)

Intellectual property activities aimed at creating a competitive advantage

Total number of  
patents obtained:

**8,050**

Number of patents  
obtained overseas:

**4,062**

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

**Toshihiko Chijiwa** Director, Executive Vice President & 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

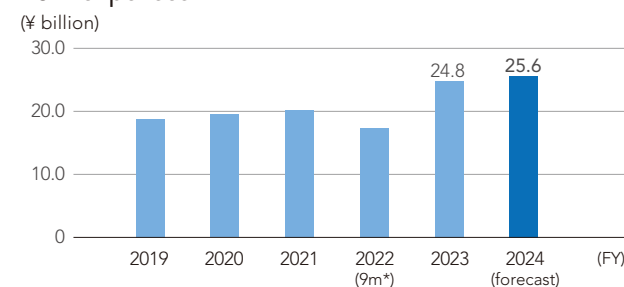
In MTMP2026, we aim to strengthen the revenue base of existing businesses while also expanding our key investment areas based on the core technologies in four segments to create new value and improve our corporate value. The four segments of our priority investment areas are “robotics and automation,” “semiconductors,” “advanced medical equipment,” and “environment and energy.” In order to achieve sustainable growth, we are strategically conducting research and development, keeping an eye on the medium to long term and leveraging synergies across segments.

Specifically, we are actively advancing research and development of products and services aimed at building a sustainable society and addressing the social challenges outlined in the SDGs.

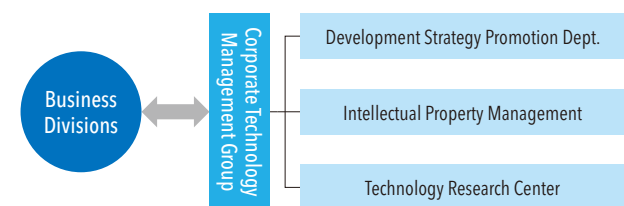
## R&D Framework

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.

### 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.



● 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 26, 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 26

“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

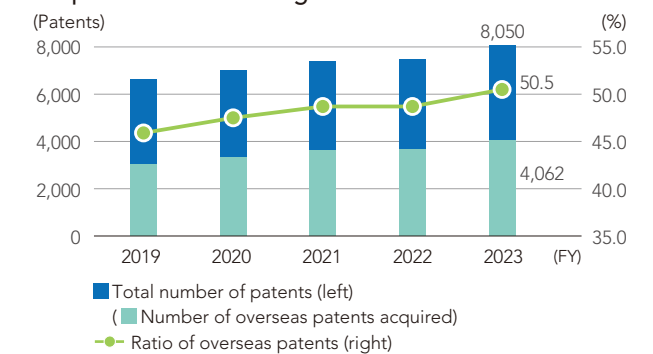
Our Group emphasizes intellectual property as a source of our competitive advantage, and we conduct intellectual property activities to create new business and innovation in cooperation with product planning, R&D, service divisions, and other divisions.

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 Strategy 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

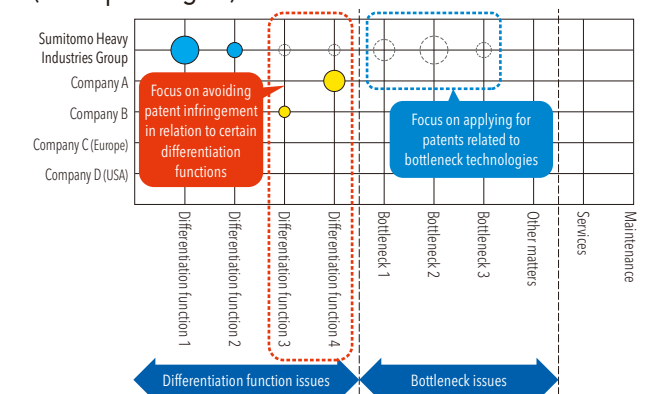


### Intellectual Property Activities

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)



# Financial Capital

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

Stockholders' Equity Ratio

51.6%

(as of end of December 2023)

Net Interest-Bearing Debt Ratio

4.8%

(as of end of December 2023)

ROIC (Return on invested capital)

7.0%

(fiscal 2023)

CFO Message

I will support the achievement of Medium-Term Management Plan 2026 from a financial perspective as we pursue our vision for 2030

Toshiro Watanabe  
Director, Executive Vice President and CFO



Summary of MTMP23

Our Medium-Term Management Plan 2023 (MTMP23) started out with the aim of achieving a balance between corporate value and social value under the theme “enhance corporate value in a sustainable manner by solving social issues through products and services.” Initially we set earnings-oriented targets: orders of ¥1 trillion, net sales of ¥970 billion, operating profit of ¥70 billion, and ROIC of 7.5%. In the end, we were able to increase orders and net sales more than expected. On the other hand, earnings did not keep pace with sales growth, and although operating profit was almost in line with the plan, ROIC did not reach the target. Looking at the external environment during this period, while we benefited from some factors, including post-COVID demand fluctuations and a weak yen, we also faced rising material costs, temporary disruptions in the supply chain, and even accelerating inflation. I believe that our delay in responding to these issues was the main reason for our failure to increase profits.

Looking at results by business segment, the ion implanter, cryocooler, and cryopump businesses are expanding in scale and maintaining high profitability while continuing to grow. With regard to hydraulic excavators, our domestic market share has increased, and I believe that we have reached the point where we can earn stable earnings. On the other hand, our core businesses of gear reducers and plastics machinery are struggling to demonstrate a significant competitive edge, and I believe we need to take measures

in MTMP26 to adapt to changes in the business environment.

We have also implemented several projects as investments for the future. In the semiconductor-related business, we have completed construction of a new ion implanter factory and expanded our production capacity for cryopumps, which we expect to produce results in MTMP26. On the other hand, some investments made during the MTMP19 and MTMP16 periods were not recovered. In particular, we posted an impairment loss at SFW, our company that provides boiler-based decarbonization solutions. This was clearly due to the fact that the pace of market change exceeded our expectations and our response lagged behind. In the future, in addition to the conventional boiler business, we intend to focus on new energy-related businesses and commercialization in this sector, but the results of these efforts will not be seen until the next medium-term plan or later. However, it is likely that the results will not be seen until the next medium-term management plan.

Another past investment I consider to be problematic is the precision gear reducer business for robots. The problem can be partly attributed to a temporary market contraction, but we also had internal issues such as quality and productivity. Therefore, we intend to rebuild the quality and production aspects of the business during the period of MTMP26, which will lead to future growth.

Financial Situation throughout MTMP23

Looking back at our financial situation throughout MTMP23, capital expenditures and M&A related to cash outflows were below expectations. I believe the main reason for this was the stagnation of construction due to the COVID-19 pandemic. On the other hand, due mainly to the increase in working capital accompanying the growth in sales, cash inflows also declined, resulting in free cash flow results that were largely in line with expectations. In terms of returns to shareholders, we prioritized returns and distributed dividends exceeding the range of free cash flow, which increased

the dividend payout ratio. As a result, although the stockholders’ equity ratio declined slightly, it still remains above 50%, and I believe we have been able to implement measures that meet shareholder expectations while maintaining soundness.

Currently, our stockholder's equity ratio is above 50%, but not extremely high. However, I do not believe it is necessary to insist on maintaining this level in the future. We intend to actively engage in necessary investments and enhance returns to shareholders while taking into consideration the cost of capital.

Fiscal 2023 Results

Looking back at our single-year results for FY2023, profit margins were expected to decline in the second quarter due to negative factors on the cost side. The assumption was that while export-oriented businesses, such as hydraulic excavators, would see their profits rise due mainly to the weak yen, several businesses would face the risk of lower-than-planned sales volume due to supply chain uncertainties. In the end, however, operations went smoothly, sales were secured without procurement problems, and profits were secured, which ultimately led to better-than-expected results.

Not only in FY2023, but for the past several years, many products, including hydraulic excavators, have been plagued by difficulties in procuring certain parts and rising material costs. In response to the temporary parts shortages from 2022 onwards, we considered the

adoption of substitutable parts in the design process. Some such parts were adopted, but the result was higher costs. Currently, we are taking systematic steps based on our reflections on this incident. For example, we are considering a wide range of options during the design phase to ensure that common parts can be utilized in multiple models and products, and we are establishing direct business relationships with manufacturers throughout the Group.

Although the rise in material-related costs is being contained and being passed on to sales prices to a certain extent, we expect energy costs and labor costs, including those of our suppliers, to continue to rise. To deal with rising labor costs, we need to address price revisions across the supply chain. I believe that upward pressure on costs will continue into the future.

“Medium-Term Management Plan 2023” Targets and Actual Results

		Targets of “Medium-Term Management Plan 2023” (Revised in May 2022)	FY2021 Actual	FY2022 Actual (12 months)	FY2023 Actual
Earnings results	Orders	¥1,070.0 billion	¥1,075.3 billion	¥1,164.8 billion	¥1,008.7 billion
	Net sales	¥1,050.0 billion	¥944.0 billion	¥1,018.3 billion	¥1,081.5 billion
	Operating profit	7.2% (¥76.0 billion)	7.0% (¥65.7 billion)	5.9% (¥60.0 billion)	6.9% (¥74.4 billion)
	ROIC	7.5% or more	7.3%	6.2%	7.0%
	(Ref.) ROE	8.0%	8.5%	3.0%	5.5%
Investments	Capital investment (3 years)	¥117.0 billion	¥111.2 billion		
			¥32.2 billion	¥36.5 billion*	¥42.5 billion
	Research and development (3 years)	¥68.0 billion	¥64.0 billion		
			¥21.8 billion	¥17.4 billion*	¥24.8 billion
Currency exchange rate (US dollars)		¥120	¥112	¥133	¥139

\* Results for 9 months



Financial Capital

MTMP26

Our MTMP26 was created by “backcasting” from our 2030 vision. Based on our vision of becoming “a company that contributes to an affluent society through core technologies and realizes CSV,” for 2030 we have set financial targets of ¥130 billion in operating profit and ROIC of 10% or more. MTMP26, which is positioned as an intermediate step toward achieving this goal, aims to realize a business portfolio for solving social issues on a Group-wide basis. This will be accomplished through both “deepening” initiatives such as improving profitability and capital efficiency as well as further implementation of “exploratory” initiatives to strengthen the search for new businesses.

Our strategies to drive the plan forward fall into two main categories: corporate strategies to be undertaken by the entire Group, and segment strategies to be undertaken in each business, and we will implement the necessary measures for each. Specifically, in the case of our corporate strategy, we will promote business portfolio reformation, explore new businesses, strengthen our business foundation, and implement a capital policy with an awareness of growth and returns to shareholders. In the case of our segment strategy, each segment

will strengthen its earning power, uncover business opportunities, pursue synergies within the segment, and improve organizational efficiency to achieve targets set at both the corporate and segment level. As part of our capital policy, on the investment side, we will focus on key investment areas such as capital expenditure and M&A. Meanwhile, we intend to improve our M&A evaluation process based on the lessons learned from the previous medium-term plan. In addition, to improve the profitability of each business, we will set ROIC targets for each segment and promote business portfolio reformation by restructuring low-ROIC businesses. With respect to the creation of new businesses, we plan to establish a commercialization process and train in-house entrepreneurs.

In addition to these initiatives, we will also promote sustainability measures aimed at increasing not only our corporate value but also social value. Specifically, we will make the necessary investments to implement measures to achieve our CO<sub>2</sub> reduction targets and to execute our human resource strategy under our policy of strengthening human capital.

Earnings Forecasts and Investments Plans

		“Medium-Term Management Plan 2023” Actual	Forecast FY2024	“Medium-Term Management Plan 2026” Plans (targets for FY2026)
Earnings results	Orders	¥1,008.7 billion	¥1,120.0 billion	¥1,280.0 billion
	Net sales	¥1,081.5 billion	¥1,110.0 billion	¥1,250.0 billion
	Operating profit	6.9% (¥74.4 billion)	6.3% (¥70.0 billion)	8.0% (¥100.0 billion)
	ROIC	7.0%	6.2%	8%
	(Ref.) ROE	5.5%	6.5%	10%
Investments	Capital investment (3 years)	¥111.2 billion	¥190.0 billion (including ¥80.0 billion allocated to key investment areas)	
	Research and development (3 years)	¥64.0 billion	¥90.0 billion (including ¥54.0 billion allocated to key investment areas)	
	Currency exchange rate (US dollars)	¥139	¥135	

Reviewing our Business Portfolio

One of the main features of the corporate strategy in the current MTMP26 is the promotion of business portfolio reformation. Based on the two pillars of market growth and capital efficiency, we plan to concentrate investments in businesses with high market growth potential and strategically restructure businesses with low market growth potential and poor capital efficiency.

The semiconductor-related business will be one of our major areas of investment. demand for semiconductors is growing in electric vehicles and data centers, and the market for power semiconductors used in various energy-related fields is also growing significantly. For our products in particular, our ion implanters

and laser annealing systems used in the manufacture of power semiconductors are positioned to achieve high global market share and we anticipate high growth going forward. In these sectors, we will promote the development of next-generation models, expand our market share among existing customers, and strengthen our global expansion with the aim of entering new market segments. Furthermore, we will pursue business synergies and strengthen organizational capabilities through the establishment of an information sharing platform, as well as through collaboration and cooperation initiatives in the areas of development, production, and services.

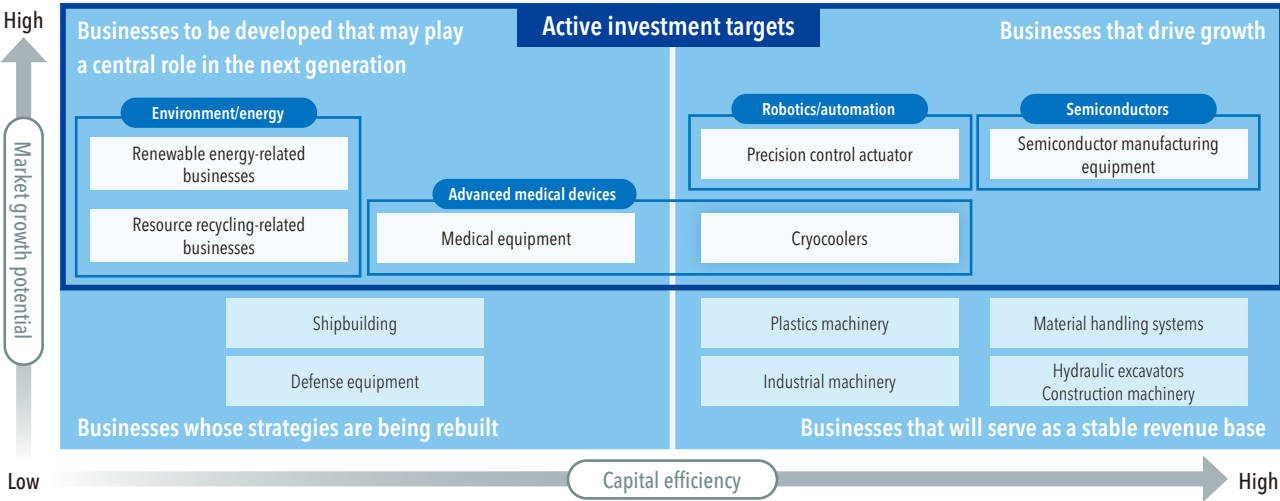
In addition to “Semiconductor,” we have positioned “Robotics and automation,” “Advanced medical equipment,” and “Environment and energy” as key investment areas, and we plan to allocate about half of our capital investment and R&D expenditures to these areas.

On the other hand, in connection with our strategic restructuring project, we announced our exit from the new shipbuilding business. Specifically, the Company has decided not to accept new orders for general commercial vessels from FY2024 onwards, and will exit the shipbuilding business after completing delivery of the remaining backlog of orders. Under the restructuring, shipbuilding facilities and personnel will be utilized in accordance with the strategies of the Energy & Lifeline segment. After the exit, the Energy & Lifeline segment will focus on decarbonized energy field, resource

recycling field, and service field, while the Yokosuka Naval Shipyard will be used as a base for the production of large cranes and excavators in addition to offshore wind power structures.

This announcement of our exit from new shipbuilding and our post-exit initiatives as part of our strategic restructuring project is just the beginning of our portfolio review, and further portfolio changes will continue to be necessary going forward. Although we need to proceed carefully since our actions affect the community, business partners, employees, and other stakeholders, I believe we need to once again identify businesses that require strategic restructuring and decide what actions to take during the MTMP26 period. By achieving a balance between growth and restructuring, we hope to improve the profitability of the SHI Group as a whole.

Corporate Strategy: Promoting Business Portfolio Reformation



Improvement Measures to Increase Capital Efficiency (Promotion of ROIC Management)

From early on SHI has promoted balance sheet-conscious management, adopting ROIC (return on invested capital) as a management indicator back in 1999. At first, we successfully improved our financial position using ROIC as the basis for a company-wide business restructuring. Gradually, however, investments optimized for each individual business led to inefficiencies, and our ability to maintain and improve ROIC stagnated. In addition, because we did not use ROIC to fundamentally reconfigure business portfolios on a business-by-business basis, the ROIC concept failed to permeate every corner of our front-line operations, such as procurement, production, and sales.

Therefore, to drive further progress in ROIC management and help improve front-line operations, the current MTMP26 includes ROIC targets for each segment. To this end, we have broken down ROIC-related factors into six major categories and have presented a current assessment and improvement measures for each of these factors.

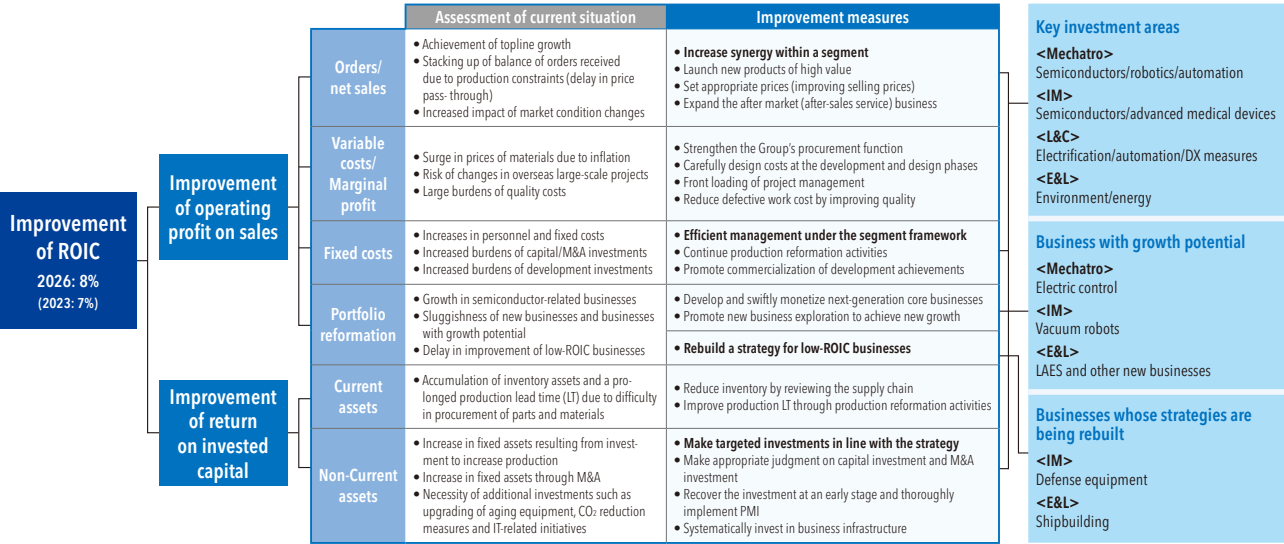
The ROIC targets for each segment, taking into

account each segment’s market environment and competitive conditions, are set between 6% and 11.5%, compared to 8% for the Sumitomo Heavy Industries Group as a whole. Our plan is to focus allocation of capital expenditures and R&D on segments targeting a higher ROIC of more than 8% and pursue vigorous strategic restructuring of low-ROIC businesses in segments with an ROIC target below 8%.

As we move forward with ROIC improvement in our business divisions, discussions related to the PL side, such as sales and profit, tend to be the main focus, and discussions related to invested capital tend to take a back seat. As CFO, I will support supply chain issues that need to be addressed Group-wide to reduce inventories, as well as initiatives for company-wide production reforms. In addition, being focused on the efficiency of invested capital, I will support segments in promoting more capital-efficient operations throughout the budget management cycle in businesses where major improvements can be expected in the six ROIC-related factors.

Financial Capital

Corporate Strategy: Assessment of Current Situation and Improvement Measures to Increase Capital Efficiency



Cash Allocation

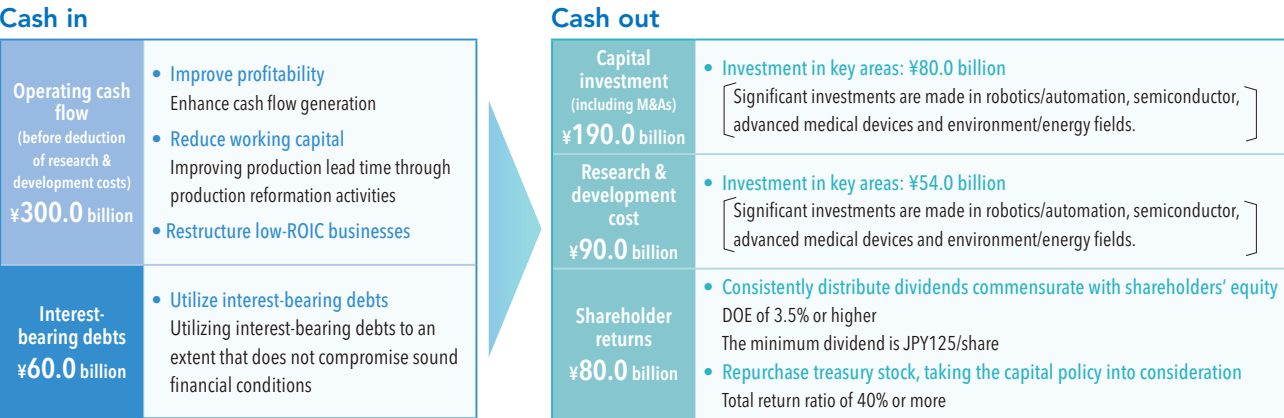
Regarding the capital policy in MTMP26, I anticipate that our ability to generate cash flows will be strengthened as we implement measures to improve ROIC, such as strengthening profitability, reducing working capital, and restructuring low-ROIC businesses. As for cash inflow, we plan to achieve ¥360 billion, significantly higher than the previous medium-term management plan, by utilizing interest-bearing debt together with operating cash flow.

We will use this cash to aggressively invest in capital expenditures and R&D in key areas, while at the same time paying stable dividends commensurate with shareholders' equity. Specifically, we plan to invest ¥190 billion for capital investment (compared to ¥111.2 billion for the three-year cumulative total of the previous

medium-term plan), and ¥90 billion in R&D (compared to ¥64 billion for the three-year cumulative total of the previous medium-term plan). In particular, we intend to accelerate growth by investing in our two key areas of "Robotics and automation" and "Semiconductor," in the amounts of ¥80 billion and ¥54 billion, respectively.

When it comes to cash allocation, it is important to follow not only the numerical results of cash in and cash out, but also whether it is actually making an impact on future growth. As I explained above in "Summary of MTMP23," in cases where M&A deals in the past have not produced results, I would like to improve capital efficiency by making sure that appropriate measures are taken in the business divisions.

Corporate Strategy: Capital Policy (Cash Flow Allocation)



Returns to Shareholders

This year, as part of our capital policy, we have announced aggressive returns to shareholders. We have decided to pay a stable dividend commensurate with shareholders' equity, and at the same time, we will

implement share buybacks in consideration of capital efficiency. Specifically, our basic policy for returns to shareholders is a dividend on equity (DOE) ratio of 3.5% or more, a minimum dividend of ¥125, and a total

return ratio of 40%. Based on this thinking, we plan to increase our dividend forecast by ¥5 to ¥125 per share in FY2024, and at the same time, we plan to implement a share buyback of ¥10 billion.

Let me explain the background to this shareholder return policy decision. Previously, we used the dividend payout ratio as our shareholder return indicator. In the previous medium-term management plan, we had set a basic target of 30% and raised that target to 40%. However, many people believe that the announcement of a dividend cut or revision relative to forecasts would be viewed negatively by the market.

Sustainability

Alongside growth strategies, the major themes taken up in the current MTMP26 include themes related to sustainability. With regard to the environment in particular, we are stepping up our efforts to achieve our goal of carbon neutrality by 2050. The target for 2026, the final year of the medium-term plan, is to reduce CO<sub>2</sub> emissions by 35% in product manufacturing and 50% in product use compared to 2019 levels.

Another key aspect of sustainability is the promotion of human capital management. We believe that human resources are our greatest capital, and that the growth and development of people and organizations is the source of sustainable business growth. To this end, we will recruit, train, assign, and evaluate human resources who are self-reliant, self-directed, and willing to take on

For this reason, we have been considering ways to provide a stable dividend and, if possible, an additional benefit to shareholders. In the current medium-term management plan, we intend to return profits to shareholders through a two-pronged approach: stable dividend payments within the relatively high level of shareholders' equity, followed by share buybacks as an additional benefit. In line with this, we changed our indicator for returns to shareholders from dividend payout ratio to DOE, setting a DOE target of 3.5% or more, and we are also planning to achieve a total return ratio of 50% or more.

challenges. In terms of recruitment, during the period of MTMP26, we plan to hire approximately 500 people with the skills that are in short supply in key investment areas as well as 50 DX personnel. With regard to training, we will establish a new human resource development center and conduct training programs linked to our business strategy. Furthermore, with regard to the development of management, we will strive to develop Japanese managers with a global outlook in addition to utilizing human resources from overseas.

As with other investments, I believe that the balance between investment and return is important for human capital as well. We are therefore considering suitable metrics to be used to verify the effectiveness of our initiatives to improve the value of human capital.

Communication with Investors

I have heard our external directors say that we need better communication to get our message out to the world. I agree with this in the sense that there are businesses that actually have great growth potential but nevertheless may not have a story that resonates with investors.

With this in mind, I am committed to proactive communication to let investors and other external parties know about concrete progress on MTMP26. Following the company-wide briefing on MTMP26, we also held business briefings for each segment. In those individual briefings we provided more detailed substance than we did for the company-wide briefings, explaining the specific challenges of each business and the points we will focus on for growth.

What is important in such briefings is an easy-to-understand story. For example, how much will the market grow? What are your strengths in terms of intellectual property, human resources, production capacity, and so on compared to your competitors? You need to communicate these things in a simple and easy-to-understand way. For example, even if a particular business shows growth potential, you may find yourself in a situation where the market is at a plateau and you are faced with the question of whether to move forward or retreat, and in such a situation, having a solid story to

tell about your company's strengths can serve as a basis for supporting the strengthening of that business.

Furthermore, I think it is important to not to just give an initial briefing and then be done with it, but to have a system in place that enables follow-up on progress thereafter. In fact, in the semiconductor-related business, our quantitative disclosure of the progress of the business has been well received. Outside of the semiconductor-related business, we also disclose information focusing on what is the centerpiece of growth in each segment, such as the electric motor control sector in the mechatronics segment. The idea is that if we give investors a true sense of the growth of the Company, they are more likely to assess the value of the Company in a way that is closer to the actual situation.

At the same time, I want to ensure appropriate disclosure of any problems that may arise in the course of the plan's progress. By revealing the good points and bad points to the outside world and establishing a dialogue, we are not only taking "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" as mandated by the Tokyo Stock Exchange, but we are also providing investors with information that will enable them to evaluate the Company's true capabilities.



# Human Capital

Global human resource management as the root of sustainable growth of our businesses

Number of employees: **25,303** (consolidated)

Annual training expenses per employee: **69,305 yen** (consolidated Japanese result) (FY2023)

Annual training hours per employee: **10.9 hours** (consolidated Japanese result) (FY2023)

Message from the General Manager, Human Resources Group

We position human resources at the core of our management and business operations, making them the foundation for the sustainable growth of our Group.

Kazutoshi Shiraishi Senior Vice President & General Manager of Human Resources Group

At our Group, we recognize that “Human resources are our greatest asset and the sustainable growth of a business is rooted in the growth and development of both individuals and organizations.” Consequently, we place human resources at the core of our management and business operations. To align our management strategy with our human resources strategy, our Medium-Term Management Plan 2026 highlights key priorities such as securing talent, strengthening our human resource development foundation, establishing a global HR management framework, enhancing organizational capabilities, and promoting diversity. Additionally, based on the 5th Action Plan, our medium-term plan for health and safety, we will further strive to ensure the health and safety of our employees. By doing so, we aim to improve both the work environment and job satisfaction for our employees, laying a solid foundation for the sustainable growth of our Group.



Our Human Resource Strategy

To consistently provide top-notch products and services demanded by society, we believe it is essential to strengthen both individuals and organizations. Under the guiding principle of “People are our most important asset,” which is a core belief of the Sumitomo Group, we have established the “SHI Group Human Resource Policy,” and are working toward mutual growth for employees and the company. Our Group actively supports each employee’s autonomous learning, and we implement various human resource development programs to systematically cultivate the talent our organization needs

from a medium to long-term perspective through back-casting. This approach ensures that individual growth translates into organizational development. Additionally, we are committed to promoting diversity, emphasizing initiatives related to women’s empowerment and work-life balance, thus creating a work environment where diverse talent can thrive. We also recognize employee health as a fundamental basis for our group’s sustainable growth. By advancing health management and prioritizing safety in all aspects of the workplace, we strive to ensure the utmost safety and health of our employees.

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.

Human Growth

The growth of our human resources is crucial for the sustainable growth of our business. In our Medium-Term Management Plan 2026, we will increase our investment in this area more proactively.

Strengthening the Foundation of Human Resource Development

We recognize that aligning human resource development with our business strategies is key to sustainable growth. We are committed to reskilling our workforce to adapt to changing business environments and enhancing upskilling education to build expertise. We are also expanding in-house education to foster both personal growth and organizational development, thereby helping strengthen the foundation of human resource development.

Regarding reskilling and upskilling, our “SHI Open College” has expanded to offer 25 courses, allowing employees to choose and attend classes voluntarily, respecting their individual preferences. Additionally, we’ve increased the number of specialized technical education courses to 86, incorporating practical and hands-on sessions in each segment. To support organizational development, we continuously formulate and revise programs tailored to the strategies and training needs of each business division. Furthermore, we emphasize career development support, believing that promoting autonomous career development enhances job satisfaction and organizational growth. To this end, we are expanding and enriching our career development training to support employees’ independence.

Establishment of the Human Resource Development Center

In January 2024, we established the Human Resource Development Center to further strengthen human resource development, a pillar of our human capital management.

Initially, we are focusing on technical education and knowledge transfer, formulating and revising specialized technical education programs tailored to each business division’s strategies and needs. By objectively and quantitatively assessing each employee’s abilities and measuring the gap between their current state and desired goals, we are promoting human resource development across the Group in line with our business strategies.

Securing and Developing Human Resources

Securing Human Resources  
To continuously enhance corporate value by addressing various social issues, we believe it is essential to secure a diverse workforce, and are working proactively toward fulfilling this goal. We have positioned diversity promotion as a material issue in our recruitment activities, setting a target for female representation in new graduate hires at 20% since 2017. This target has been met for most years up to the 2024 intake and is expected to be met for the

2025 intake as well. Additionally, we are actively recruiting career personnel from diverse backgrounds. To help these new hires settle in and thrive, we promote onboarding initiatives tailored to career recruits. We are committed to securing a diverse workforce, which remains a crucial measure supporting our Group’s growth.

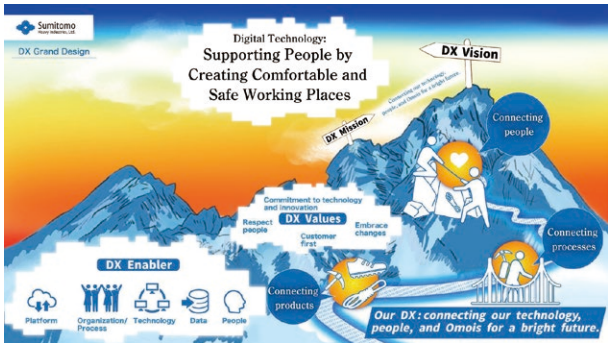
Developing Global Talent

To enhance our international competitiveness, we believe it is important to improve the global responsiveness of our domestic talent. We have established the Global Talent Program to select and develop global talent candidates from each business division. This program includes the Global Seminar and the Global College. In the Global Seminar, employees nominated by their business divisions participate in a year-long program, attending lectures by external global leaders, learning management frameworks and leadership using global company cases, studying geopolitics and cross-cultural communication, and practicing facilitation and presentations in English. The Global College offers online training in English conversation, cross-cultural understanding, and business skills for all participants.

Digital Transformation (DX) Human Resource Development

Pursuing DX across all business areas is essential for continuing to provide value to society and customers through our products and services. In line with this, we have established our DX vision, which is to “utilize the power of digital technologies to make workplaces around the world more comfortable and bring happiness to everyone involved.” Since FY2022, we have been continuously implementing DX literacy education and problem-solving DX seminars to develop talent capable of flexibly responding to changes in the business environment and creating value using digital tools across the group.

SHI Group’s DX Grand Design



Human Capital

Major Educational Programs Related to DX Human Resource Development

Program	Format, characteristics, etc.	Scale	Objective
DX project support (planning, PoC)	Workshop format	5 to 8 teams/year	Cultivate business planning capabilities and PoC execution skills
[Expertise engineering education] Selective courses (information systems)	One-on-one training Project Based Learning	4 to 7 students/year	Cultivate top-tier technical skills in data analysis and machine learning, as well as problem-solving abilities
[Expertise engineering education] General courses (information systems)	Practical group training	About 10 courses 10 to 60 students per course	Cultivate specialized technical skills in data analysis and machine learning
[SHI Open College] DX conceptualization and planning courses	Practical group training	3 courses, about 20 students per course	Cultivate DX conceptualization and planning capabilities
DX literacy education & assessments	E-learning, compliant with the Digital Skill Standards for DX Literacy (DSS-L)	SHI Group: 8,700 students (All domestic employees excluding production staff)	Cultivation of DX literacy

Developing Management Talent

In our Group, we select potential business leaders from each division and continuously run management talent development programs, such as the Sumitomo Heavy Industries Group Business School (SBS) and the Management Course. These programs go beyond teaching management literacy by fostering a management mindset, including resolve, ambition, and decision-making principles, through dialogues with management staff, sessions with external leaders, mentoring by external coaches, and interactions with peers from other companies. Additionally, we use assessments to measure the qualities of our talent, aiming to identify and develop high-potential individuals early on.

Organizational Growth

For our Group to grow sustainably, we believe it is important to build organizational strength by taking on various challenges and overcoming them together. We are promoting organizational development activities that nurture autonomous individuals and a spirit of taking on challenges, as well as initiatives that promote diversity.

Organizational Development Activities  
PRIDE PJ

We have launched an organizational development initiative called PRIDE PJ, which encourages individuals within the organization to think for themselves and take proactive actions for the growth and improvement of their organization. Since FY2020, we have established promotion offices in 38 business divisions, headquarters departments, and affiliated companies. With “dialogue” and “collaboration” as keywords, we aim to foster “autonomous individuals and an organization that takes on challenges.”



Engaging in dialogue as part of PRIDE PJ

Motivation

Challenge System

We have implemented the Challenge System across the company to nurture a spirit of taking on challenges among employees and to invest in future products and technologies. Instead of the company assigning tasks, employees can submit themes they want to work to achieve. In this way, we provide a platform for those with visions for future technologies, ideas, and products to pursue their dreams. This system not only encourages the creation of future products and technologies but also fosters a spirit of taking on challenges among employees.

Respecting Diversity

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.

Efforts to promote career development for women

Ensuring diversity through 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%) in SHI, but we had 34 (3.2%) in January 2024, which shows a steady increase. We are further strengthening our group-wide efforts, aiming to increase the ratio of female managers in our domestic consolidated entities to 3.7% (90 women) by January 2027, and to 8% (200 women) by 2030. We will continue to focus on the career development of women.

Initiatives for supporting women’s career development

- Setting and monitoring managerial ratio targets by division
- 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 recruiting human resources of different nationalities. We have set up a system to ensure that our foreign employees can work with peace of mind.
- Personalized support for daily needs
  - Japanese language education
  - Religion-related provisions

Efforts to ensure the stable employment of disabled individuals

- We are committed to promoting the employment of individuals with disabilities and ensuring they have a supportive environment to thrive and showcase their abilities.
- Establishment of the special subsidiary Sumiju Will Co., Ltd.  
We established this special subsidiary in accordance with the “Act to Facilitate the Employment of Persons with Disabilities” to provide a welcoming workplace for individuals with disabilities and help them fully utilize their diverse talents.
  - Cleaning and greening teams (Yokosuka Works/ Nagoya 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 nonprofit organizations that support the development of children.

Efforts to ensure that LGBTQ+ persons are comfortable working for us

- In November 2023, we received the highest “Gold” rating in the PRIDE Index, which evaluates efforts related to LGBTQ+ inclusion. We are pursuing initiatives from the areas of “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 these issues among all our employees, we distribute awareness raising articles through our in-house newsletter and email newsletter, and we create 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.

Targets by January 1, 2027
<b>1 Increase the number of newly employed women</b> Ratio of women among new graduate hires: above 20% per year
<b>2 Actively promote women</b> Number of female directors: 2 Number of female managers: 5.0% (SHI), 3.7% (domestic consolidated)
<b>3 Utilize diverse human resources</b> Ratio of mid-career hires among managers: above 30% Ratio of foreign employees among managers: 1.4% Male childcare leave utilization ratio (including system leave): 100%

Building a Foundation for Mutual Growth of People and Organizations

For individuals and the organization to grow together, it is essential to meet the diverse needs of our employees and ensure a healthy and safe working environment as a fundamental basis. To this end, we are implementing the following initiatives.

Revising HR Systems

We are updating our HR systems with three basic policies: 1. Encouraging proactive behavior from employees, 2. Promoting the success of diverse talent, and 3. Rewarding roles, duties, and achievements. Specifically, these revisions include changes to our personnel, salary, and retirement systems. We have also introduced the Plus Career System, which allows employees to take on

side jobs if certain conditions are met, which supports their self-fulfillment, autonomous career development, and innovation that benefits their main role. Additionally, we now extend internal benefits to same-sex partners for LGBTQ+ employees. Moving forward, we will continue to enhance systems that contribute to employee satisfaction and engagement.



Human Capital

Work Comfort

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.

Initiatives to achieve workstyle reforms

- **Flexible work hours and teleworking**  
We aim to help employees achieve work-life balance and enhance their productivity through flexible and autonomous workstyles that allow them to work any-time, anywhere.
- **Promoting the use of annual paid vacations and accrued leave**  
We provide more annual paid leave days than legally required. 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 paternity leave**  
In FY2023, we achieved a 100% paternity leave take-up rate at our company and 13 affiliated companies. This success was driven by several initiatives: the president's declaration advocating for 100% paternity leave, encouraging both employees and their supervisors to take paternity leave, organizing events to promote leave-taking, and sharing experiences and information from those who have taken paternity leave. Through these activities, we are fostering a culture where employees can comfortably take paternity leave without hesitation.

Employee Health and Safety

For the sustainable growth of our Group, it is essential to establish a health management system that ensures every employee can continue to work while maintaining their physical and mental well-being. To this end, we have established the SHI Group Health Declaration. With the president and CEO acting as the Chief Health Manager, we are promoting various health support initiatives, including data health and collaborative health, promotion of mental health measures, prevention of health hazards caused by harmful environments, and age-friendly measures.

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.

Additionally, as a result of our efforts to further enhance employee health, we have been continuously recognized as a Certified Health & Productivity Management Outstanding Organization (large enterprise category)\*1 by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi since 2021. We will continue to pursue health management initiatives.

\*1 This certification is awarded to organizations that demonstrate excellent health management practices based on local health challenges and the health promotion efforts advocated by the Nippon Kenko Kaigi.



Initiatives to promote employee health

- **Initiatives in data-based health and collaborative health**  
In collaboration with the health insurance association, 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 promoting health support measures for all employees based on this plan.
- **Promotion of mental health measures**  
We implement regular stress check tests and then conduct interviews based on the results. In addition, we provide individual mental health follow-up support, conduct training, etc. at each business location by both our internal occupational health staff and through external support programs.
- **Preventing health hazards from harmful environments**  
In response to revisions in the Industrial Safety and Health Act, we are autonomously managing chemical substances and promoting initiatives to prevent health hazards in harmful work environments. Additionally, we ensure thorough special health examinations to accurately monitor the health status of affected employees.

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 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 between labor and management. In 2024, we formulated the 5th Action Plan, a medium-term plan for safety and health, focusing on initiatives aligned with this plan.

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.

- **Guidance on worker behavior**  
As an activity that aims to enhance workplace safety, we conduct regular fixed-point patrols to observe actual work conditions and identify new risks that may have previously gone unnoticed.
- **Enhancing hands-on training**  
While engineering measures and working environments have improved, we believe workers' intuitive sensitivity to danger is declining. To address this, we incorporate training that includes various simulation devices, including VR.

Social and Relationship Capital

Forward-Looking Management from a Stakeholder Perspective

Number of suppliers: **5,658 companies** (as of end of December 2023)

Responsible Procurement

As our Group expands globally, we are not only focused on cost, quality, and timely delivery but also on reducing ESG risks throughout our supply chain. We strive to cultivate mutually beneficial and sound relationships with our suppliers.

We not only conduct business in line with our basic procurement policy, but also work with our suppliers on sustainability issues with a focus on respecting human rights, prioritizing compliance, and conserving the environment. Through these efforts, we are advancing responsible procurement practices.

Our specific ongoing initiatives include widespread dissemination of the CSR Procurement Guidelines, the conducting of surveys and on-site audits, and CSR

procurement training for our employees.

In September 2023, we updated our CSR Procurement Guidelines in response to international standards and societal challenges. We have also established a dedicated "Supplier Contact Service" on our website as a consultation point for stakeholders in the supply chain, setting up a system to broadly accept inquiries.

As part of our efforts to address the crucial sustainability challenge of building a sustainable supply chain, we are advancing business practices that carefully consider human rights and climate change impacts throughout the supply chain, working toward a resilient and sustainable supply chain framework.

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 suppliers is essential to these efforts. We ask our suppliers for their understanding and cooperation in promoting each item of the guidelines.

- |  |  |
|--|--|
| 1 Open and fair competition and trade practices, compliance    | 4 Information disclosure to promote communication with stakeholders          |
| 2 Human rights, labor practice, Occupational Health and safety | 5 Social contributions, coexistence and co-prosperity with local communities |
| 3 Consideration for the environment                            | 6 Widespread adoption throughout the supply chain                            |

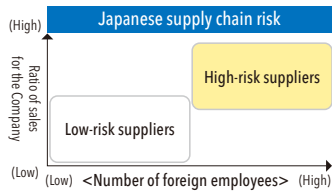
Targeted On-Site Audits for High-Risk Domestic Suppliers

As a central action for building a sustainable supply chain, we prioritize the respect for the human rights of foreign workers, who are often at high risk of abuse. We have designated 24 suppliers to focus on based on the number of foreign workers they employed and their net sales proportions to our company, labeling them "potential high-risk suppliers." Our goal by 2026 is to conduct on-site audits for all these suppliers and implement corrective measures if needed.

In fiscal 2023, we audited seven companies and confirmed that there were no significant human rights or labor environment risks.

Implementing on-site surveys for important overseas suppliers

We conducted on-site surveys related to working environments targeting our Group's important suppliers. 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.



We define suppliers with high net sales proportions to our company and a large number of foreign workers employed as "potential high-risk suppliers."



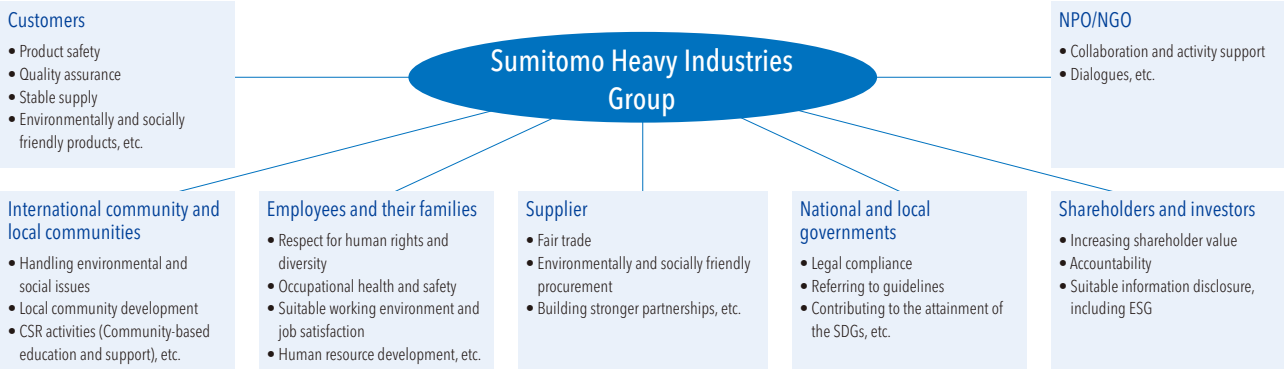
An interview by the ASSC

Social and Relationship Capital

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	Supplier	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 STEAM Education Workshop for Families: “School for a Compassionate Future”

**Date** : December 2 and 3, 2023

**Place** : Ehime Prefectural Science Museum (Niihama, Ehime Prefecture)

**Participants** : 60 (Ehime Prefecture elementary school students from grades 4 to 6)

**Outline** : With the recent mandate for programming education in elementary and middle schools, there’s a growing emphasis on “thinking and creating.” Our Group, which champions “coexistence and co-prosperity with local communities” as a key sustainability issue, seeks to contribute to society through next-generation education, leveraging our resources. In line with this goal, we hosted the “School for a Compassionate Future” STEAM workshop in Niihama, Ehime Prefecture. This hands-on workshop encouraged participants to select materials and create freely, generating numerous ideas and designs. Follow-up surveys showed improvements in our company’s likability and perceived reliability, technological capability, and potential for growth. We plan to continue this initiative in 2024.

Natural Capital

Our Initiatives to Reduce Environmental Burden



**Key Environmental Priorities**

- Enhancement of environmental risk management
- Reduction of CO<sub>2</sub> 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.

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. Under this plan, we have been working on four priority issues: (1) enhancement of environmental risk management, (2) reduction of CO<sub>2</sub> emissions with actions addressing climate change taken into consideration, (3) reduction of environmental loads in business activities, and (4) preservation of biodiversity. While our vigorous efforts to reduce CO<sub>2</sub> emissions have shown certain positive results, we have not yet achieved our targets, partly due to business expansion. In the 7th Medium-Term Environmental Plan, we will continue to address these issues by expanding the deployment of renewable energy and implementing CO<sub>2</sub> reduction measures, striving to achieve our goals.

The 6th Medium-Term Environmental Plan Summary

Index	Item	FY2023 Target	FY2023 Results
Environmental management	Number of serious environmental accidents	0	0
Response to climate change	Total amount (market standard)	–	18% reduction
	CO <sub>2</sub> reduction through energy-saving activities*1	Japan: 4% reduction (compared to FY2019)	5.7% reduction
	Total amount (excluding renewable energy)*1	Japan: 4% reduction (compared to FY2019)	4.4% increase
Reduction of environmental impact	Waste generation (basic unit)*2	Japan: Maintained (compared to FY2017–2019)	26.6% reduction
		Overseas: 3% reduction (compared to FY2019)	24.5% reduction
	VOC emissions	Japan: Maintained (compared to FY2019)	17.6% reduction
		Overseas: 1% reduction (compared to FY2019)	28.3% reduction

\*1 Comparison based on FY2019 actual calculation factors \*2 Including Harmful Waste Disposed

The 7th Medium-Term Environmental Plan Targets

Starting in fiscal 2024, we formulated and initiated the 7th Medium-Term Environmental Plan. This plan includes targets such as expanding the use of renewable energy like solar power, to achieve our interim goal of reducing CO<sub>2</sub> emissions from product manufacturing by 50% by 2030, compared to FY2019 levels. We are broadening our previous goals globally and will enhance our efforts as part of the Sumitomo Heavy Industries Group.

Key Items	Item	FY2024 Target
Reduction of total CO <sub>2</sub> emissions	Total CO <sub>2</sub> emissions	Reduction by an amount equivalent to 1% of FY2019 emissions per year
Strengthening environmental management	Number of serious environmental accidents	0
Reduction of environmental loads in business activities	Amount of waste generation*	Below the average emission level of FY2020–2023
	VOC emissions	Japan: Below the average emission level of FY2020–2023
		Overseas: Below the average emission level (basic unit) of FY2020–2023

\* 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 renamed these products to “Sustainability Plus Products.” By evaluating products based on criteria in categories such as resource

recycling, global warming countermeasures, environmental risk management, safety, and labor-saving, 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.

### Sustainability Plus Product: CFB Boiler

The circulating fluidized bed (CFB) boiler can stably combust a wide range of fuels, from biomass to refuse-derived fuel (RDF), providing a stable supply of highly efficient and clean energy.

By utilizing local biomass and waste, it contributes to reducing fossil fuel usage and CO<sub>2</sub> emissions. This boiler will play a crucial role as a clean, adjustable power source in the future renewable energy-dominated society, ensuring the stability of the power grid.

Additionally, it excels in reducing the emissions of sulfur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), and particulates, operating with a low environmental negative impact.



**<Reduction Contribution>**

By introducing the CFB boiler, which can combust biomass and waste, instead of traditional coal-fired boilers, we can significantly reduce CO<sub>2</sub> emissions during operation. The CO<sub>2</sub> emission reduction effect from the deployment of CFB boilers in fiscal 2023 is estimated to be approximately 9.65 million tons of CO<sub>2</sub>. Moving forward, we will continue to leverage our extensive experience to provide comprehensive engineering services to our customers, from plant planning and design to procurement, construction, and after-sales services.

### Sustainability Plus Product: Hydraulic Excavator

Our hydraulic excavator is equipped with a low-fuel-consumption clean engine and a unique hydraulic system that combines efficient operation with excellent fuel efficiency, achieving high fuel performance.

It surpasses the 2020 fuel efficiency standards set by JCMAS, earning the top-tier ☆☆☆ (three-star) certification, awarded for achieving more than 100% of the fuel efficiency standards.

The clean engine “SPACE5a” significantly reduces exhaust emissions and meets the world’s strictest emission regulations, complying with the 2014 Off-Road Act standards. Compared to previous models, it reduces NO<sub>x</sub> emissions by 80%, making it an even more environmentally friendly excavator.



**<Reduction Contribution>**

The hydraulic excavator operates by converting engine output to hydraulic power using a diesel engine. We have developed machines that excel in fuel efficiency and operational performance and supply them to the global market.

We are promoting reductions in CO<sub>2</sub> emissions during product use through improved fuel efficiency and enhanced operational efficiency (shortened cycle times). For fiscal 2023, the total CO<sub>2</sub> emission reduction for all shipped products is calculated to be 94,000 tons. This includes a reduction of 38,000 tons attributed to improved fuel efficiency and 56,000 tons attributed to shortened cycle times.

## Capital Investment in Environmental and Energy-Saving Equipment

We have made ¥1.63 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 our proactive efforts to deploy solar power generation facilities, increase efficiency, conserve energy, and prevent environmental accidents. In fiscal 2022, we introduced internal carbon pricing (ICP). By actively encouraging capital investment, we will continue to promote energy saving.

Amount of Capital Investment in Environmental and Energy-Saving Equipment

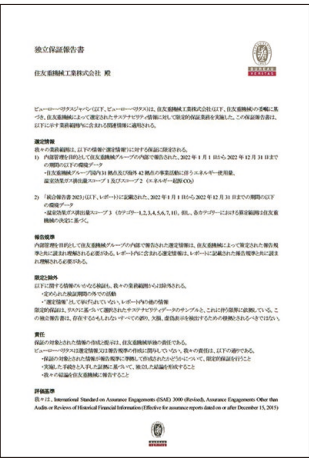
	FY2020	FY2021	FY2022	FY2023
Environment-related	573	490	547	423
Energy conservation-related	1,287	2,610	1,967	530
Energy generation-related	—	—	—	685
Total	1,860	3,100	2,513	1,638

## 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 Japan, Inc. Since fiscal 2022, we have 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, 2023, to December 31, 2023:
- Energy used by the Group due to business activities at its 31 sites in Japan and 41 overseas sites
  - Scope 1 and Scope 2 greenhouse gas emissions (CO<sub>2</sub> 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)\* in order to strengthen our response to climate change risks. In addition, we have set the target of achieving carbon neutrality (net-zero CO<sub>2</sub> emissions) across the entire SHI Group by 2050 along with our CO<sub>2</sub> emissions reduction targets through 2030 as we step up our efforts to address climate change.

\* 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

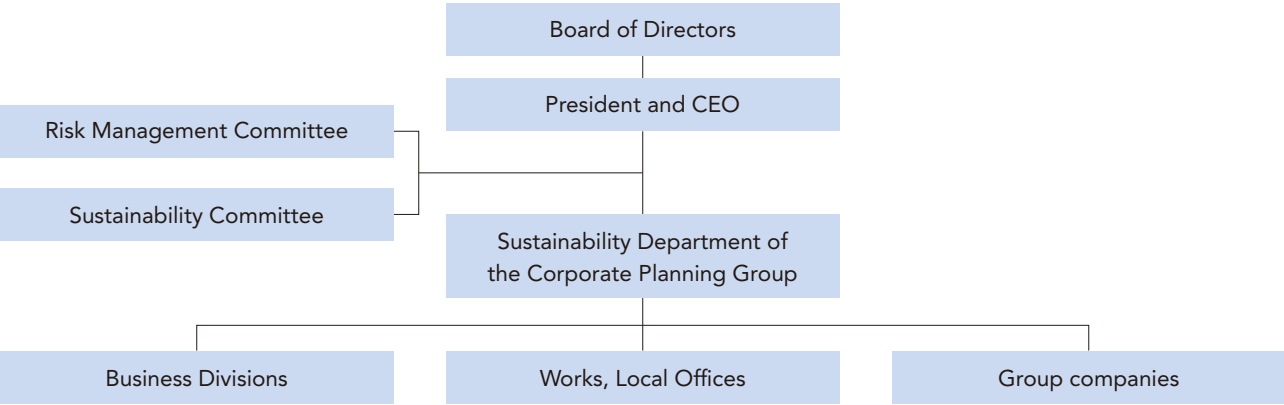
In addition to identifying the reduction of environmental impact as one of the seven sustainability material issues resolved by the Board of Directors in 2020, we have also continued to designate climate change as one of the social issues that our Group should contribute to addressing in our Medium-Term Management Plan 2026, which began in fiscal 2024.

The Risk Management Committee has identified climate change risk as one of the material risks. Starting in fiscal 2024, the Sustainability Committee, chaired by the President, will address climate change issues along with other non-financial risks. This committee will also explore how these risks can create business opportunities for our Group, and will focus on discussing strategic responses.

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, 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, 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.

1. 1.5°C Scenario where measures are implemented and temperature rise is kept below 1.5°C

2. Scenario where effective measures are not implemented and temperature rise reaches 4°C

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.	

	Period	Reason for setting up
Short-term	FY2024 to FY2026 (3 years)	Managed under the 7th Medium-Term Environmental Plan formulated in line with the Medium-Term Management Plan 2026
Medium-term	Until FY2030	In line with fiscal year 2030, the interim target year for the Group's long-term climate change response goals
Long-term	Until FY2050	In line with fiscal year 2050, the interim target year for the Group's long-term climate change response goals

Results of Analyzing Risks and Opportunities

	Timeframe of potential risks	Impact Level	Risks	Opportunities	Major initiatives
1.5°C scenario (decarbonization scenario)	Short to long-term	High	Stricter regulations on power generation using fossil fuels	Higher demand for renewable energy	• Restrictions on the acceptance of orders for coal-fired power generation plant • Supplying products for the renewable energy market
	Short to long-term	High	Stronger requirements in terms of energy-saving performance	Higher demand for energy-saving products	• Development and provision of energy-saving products
	Medium to long-term	Medium	Stricter regulations on internal combustion engines	Higher demand for electrification and fuel conversion	• Cooperation to facilitate electrification and fuel conversion
	Medium to long-term	Medium	Changes in product demand	Entry into new business fields	• Entering the market for offshore wind power foundational structures
4°C scenario (advanced global warming scenario)	Short to long-term	Low	Higher carbon tax and raw material costs	Higher demand for energy- and resource-saving products	• Further increasing the efficiency of production, transportation, etc. • Introducing ICP to promote energy-saving capital investment and purchasing renewable energy to facilitate decarbonization
	Short to long-term	Medium	Increasingly severe natural disasters	Higher demand for disaster prevention infrastructure	• Manufacturing-site BCP enhancement
	Short to long-term	Low	Rising sea levels (long-term)	Higher demand for construction machinery for disaster recovery	

Our Group is aiming to reduce CO<sub>2</sub> 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 CO<sub>2</sub> emissions from our Group, we have defined products that help to reduce society's overall CO<sub>2</sub> emissions as products that contribute to the reduction of CO<sub>2</sub> 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 CO<sub>2</sub> emissions in the narrow sense and products that contribute to the reduction of CO<sub>2</sub> emissions in the broad sense, our Group is helping to achieve a decarbonized society.

CO<sub>2</sub> Emissions Reduction Measures by Segment

Reduction category	Initiatives that can be directly counted toward a reduction of our CO <sub>2</sub> emissions based on the definition of Scope 3 emissions	CO <sub>2</sub> emissions reduction in the narrow sense Initiatives that indirectly contribute to reducing society's overall CO <sub>2</sub> emissions CO <sub>2</sub> emissions reduction in the broad sense (as defined by the Company)
Segment		
Mechatronics	• Improving the efficiency of electric motors	• Supporting the electrification of customer production processes
Industrial Machinery	• Making the production process more energy efficient – Higher efficiency and miniaturization – Combining multiple functions in individual pieces of equipment	• Weight-reducing, cryogenic, and superconducting technologies • Providing support to reduce product materials (Scope 3: upstream) • Development of energy-efficient helium refrigerators
Logistics & Construction	• Converting the energy of internal combustion engines	• Enhancing efforts related to construction machinery for the forestry industry as well as wood-chip conveyance • Supporting fuel conversion for delivered machines • Remote and automated technologies
Energy & Lifeline	• Refraining from accepting orders for coal-fired power plants	• Expanding energy storage system business • Combining multiple functions in individual pieces of equipment • Development of sustainable fuel (SAF, etc.) manufacturing technologies and the establishment of collaborations • CO <sub>2</sub> capture and reuse, and other carbon-negative technologies • Commercialization and mass production of foundational structures for offshore wind power



Natural Capital/Addressing Climate Change Risks

Business risks and opportunities

We are a machinery and equipment manufacturer offering a diverse range of products. Upon analyzing the risks and opportunities across our businesses, we identified the following overall risks for our Group: the potential loss of product competitiveness and business scale reduction if we fail to develop decarbonized, high-efficiency products or alter our product portfolio. Segment-specific risks and opportunities were also evaluated. In the Energy & Lifeline segment, particularly

in the power plant business, both risks and opportunities have significant impacts. In the Mechatronics and Industrial Machinery segments, opportunities are seen to have a more considerable impact. Our Group aims to maximize customer value through proposals that solve various customer issues. At the same time, we provide products that support decarbonization to assist our customers in their efforts to address social issues.

Results of Analyzing Risks and Opportunities by Segment

Segment		Risks	Impact Level	Opportunities	Impact Level
Mechatronics	Impact area [Electric motors] • Gear reducers, control equipment, etc.	• Delays in responding to the needs of customers to reduce CO <sub>2</sub> emissions during the use of our products • Stricter product energy efficiency regulations by governments	Low	• Accelerated electrification of customer production equipment • Improved value of energy-saving products • Increased demand for products that integrate electronic and control devices with gear reducers	High
	Impact area [Electric motors] • Material processing, semiconductor production equipment, etc.		Low	• Accelerated electrification of customer production equipment • Improved value of energy-saving products • Increased demand for products that help to reduce the weight of finished products • Expansion of power semiconductor production equipment • Increased cryogenic, superconducting, and other needs	High
Logistics & Construction	Impact area [Internal combustion engines] • Construction machinery, conveyance/material handling equipment, etc.	• Stricter regulations on the CO <sub>2</sub> emissions of internal combustion engines • Delays in handling fuel conversion, etc. • Delays in responding to the decarbonization needs of customers	Medium	• Fuel conversion and electrification in the construction and logistics fields • Increased investment in forest resources • Increased wood-chip handling demand	Low
Energy & Lifeline	Impact area [Power plants] • Power plants, water and wastewater treatment plants, etc.	• Government restrictions on coal-fired power generation • Stricter regulations on the generation of biomass power by using unapproved fuel	High	• Increased demand for products related to biomass power generation • Support for existing power plant fuel conversion • Increased fuel conversion-related demand • Growth of the energy storage market to expand renewable energy utilization	High
	Impact area [Next-generation fuels] • Carbon-neutral technologies	• Delays in technology development and establishing collaboration frameworks • Delays in responding to the decarbonization needs of customers • New regulations on next-generation fuels	Low	• Increasing demand for sustainable fuels (SAF, etc.)	Low

Risk Management

Our business operations are monitored by the Budget Council, which meets twice a year and comprises the President 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 2030 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 CO<sub>2</sub> emissions during the use of products by customers and business scale are flagged so that 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 our Group 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, but its follow-up will be handled by the Sustainability Committee starting in fiscal 2024. In addition, our Group formulated its Basic BCP Policy to enhance our ability to respond to various disasters.

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 CO<sub>2</sub> emissions reduction targets through 2030 on the way to achieving this goal. Our Group has identified CO<sub>2</sub>, an especially commonly emitted greenhouse gas, as a target for priority

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

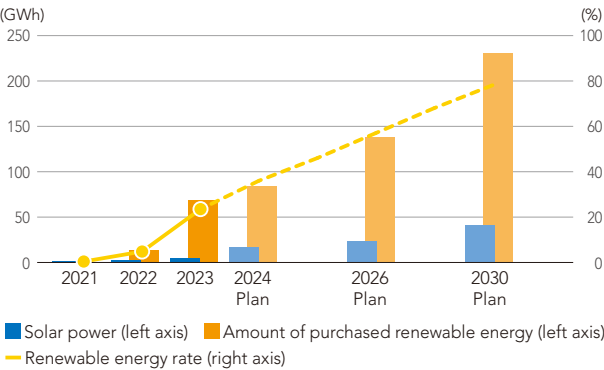
Reducing CO<sub>2</sub> emissions during product manufacturing (Scope 1 and 2)

To reduce our CO<sub>2</sub> 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.

Index	Unit	Base year (2019)	FY2021	FY2022	FY2023
CO <sub>2</sub> emissions during manufacturing (Scope 1, 2)	Thousand t-CO <sub>2</sub>	211.5	215.2	211.1	174.0

In fiscal 2023, we generated 4.4 GWh of solar power and purchased 68.2 GWh of renewable energy, increasing our Group's overall renewable energy rate to 23.5%. 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 CO<sub>2</sub> emissions of each of our business departments. By enabling each department to visualize its CO<sub>2</sub> emissions, we hope to further accelerate our CO<sub>2</sub> emissions reducing activities and promote investment in decarbonization facilities.

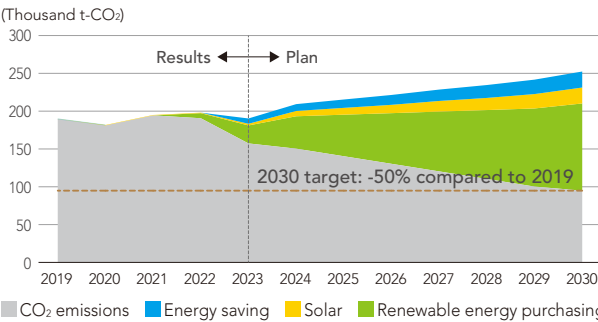
Implementation Situation of Solar Power/Renewable Energy Power and Our Plan



measures, and we have set total CO<sub>2</sub> 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 Japan, Inc..

Under our CO<sub>2</sub> emissions reduction plan for the period up through 2030, we are investing in various energy-saving measures as we promote the establishment of solar power generation facilities and purchase renewable energy according to a plan. As part of the Medium-Term Management Plan 2026, we have secured a budget of approximately 3 billion yen for the deployment of solar power generation facilities. To achieve our 2030 plan of 50% reduction, we will continue to promote reductions through planned investments.

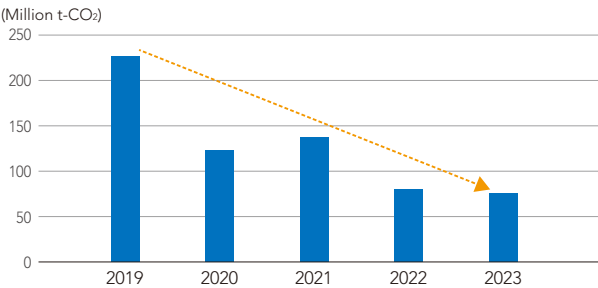
Plan for CO<sub>2</sub> Emissions Reduction up Through 2030 (Scope 1 and 2)



Reducing CO<sub>2</sub> emissions during product use (Scope 3: Category 11)

The reduction status of CO<sub>2</sub> emissions during product use (Scope 3: Category 11) from 2019 onwards is shown in the graph. Significant reductions have been achieved by the decrease in our deliveries of coal-fired boilers. We will continue striving to develop products that contribute to a decarbonized society.

CO<sub>2</sub> Emissions Reduction Situation (Scope 3: Category 11)



Natural Capital/Addressing Climate Change Risks

Biodiversity

We believe that economic and social prosperity cannot exist without natural capital. Therefore, we promote initiatives to conserve biodiversity within our environmental management and climate change response efforts, including pollution prevention.

As part of our preparations for endorsing the Taskforce on Nature-related Financial Disclosures (TNFD)\*1, we have begun to understand the relationship between our business activities and biodiversity, and have organized examples of initiatives at various stages of our business processes.

Going forward, we plan to utilize the LEAP approach\*2 for scoping to analyze the dependence and impact of our business activities on nature, as well as conduct location analysis of our major manufacturing sites.

\*1 The Taskforce on Nature-related Financial Disclosures (TNFD) is a framework for companies and organizations to assess and disclose information on the impact of their economic activities on the natural environment and biodiversity.

\*2 The LEAP approach, coined from the initials of Locate, Evaluate, Assess, and Prepare, is a process approach to organizational information disclosure. It was published as guidance for integrating corporate concern for nature into the risk management process.

Business process stage	Example of initiatives	
Raw material procurement	Request for biodiversity conservation in the Sumitomo Heavy Industries Group CSR Procurement Guidelines	
Manufacturing	<ul style="list-style-type: none"><li>Promoting energy-saving activities and using renewable energy</li><li>Monitoring and reducing water usage, reducing waste generation</li><li>Reducing harmful substances contained in products</li></ul>	<ul style="list-style-type: none"><li>Applying recycled materials to products</li><li>Implementing wide-ranging environmental management based on environmental regulations</li></ul>
Logistics	<ul style="list-style-type: none"><li>Promoting modal shift</li><li>Enhancing loading efficiency and promoting regular deliveries according to production plans</li></ul>	<ul style="list-style-type: none"><li>Reducing plastics through the use of ecosystem-friendly packaging materials</li></ul>
Sales	<ul style="list-style-type: none"><li>Providing products and services that contribute to carbon neutrality</li></ul>	<ul style="list-style-type: none"><li>Reducing environmental burden through dust collectors and water treatment facilities</li></ul>
Maintenance	<ul style="list-style-type: none"><li>Providing maintenance services that contribute to energy savings and product longevity</li></ul>	
Disposal and recycling	<ul style="list-style-type: none"><li>Carrying out proper disposal through thorough waste separation</li><li>Applying materials recycled in production processes to products</li><li>Reducing hazardous waste contained in products</li></ul>	<ul style="list-style-type: none"><li>Applying disposal methods that contribute to reducing environmental burden</li><li>Considering refurbishment</li></ul>
Site management	<ul style="list-style-type: none"><li>Managing green spaces at sites</li></ul>	<ul style="list-style-type: none"><li>Promoting external activities by employees</li></ul>
Research and development	<ul style="list-style-type: none"><li>Developing technologies that contribute to decarbonization</li></ul>	

Examples at the Osaki Head Office

- We participated in the Shinagawa Flower Road project, creating a flower field along the 2 km seawall of the Katsushima Canal. Together with local shopping districts and neighboring companies, we helped plant the seeds.
- We participated in afforestation activities co-sponsored by (General Incorporated Association) the Carbon Recycling Fund, planting fast-growing paulownia trees. These trees absorb large amounts of CO<sub>2</sub> and mature in 5 to 6 years.



Examples at the Tanashi Works

At Tanashi Works, part of the on-site forest is named the “Forest of Ideas” and is open to the public as a place for relaxation. We also engage in community contribution activities, such as hosting factory tours for nearby elementary schools.



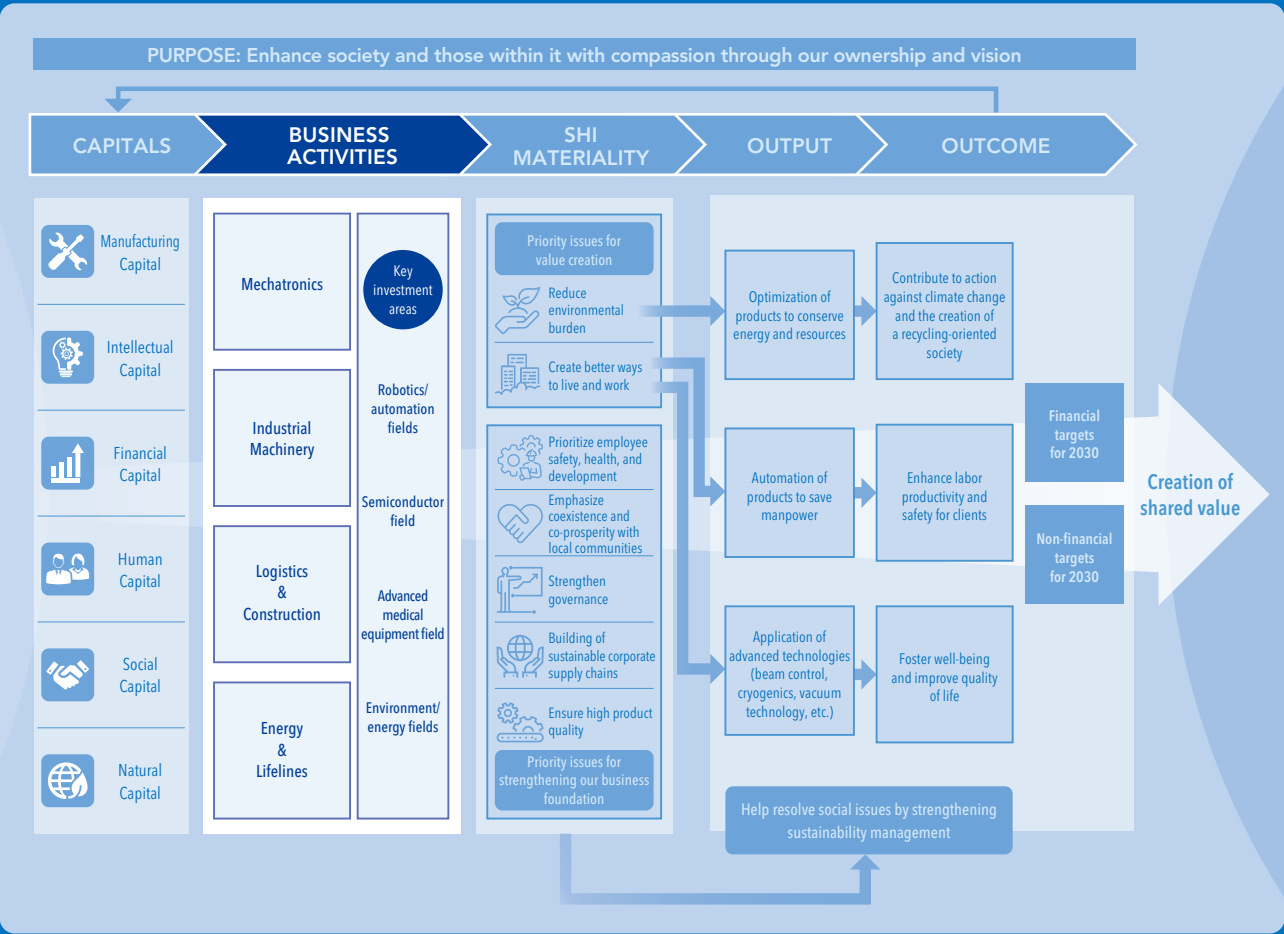
Examples at the Niihama Factory

At the Niihama Factory of the Ehime Works, we held a voluntary cleanup activity around the factory as part of the city's public facility protection program. We collected waste equivalent to five dump trucks.



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.

Net Sales

Operating Profit

¥220.0 billion

¥12.4 billion

R&D Expenses

Capital Investment

¥3.8 billion

¥14.7 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

Environment

Developing high-efficiency motors



High-efficiency gearmotors (Bevel Buddybox® H Series with an IES 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

Net Sales

Operating Profit

¥279.8 billion

¥25.6 billion

R&D Expenses

Capital Investment

¥10.9 billion

¥15.2 billion

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

Reducing energy consumption through electrification of injection molding machines



Injection Molding Machine

Reducing resource consumption through high-precision molding



Cryocoolers

Developing cryogenic, superconducting, cyclotron, and alternative energy applications



Semiconductor Production Equipment

Saving energy through power semiconductor production



BNCT

Society

Contributing to a more IT-oriented society through semiconductor production



Semiconductor Production Equipment

Cancer diagnosis and treatment



BNCT

FY2023 Net Sales Ratio

¥1,081.5 billion

Mechatronics  
¥220.0 billion / 20.3%

Industrial Machinery  
¥279.8 billion / 25.9%

Logistics & Construction  
¥393.4 billion / 36.4%

Energy & Lifelines  
¥182.2 billion / 16.8%

Others  
¥6.1 billion / 0.6%

FY2023 Operating Profit Ratio

¥74.4 billion

Mechatronics  
¥12.4 billion / 16.7%

Industrial Machinery  
¥25.6 billion / 34.4%

Logistics & Construction  
¥28.1 billion / 37.8%

Energy & Lifelines  
¥6.3 billion / 8.5%

Others  
¥1.9 billion / 2.6%

Net Sales

Operating Profit

¥393.4 billion

¥28.1 billion

R&D Expenses

Capital Investment

¥6.6 billion

¥6.2 billion

Key Businesses

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

Main Products

Hydraulic excavators, Road machinery, Mobile cranes, Material handling systems, Forklifts

Environment

Reducing CO<sub>2</sub> emissions during use through ICT and electrification

Reducing CO<sub>2</sub> emissions during use by improving energy-saving capabilities



Hydraulic Excavators



Crawler Cranes

Society

Responding to infrastructure upgrades



Remote-controlled RTG

Improving labor productivity through smart logistics



High-density Automated Warehouses

Net Sales

Operating Profit

¥182.2 billion

¥6.3 billion

R&D Expenses

Capital Investment

¥3.4 billion

¥5.5 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

Environment

Reducing CO<sub>2</sub> 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

¥6.1 billion

¥1.9 billion

Main Products

Real estate, Software

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SHI WAY

MESSAGE

STRATEGY

CAPITALS

BUSINESS ACTIVITIES

SHI MATERIALITY

CORPORATE DATA

Business Overview **Mechatronics**



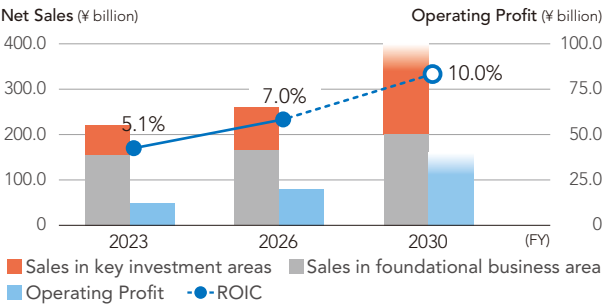
Taiji Tsuchiya Executive Vice President and General Manager, Mechatronics segment

Ideal state in 2030

Help society and customers solve problems through mechatronic innovation and drive solutions

We aim to address social and customer challenges through mechatronics innovation and drive solutions. This will be achieved by actively investing in and expanding our key areas of electrical control, robotics, and semiconductors, while also strengthening the profitability of our traditional gear business.

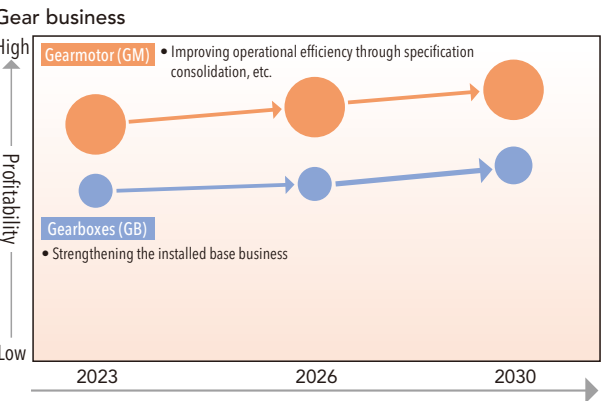
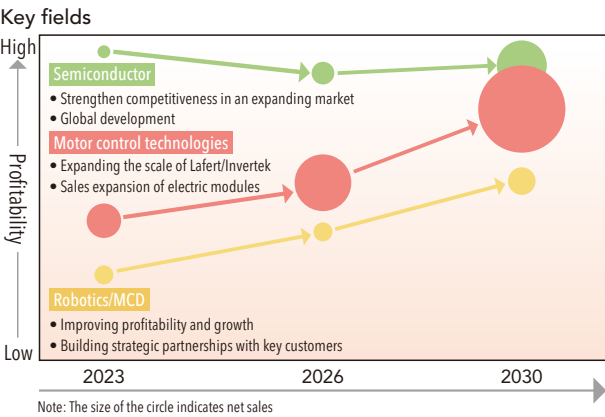
Business plan



FY	2023	2024	2026
Net Sales	¥220.0 billion	¥213.0 billion	¥260.0 billion
Operating Profit	¥12.4 billion	¥10.0 billion	¥20.0 billion
Operating Profit Ratio	5.6%	4.7%	7.7%
ROIC	5.1%	4.2%	7.0%

ROIC improvement points:  
Capture energy conservation needs and address demands related to environmental regulations  
Growth in semiconductor related businesses  
Increase production efficiency by consolidating gear/motor specifications  
Improve profitability of motion control drives

Business Portfolio Image



Growth in key investment areas “Robotics and automation” and “Semiconductors”

Robotics and automation fields

Our main products in robotics and automation include inverters (Invertex), motors (Lafert), electric modules for AGVs (automated guided vehicles) and AMRs (autonomous mobile robots), conveyance control, drive control systems, as well as motion components such as motion controllers, and servo drivers.

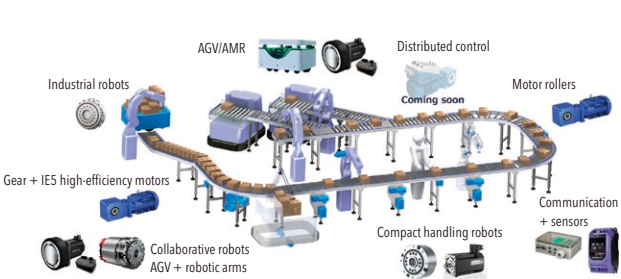
We are particularly focused on inverters and motors. In response to stricter environmental regulations, inverters are gaining attention as energy-saving solutions.

We are enhancing production capacity through factory expansion and strengthening development capabilities by establishing new development centers. Concerning motors, efforts include building dedicated factories for high-efficiency motors and increasing processing equipment for key components like shafts. Additionally, we are advancing the development and sales expansion of electric modules with integrated inverter and motor. Moreover, as environmental regulations and

energy-saving advancements lead to the electrification of various products, new business opportunities are emerging for electric modules. Rapid market expansion is particularly expected in Europe, where regulations are stringent. In this segment, we have established a development base in Europe to quickly grasp the trends in local electrification technologies and accelerate product development. Additionally, we are working on wall-climbing robots that can be used for tasks such as inspecting high places and AMRs. By leveraging our accumulated technology and sales network, we aim to advance the commercialization and business development of these products.

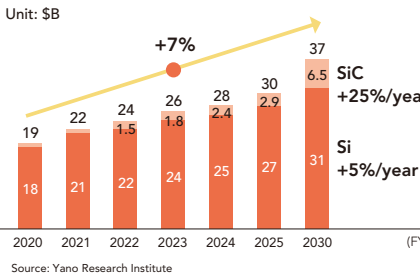
Semiconductor field

Our main products in the semiconductor field are laser annealing equipment\* and precision positioning systems. The laser annealing equipment, primarily used in the manufacturing process of power semiconductors, processes semiconductor materials like wafers to achieve the desired performance improvements. In the early 2000s, we were one of the first companies to pioneer the development of laser annealing equipment for Si (silicon) power semiconductors. Demand for power semiconductors, particularly for EV applications, is increasing. The Si power semiconductor market is expected to grow at a



rate of 5% per year, while the SiC (silicon carbide) power semiconductor market is anticipated to grow at a rate of 25% per year until 2030. To meet the expanding global demand, we are enhancing the development and sales expansion of our laser annealing equipment. Our precision positioning systems are capable of positioning for wafer inspection and bonding processes, and their applications are expanding within the semiconductor manufacturing process, from the front-end to the back-end miniaturization processes. Additionally, we plan to establish a development base in the United States in the near future.

Power semiconductor market size forecast



\* Thermal processing step after ion implantation

For Si power semiconductors:  
Laser annealing equipment

Development and sales promotion of new laser processing methods with Japanese manufacturers

- Developed ahead of the global market in the early 2000s
- Enables wafer thinning through localized laser heating → Improved electrical properties
- Over 100 units delivered



For SiC power semiconductors:  
Laser annealing equipment

Rapid development of processing methods in Japan, followed by sales expansion in Asian and global markets

- Sales started mostly in Japan and Asia in the mid-2010s
- Strong sales driven by increased demand for SiC due to the rise of EVs
- Responding to expanding global demand



Enhancing the profitability of foundational business areas

We position gearmotors (GM) for small and medium-sized gear reducers and gearboxes (GB) for large gear reducers as our core business areas. In this field, we aim to enhance profitability by providing solutions to customers through product replacements, expansion of installed base businesses to capture customized demand, and efficiency improvement centered on standardization and specification consolidation.

In the GB segment, after-sales services such as supplying parts and repairing gear reducers are primary elements. However, we are also focused on providing various value-added services in the installed base. Specifically, we offer condition monitoring systems to detect equipment failures in advance, replacement proposals for aging products, and legacy replacements for discontinued models. In particular, the drop-in program, a service company called LUFTEX in the U.S. that was acquired to replace parts inside products by

leveraging end-user knowledge and engineering capabilities, is doing well as a business. Providing flexible solutions to customer issues on-site has been recognized, contributing to our competitive advantage.

In the GM segment, we are promoting standardization by developing product selection tools to guide customers toward standard specifications, aiming to reduce the number of products from the current 800 types to around 100 types. Additionally, we plan to consolidate specifications by negotiating with customers to reduce special specifications by 10%. This standardization and specification consolidation is expected to reduce inventory, simplify ordering processes, lower management costs, and improve production efficiency for us. At the same time, it benefits customers by shortening selection time and delivery periods, creating a win-win situation for both parties.



Business Overview Industrial Machinery



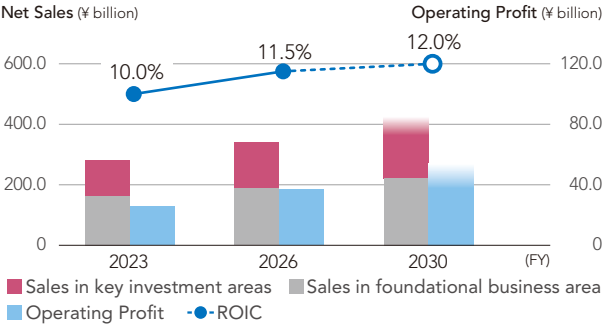
Kazuo Hiraoka Director, Executive Vice President, and General Manager, Industrial Machinery segment

Ideal state in 2030

Highly profitable business entity that uses advanced technologies to respond to the global growth market and features an evolving portfolio

We aim to become a highly profitable business entity that responds to global growth markets with advanced technologies and an evolving portfolio. We will actively invest in key investment areas to enhance our competitiveness.

Business plan



FY	2023	2024	2026
Net Sales	¥279.8 billion	¥285.0 billion	¥340.0 billion
Operating Profit	¥25.6 billion	¥26.0 billion	¥37.0 billion
Operating Profit Ratio	9.1%	9.1%	10.9%
ROIC	10.0%	9.6%	11.5%

ROIC improvement points:  
Enhance competitiveness by focusing management resources on key investment areas such as semiconductors and advanced medical devices  
Growth in semiconductor related businesses  
Enhance production capacity to drive growth

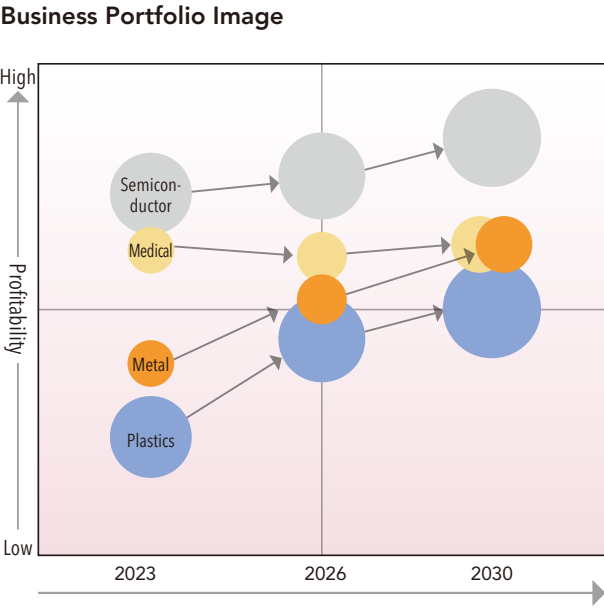
Growth in key investment areas “Semiconductor field” “Advanced medical devices field”

For our key investment areas, we have designated the semiconductor field, which includes semiconductor manufacturing processes like ion implanters, and the advanced medical devices field, including cancer treatment equipment. Our goal is to create new value and enhance our corporate value through these investments.

Semiconductor field

The rise and evolution of new digital technologies, such as generative AI, have significantly boosted the demand for semiconductors. Currently, the global semiconductor market is estimated at 80 trillion yen, with projections suggesting it could grow to 100 trillion yen by 2030. In this segment, we have achieved top-tier status both in Japan and globally in products that are critical for the manufacturing processes of power semiconductors, which are showing remarkable growth amid the surging demand for semiconductors. This includes ion implanters, cryopumps, and

superconducting magnet for single-crystal silicon growers (MCZ). We plan to expand our capacity for these products through aggressive capital investments while promoting the development of next-generation models as power semiconductor materials shift from silicon to SiC (silicon carbide). Additionally, we will advance the development of ion irradiation services, which support the development processes for next-generation power semiconductors, and vacuum deposition devices used in the manufacturing processes of more efficient solar panels.



**Ion implanters**

Development of next-generation equipment, including development of new models, etc. for power semiconductors

**Superconducting magnets for single-crystal silicon growers (MCZ)**

Development of new models for power semiconductors and high-performance devices

**Ion irradiation services**

Process development, etc. for next-generation power semiconductors

**Vacuum deposition devices**

Applicable to high-efficiency solar panels, including silicon-based and perovskite types

Advanced medical devices field

In the medical field, there’s a growing focus on leveraging advanced technologies to improve medical care while also prioritizing the reduction of patient burden and maintaining quality of life (QOL). Developing medical devices that address both these needs is increasingly critical. Additionally, with the improvement of medical infrastructure in emerging markets and the acceleration of advanced medical care in developed countries, the global demand for medical devices is expected to grow by approximately 6% annually.

In this segment, to meet these market demands, we are developing next-generation proton therapy systems and BNCT (boron neutron capture therapy) systems as part of our advanced medical devices portfolio. We are also working on products related to nuclear medicine, such as PET cyclotron systems and cyclotron

systems for radiopharmaceutical therapy (internal treatment), which are seeing increased demand due to new drug developments, as well as cryocoolers for MRI.

The BNCT system is a method where boron drugs accumulate in cancer cells, which are then targeted and destroyed by inducing nuclear reactions with thermal neutrons. BNCT provides highly precise, micro-level irradiation that selectively destroys cancer cells with minimal damage to normal cells, offering a low-burden treatment option for patients. We are the only company in the world to have received medical device approval for BNCT. Currently, we are developing technologies to further shorten treatment times, aiming to expand the range of treatable cancers and thereby grow our business by offering a patient-friendly and highly effective treatment system.

**BNCT systems**

World's only approved medical device (BNCT)

**Nuclear medicine model**

- Increased demand for PET resulting from the development of new drugs
- Development for radiopharmaceutical therapy (internal treatment)

Enhancing the profitability of foundational business areas

We are focusing on the fields of “material processing/processing machinery (resin)” and “material processing/processing machinery (metal),” including plastic machinery, as our foundational business areas. Our aim is to streamline and transform our product portfolio while establishing a stable revenue base. We are also investing in future business development by effectively utilizing our management resources. One example of this is the STAF (Steel Tube Air Forming) manufacturing system, which can significantly reduce the weight of automobile bodies and frames. This innovative pipe-forming technology combines traditional press techniques with blow forming. STAF allows for unique continuous closed cross-sections with flanges and the high material strength of PHS (press-hardened steel), contributing to lighter vehicles

and improved collision safety. Currently, tests are being conducted with automobile manufacturers, and the implementation of this system is under consideration. We will continue leveraging the technology, procurement capabilities, and facilities within this segment to effectively utilize our management resources and enhance overall profitability.



STAF: Steel Tube Air Forming



Business Overview Logistics & Construction



Tatsuya Endo Executive Vice President and General Manager, Logistics & Construction segment

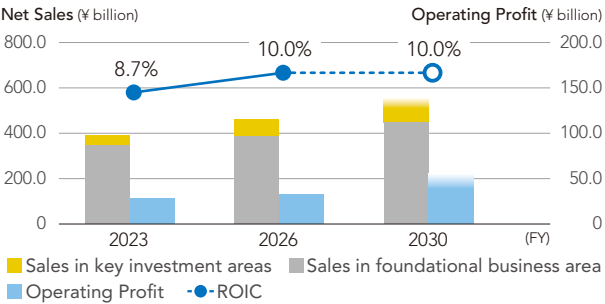
Ideal state in 2030

Business group leveraging technological innovation to construct social infrastructure using people and environmentally friendly logistics and construction machinery

Our ideal state is to become a “business group leveraging technological innovation to construct social infrastructure using people and environmentally friendly logistics and construction machinery.” This means that our segment aims to simultaneously achieve corporate value and social value through our business activities while maintaining a clear competitive advantage in the industry as an unparalleled business group.

Under this vision, our strategic directions to achieve the business plan are as follows: In key investment areas, we focus on development strategies. In our foundational business areas, we emphasize sales and production strategies.

Business plan



FY	2023	2024	2026
Net Sales	¥393.4 billion	¥428.0 billion	¥460.0 billion
Operating Profit	¥28.1 billion	¥31.5 billion	¥33.0 billion
Operating Profit Ratio	7.1%	7.4%	7.2%
ROIC	8.7%	10.2%	10.0%

ROIC improvement points:  
Increase revenue in advanced countries  
Building an optimal global production system

Growth in key investment areas “Robotics and automation”

Development strategy

- Electrification: To address social issues such as carbon neutrality and energy conservation, promote development by leveraging our control technologies.
- Automation: To address social issues such as work style reform and operator shortages, promote development by leveraging core technologies like motion control and environmental recognition.

Concerning electrification, we have a track record of commercialization and sales in the form of rubber-tired gantry cranes (RTG) and hybrid hydraulic excavators at container yards, accumulating essential electrification technologies for over ten years.

For the RTGs that are currently under development, we aim for zero emissions (elimination of exhaust gases) through our unique optimal power control. Additionally, for our electric excavators, renowned for their operability and productivity, we aim to further refine these strengths and surpass engine-powered models by leveraging the torque characteristics of electrification for greater strength and operability. We are also developing electric crawler cranes with the goal of achieving cableless movement and extended operation times.

Concerning automation, our logistics and industrial crane businesses are leading the way, with advanced automation developments progressing in spaces shared with humans. In high-density automated warehouses, we are working on development that aims to enhance their

appeal by integrating newly developed AGFs. For remote automated RTGs, we are moving toward commercialization by utilizing proprietary image processing and automated motion control technologies, including the transfer to manned trucks.

In construction machinery, we are promoting the development of motion control, environmental recognition, and AI trajectory generation for the remote operation of hydraulic excavators, allowing autonomous execution of digging and loading. For mobile cranes, we are developing a series of transport controls that include automatic measurement of hook positions on crawler cranes and anti-sway technology.



Electric excavators



Remote/automatic RTG (ARTG\*)  
\* Automatic Rubber-Tired Gantry Cranes

Strengthening the development structure: L&C\* Segment Development Center

- Focus on developing common advanced core technologies like electrification, automation, and digital transformation (DX)
- Promote the exploration of new models through development collaboration

In line with the overall development strategy of the segment, we have been preparing to establish the development center, which began full-scale activities in 2024. From April 2025, the center will relocate to the New Technology Research Center, which is currently under construction, to accelerate its activities.

At the development center, we will focus on developing core technologies such as electrification and automation, which are common across the segment and serve as sources of differentiation. The results will be

applied to product development across the segment’s various businesses, aiming to maximize development efficiency. Additionally, we will strengthen our organizational capability in development, deepen cooperation with the Technology Research Center, and explore new models. The development center will thus be pivotal in driving the product development activities of each business within the segment.

\* L&C: Logistics & Construction

Enhancing the profitability of foundational business areas

Sales strategy

Securing revenue in advanced markets including Japan, the US and Europe

- Japan**
- Industrial cranes: Focus on meeting renewal demand and ESG investment needs
  - Mobile cranes: Strengthen integrated operations of sales and services
  - Construction machinery: Expand market share by increasing high-quality sales channels and ensuring stable supply to retain customers
- US**
- Industrial cranes: Sales collaboration between SHI-MH\*1 and LBC\*2
  - Mobile cranes: Collaborative expansion of medium and large cranes with HSC\*3 and LBC
  - Construction machinery: Introduce new models, enhance dealer sales capabilities, and expand sales channels (including alliance activities)
- EU**
- Lifting business: Establish local bases as footholds for crane business expansion
  - Mobile cranes: Sales and service collaboration between HSC and LBC
  - Construction machinery: Expand sales channels (including alliance activities)

\*1 SHI-MH: Sumitomo Heavy Industries Material Handling Systems Co., Ltd. \*2 LBC: Link-Belt Cranes  
\*3 HSC: Sumitomo Heavy Industries Construction Cranes Co., Ltd.

Regarding our sales strategy, during the Medium-Term Management Plan 2026, the segment will focus on robust and sound markets, particularly in developed countries where there is an increasing demand for solutions to social issues.

We will emphasize collaboration within the lifting business among SHI-MH, HSC, and LBC. In North America, we plan to maximize the use of LBC’s local sales and

service centers and the “Link-Belt” brand. In Europe, we will secure a strategic base to serve as a foothold for expanding our crane business, laying the groundwork for future growth.

In the construction machinery field, we will strive to expand and enhance our sales channels in developed markets, leveraging alliances and partnerships in both Europe and the United States.

Production strategy

- Utilize production bases in 4 Japanese locations (including newly added Yokosuka Works) and 3 overseas locations to develop an optimum production system that can flexibly respond to changes in the global market
- Enhance quality assurance efforts to maintain our brand’s high reliability

As part of our segment’s production strategy, with the addition of the new construction machinery plant in Yokosuka, we will have a total of seven production bases: four in Japan and three overseas. Each base is a dedicated facility for specific business operations, with the three overseas sites primarily focused on local production for local consumption.

To respond to global market fluctuations, we aim to break down barriers between different business operations and optimize the production and assembly processes for various components such as assemblies, sub-assemblies, and parts. By re-evaluating these processes in terms of production quality, production and logistics costs, and production capacity, we strive to establish the “optimal production system” as part of our strategy, leading to the best overall production solution for the segment. For the production of each component, we aim to utilize the global production bases of the

segment to respond flexibly to global demand fluctuations and market environmental risks, meeting customer requirements and earning their trust.

HSC and LBC are already collaborating on the production of lattice-type crawler cranes for the North American market. We plan to expand this production collaboration to include SHI-MH (Niihama Factory) and extend it across the three companies involved in the lifting business.

In the construction machinery field, with the new Yokosuka Works scheduled to begin operations in the second half of 2025, the Chiba Works will focus on producing small to medium-sized excavators, while the Yokosuka Works will produce large excavators and specialized machinery. This will streamline the production of each machine type, improving both supply capacity and production efficiency, thereby contributing to performance in terms of both quantity and quality.



## Business Overview Energy & Lifeline

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

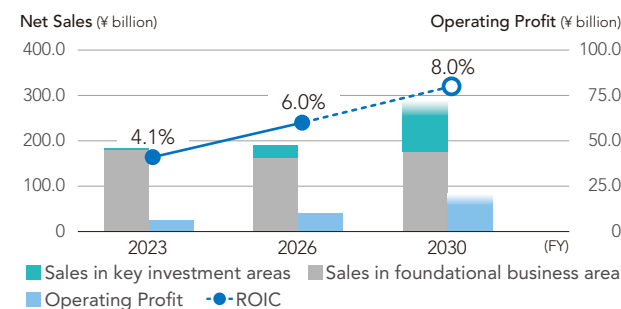
### Ideal state in 2030

Solution provider in the decarbonized energy and resource recycling fields, built on the foundations of (1) carbon neutrality business (2) renewable energy business

In response to the evolving business environment driven by growing demands to address climate change, we aim to transition and expand the strength of our businesses by focusing on “decarbonized energy” and “resource recycling.” We are promoting the development and commercialization of carbon recycling technologies (capture and reuse) in CO<sub>2</sub>-emitting fields. Additionally, we are working to expand our renewable energy initiatives through energy storage systems and offshore wind power generation.

Our vision for this segment is to continuously create customer value as a solution provider in these areas.

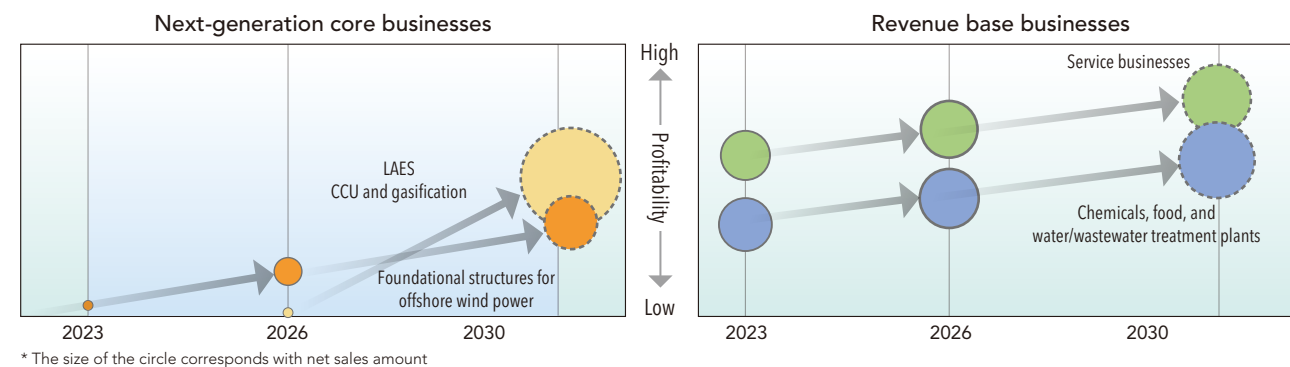
### Business plan



FY	2023	2024	2026
Net Sales	¥182.2 billion	¥181.0 billion	¥190.0 billion
Operating Profit	¥6.3 billion	¥1.0 billion	¥10.0 billion
Operating Profit Ratio	3.5%	0.6%	5.3%
ROIC	4.1%	0.7%	6.0%

ROIC improvement points:  
Increase profits by enhancing after-sales service  
Foster next-generation core businesses and accelerate commercialization in the decarbonized energy and resource recycling fields

### Business Portfolio Image



### Growth in key investment areas “Environment/energy fields”

We are prioritizing investments in the “environment and energy fields.”

We have positioned the commercialization of carbon neutral and renewable energy promotion businesses as our next-generation core businesses to be explored and deepened in this field by 2030, and we will actively invest in technological development and the establishment of production systems to commercialize these businesses.

#### Carbon neutrality business

We are dedicated to developing carbon-neutral technologies such as raw material production from biomass gasification and fuel production, CO<sub>2</sub> capture and reuse, and negative emission technologies.

Specifically, we aim to significantly contribute to a carbon-neutral society by supplying essential green carbon materials for the production of sustainable fuels, such as sustainable aviation fuel (SAF), through CO<sub>2</sub>

capture from biomass power generation and biomass gasification technologies.

Currently, we are advancing safer and more industry-friendly CO<sub>2</sub> separation and capture technologies, establishing comprehensive gasification plant technologies, and expanding into carbon fixation technologies.

We are working on commercial demonstrations of these technologies, aiming for commercialization and social implementation (including integration into supply chains) in our next Medium-Term Management Plan.

#### Renewable energy promotion business

To transition to a society where renewable energy is the primary power source, addressing demand response in the already rapidly expanding solar power market and strengthening renewable energy sources for nighttime use are essential challenges.

In this segment, we are tackling these issues by stabilizing grid power with liquid air energy storage (LAES) systems and commercializing foundational structures for offshore wind power generation.

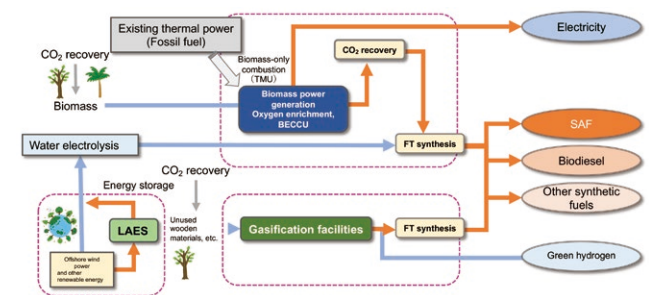
LAES works by using off-peak or surplus electricity to compress and cool air into a liquid state, which is then stored in tanks. When electricity is needed, the liquid air is re-gasified to drive turbines and generate power.

Similar to pumped-storage hydroelectricity, this system is ideal for comparatively large-scale, long-duration energy storage. In addition to handling demand response during charging and discharging, it also constantly provides inertia and reactive power adjustments, contributing to grid stability.

This allows intermittent renewable energy sources like solar power to replace fossil fuel-based thermal power plants used for grid balancing.

We are currently building a demonstration plant at the Hiroshima Gas Hatsukaichi Plant. By 2025, we plan to begin a commercial demonstration using the factory's LNG (liquefied natural gas) cold energy in the air liquefaction process.

Looking ahead, we aim to commercialize this technology by participating in power trading markets such as the capacity, demand response, and wholesale



electricity markets, as well as exploring long-term decarbonization auctions, which are part of the new stable power source policies.

Foundational structures for offshore wind power generation support wind turbines installed at sea.

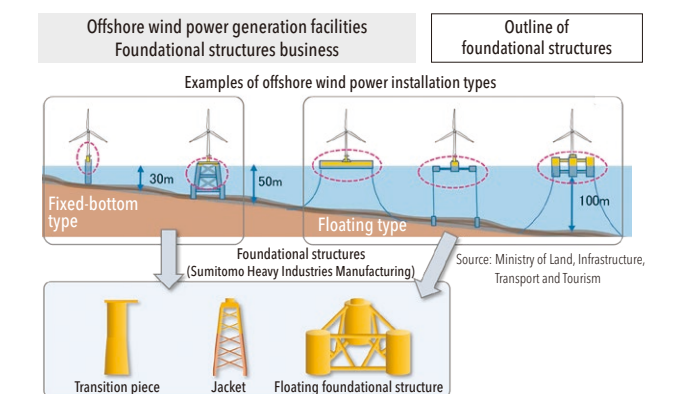
The government's wind power installation plans estimate that the market for these foundational structures could reach 300 billion yen by 2035.

These structures, whether fixed-bottom types attached to the seabed or floating types that float on the surface like ships, provide support for wind power generation equipment and are essential for stable power generation.

Manufacturing these structures for a unique environment like the sea requires a wide range of technical considerations and expertise.

We possess numerous technologies adaptable to manufacturing both fixed-bottom and floating foundational structures, developed through our shipbuilding business and large pressure vessel manufacturing.

By leveraging and coordinating between our manufacturing sites—Yokosuka Works, our largest manufacturing site in eastern Japan, and Ehime Saijo Factory, our manufacturing base in western Japan—where we developed these technologies, we plan to aggressively expand our business in the growing offshore wind power market, contributing to the realization of a decarbonized society.



### Enhancing the profitability of foundational business areas

As our foundational business areas, we focus on various plants such as chemical plants, food manufacturing equipment, and water treatment facilities, as well as products and services like biomass power generation equipment and steam turbines.

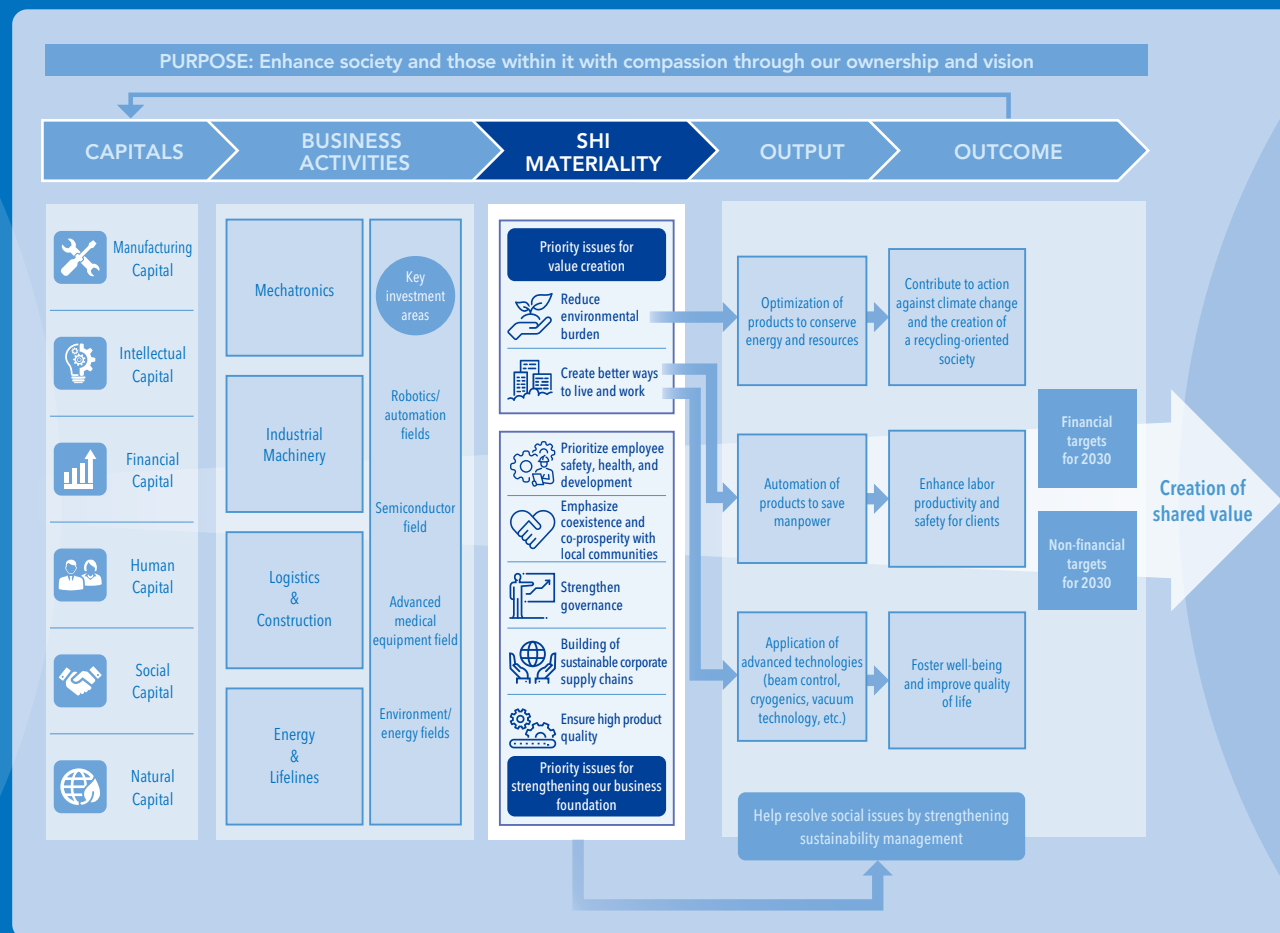
We are advancing the development of products that address decarbonization and other challenges, while

also aiming to enhance profitability by promoting internal segment collaboration and thorough project profitability management.

Additionally, we are actively expanding our service businesses, including proposals for fuel conversion upgrades to convert inefficient coal-fired power plants to biomass power generation and other modification services.

# 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.

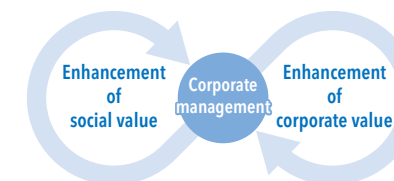


## Sustainability at the SHI Group

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. It also held a review of the material issues following a resolution at its meeting in January 2024.



Sustainability at the SHI Group

The Seven Material Issues

	Material issues	Relevance to approach and business	Opportunities	Risks	Major action items	Related major indicators and targets	Related SDGs	Related pages
Material issues for value creation	Reduce environmental burden	As an integrated machinery manufacturer, our Group recognizes the importance of both reducing the environmental impact of our production activities and reducing the environmental impact of our customers when they use our products. We are also proactively taking on challenges for a circular economy, as these initiatives help reduce the environmental impact across the entire product life cycle by reducing waste and other effects, as well as lowering production costs and bringing high added value to our products.	Boosting competitiveness and sales for products that contribute toward decarbonization and other ways of reducing environmental impact.	If efforts to achieve high product efficiency and energy savings do not progress, the competitiveness of our products and businesses may decline. Also, if environmental contamination occurs through an unexpected occurrence in our business activities, our Group's performance may be affected by enormous costs incurred as a result.	<ul style="list-style-type: none"><li>Optimizing products to conserve energy and resources</li><li>Reducing the environmental impact of business activities</li><li>Formulating a climate change transition plan</li><li>Carrying out biodiversity conservation activities</li></ul>	<ul style="list-style-type: none"><li>CO<sub>2</sub> emissions</li><li>Water consumption</li><li>Waste generation</li><li>Number of environmental accidents</li><li>VOC emissions</li></ul> <b>[Targets]</b> <ul style="list-style-type: none"><li>CO<sub>2</sub> emissions during the manufacturing of our products in 2030 (Scopes 1 and 2): 50% reduction (compared to FY2019)</li><li>CO<sub>2</sub> emissions during the use of our products in 2030 (Scope 3, Category 11): 30% reduction (compared to FY2019)</li><li>Aim to achieve carbon neutrality throughout the entire SHI Group by 2050</li></ul>	    	P.30-31 Intellectual Capital P.45-52 Natural Capital P.54-55 The 4 Segments of SHI
	Create better ways to live and work	We believe we can help alleviate the workload of 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.	Boosting competitiveness and sales by automating and digitalizing our products.	If efforts to create customer value by automating and digitalizing our products do not progress, the competitiveness of our products and businesses may decline.	<ul style="list-style-type: none"><li>Automating products to save manpower</li><li>Enhancing product safety</li><li>Applying advanced technology to products</li></ul>	<ul style="list-style-type: none"><li>Reducing the on-site customer workload through automation and optimization</li><li>Increasing the sophistication of medical care by utilizing advanced technology and promoting a digital society</li></ul>	    	P.30-31 Intellectual Capital P.54-55 The 4 Segments of SHI
Material issues for strengthening our business foundation	Prioritize employee safety, health, and development	We recognize 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.	Improving productivity and innovation by boosting employee engagement.	Occupational accidents and health issues among employees may hinder seamless business activities and operations at the Group. They may also delay human resource development, reduce engagement, bring a deficiency in diversity, lower productivity, or serve as an obstacle to innovation, which may result in a decline in competitiveness over the medium to long term.	<ul style="list-style-type: none"><li>Occupational health and safety</li><li>Health management</li><li>Human resource development</li><li>Organizational development</li><li>Promoting work-life balance</li><li>Promoting diversity</li></ul>	<ul style="list-style-type: none"><li>Strengthening employee engagement</li><li>Work-related fatalities</li><li>Occupational accident frequency rate</li><li>Annual training hours and expenses per employee</li></ul> <b>&lt;Targets by January 1, 2027&gt;</b> <ul style="list-style-type: none"><li><b>1. Increase the number of newly employed women</b></li><li>Ratio of women among new graduate hires: at least 20% per year</li><li><b>2. Actively promote women</b></li><li>Number of female directors: 2</li><li>Number of female managers: above 5.0% in SHI; 3.7% consolidated in Japan</li><li><b>3. Utilize diverse human resources</b></li><li>Ratio of mid-career hires among managers: at least 30%</li><li>Ratio of foreign employees among managers: 1.4%</li><li>Male childcare leave utilization ratio (including system leave): 100%</li></ul>	   	P.38-42 Human Capital
	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.	Achieving stable business activities by bolstering ties with local communities and suppliers. Securing excellent human resources in the local area.	If our favorable relationship with local communities and society is damaged, this may serve as an obstacle to smooth business activities and operations.	<ul style="list-style-type: none"><li>CSR activities</li></ul>	<ul style="list-style-type: none"><li>Cooperating with NGOs/NPOs</li></ul> <b>[Targets]</b> <ul style="list-style-type: none"><li>Social contribution expenditures: 1% of operating income (2030) (Cash donations, in-kind donations, personnel expenses, etc.)</li></ul>	  	P.43-44 Social and Relationship Capital
	Strengthen governance	As a corporate group with global businesses, 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.	Building a resilient supply chain (with stable procurement and lower costs) by reducing ESG risk.	If a violation of laws or regulations occurs due to inadequate accommodation of strengthening or revising laws and regulations, our performance and financial status may deteriorate owing to administrative sanctions such as fines or business suspension, or a decline in trust from society following such sanctions.	<ul style="list-style-type: none"><li>Enhancing risk management</li><li>Ensuring thorough compliance</li><li>Enhancing corporate governance</li><li>Formulating BCM/BCP</li></ul>	<ul style="list-style-type: none"><li>Compliance training attendance rate</li></ul> <b>[Targets]</b> <ul style="list-style-type: none"><li>Number of female directors as of January 2027: 2</li></ul>	 	P.69-72 Corporate Governance P.73 Risk Management P.74-75 Compliance
	Building of sustainable corporate supply chains	As a corporate group building a global supply chain, we believe that it is important to address ESG risks such as human rights and climate change, from the perspective of CSR and business continuity. In view of this, we have established the CSR Procurement Guidelines, and we ask our business partners to carry out activities considering ESG as well as quality, cost, and delivery time.	Creating corporate value sustainably through transparent, fair, fast, and bold decision-making.	If an issue occurs regarding a lack of appropriate measures being carried out for ESG-related issues (such as human rights, climate change, or compliance) across the supply chain, this may affect the Group's performance through a loss of trust from society, cessation of transactions with customers, claims for damages, or other similar outcomes.	<ul style="list-style-type: none"><li>Formulating the CSR Procurement Guidelines, requesting compliance from suppliers</li><li>Carrying out supplier surveys</li><li>Carrying out supplier engagement activities</li><li>Carrying out human rights due diligence</li></ul>	<b>[Targets]</b> <ul style="list-style-type: none"><li>Ratio of engagement activities held with potential high-risk suppliers*: 100% (2030)</li></ul> <p>* High-risk suppliers: Determined on the basis of the number of foreign workers employed and the net sales proportion to the Company. This definition is updated regularly.</p>	 	P.43-44 Social and Relationship Capital P.68 Sustainability (Human Rights)
	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.	Boosting sales by improving brand value for our Group and products and increasing the competitiveness of our products.	If a quality issue occurs, there may be significant costs incurred for the Group in relation to construction work held as compensation or in relation to product liability.	<ul style="list-style-type: none"><li>Enhancing quality management</li><li>Ensuring product safety</li><li>Complying with laws and regulations</li></ul>	<ul style="list-style-type: none"><li>ISO 9001 acquisition rate of major production and business divisions</li><li>Number of serious legal violations related to product safety</li></ul>	 	P.28-29 Manufactured Capital

Sustainability at the SHI Group

Human Rights

Due to the advancement of business globalization, we have a stronger awareness than ever of the importance of respecting human rights throughout the value chain and are enhancing our efforts to respect human rights as a Group.

Human rights policy and human rights management structure

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.

Our efforts to respect human rights are supervised by the Board of Directors, and our Vice President and General Manager of the Corporate Planning Group is in charge of promoting such efforts. The status of these efforts is discussed at meetings of the Sustainability Committee, and the details of these discussions are regularly reported on at meetings of the Board of

Directors (twice per year). We launched a company-wide human rights risk project and are pursuing initiatives aimed at respecting human rights based on the action plans determined in this project.

Human rights due diligence

As part of our efforts to identify, prevent, and reduce adverse effects on human rights based on the UN's Guiding Principles on Business and Human Rights, we are implementing efforts at multiple priority levels, with a focus on high-risk areas.

Risk identification process

Target	Human rights risk identification process
SHI Group	Checking for a high level of human rights risk among foreign technical intern trainees, internal contractors, and temporary employees in Japan based on analysis using two axes: "human rights risk severity" and "impact on the company"
Japanese supply chain	Identifying suppliers that have a high "ratio of sales for the Company" and "number of foreign employees" as potential high-risk suppliers
Overseas supply chain	Identifying suppliers in regions that have high "labor intensity" and a low "regional wage level (GDP per capita)" as potential high-risk suppliers

Human rights due diligence approaches

Initiatives	Results and issues
<b>Work environment surveys</b> We conduct work environment surveys covering workers in the SHI Group's supply chain in collaboration with The Global Alliance for Sustainable Supply Chain (called ASSC below), an NGO that supports the building of sustainable corporate supply chains.	In 2023, we conducted work environment surveys with foreign technical intern trainees (approximately 200 people), employees at Japanese suppliers (7 companies), employees at an overseas base (1 base), and employees at an overseas supplier (1 company). We did not identify any current or imminent human rights issues related to human rights violations, safety, or human health.
<b>Respecting the human rights of internal contractors and temporary employees</b> We assign priorities and carry out initiatives to receive pledges from internal contracting companies for respecting human rights and to sign memoranda of understanding with temporary employment agencies on the respect of human rights.	We conducted initiatives at Nagoya Works, one of our major manufacturing sites. Ratio of memoranda of understanding signed with temporary employment agencies (100%) Ratio of pledges received from contracting companies (71%)
<b>Engagement with supervising organizations</b> We hold engagement activities in collaboration with ASSC to check the approaches of supervising organizations that take in technical intern trainees.	In October 2023, we conducted engagement activities with two supervising organizations. Through continued engagement activities, we prevent technical intern trainees from being subjected to bonded labor and ensure that work environments are conducive to work.

Human rights consultation service (grievance mechanisms)

We have established a dedicated consultation service for suppliers on the SHI website that affiliated personnel across the supply chain can use. We are preparing ways to provide relief through suitable processes and information management while placing the protection of consulting parties and whistleblowers as a top priority.

Officer training sessions

On September 2023, we invited Masaki Wada, Director at ASSC, and held a study session titled "SHI Group's Initiatives for Respecting Human Rights: Evaluation and Future Steps" for 39 officers and operational managers

at the SHI Group. Participants gained a deeper understanding of human rights risks at the SHI Group and the need for business activities that consider the impact on the supply chain.

Employee education

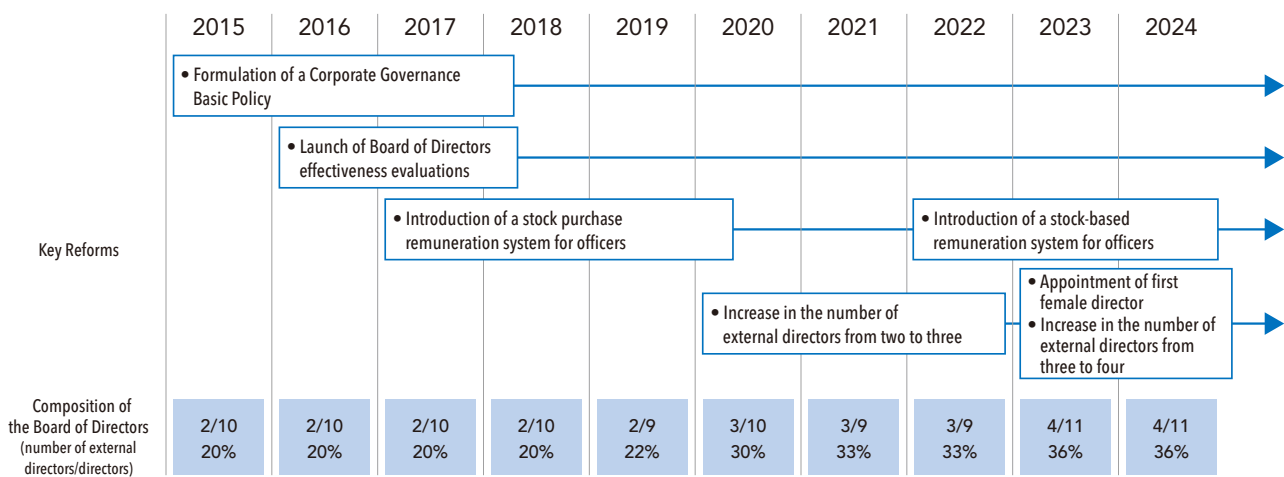
We are continually conducting education and awareness-raising activities on human rights, including level-specific education, e-learning, and a video from the President and CEO. Through these efforts, we strive to raise employee awareness based on an understanding of global human rights issues.

Corporate Governance

Strengthening Our Corporate Governance

The SHI Group has formulated the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. and is working to enhance and strengthen its corporate governance in order to establish a highly efficient and transparent management structure, as well as to increase its corporate value and enhance the evaluation and confidence of various stakeholders.

Our Initiatives to Strengthen Corporate Governance

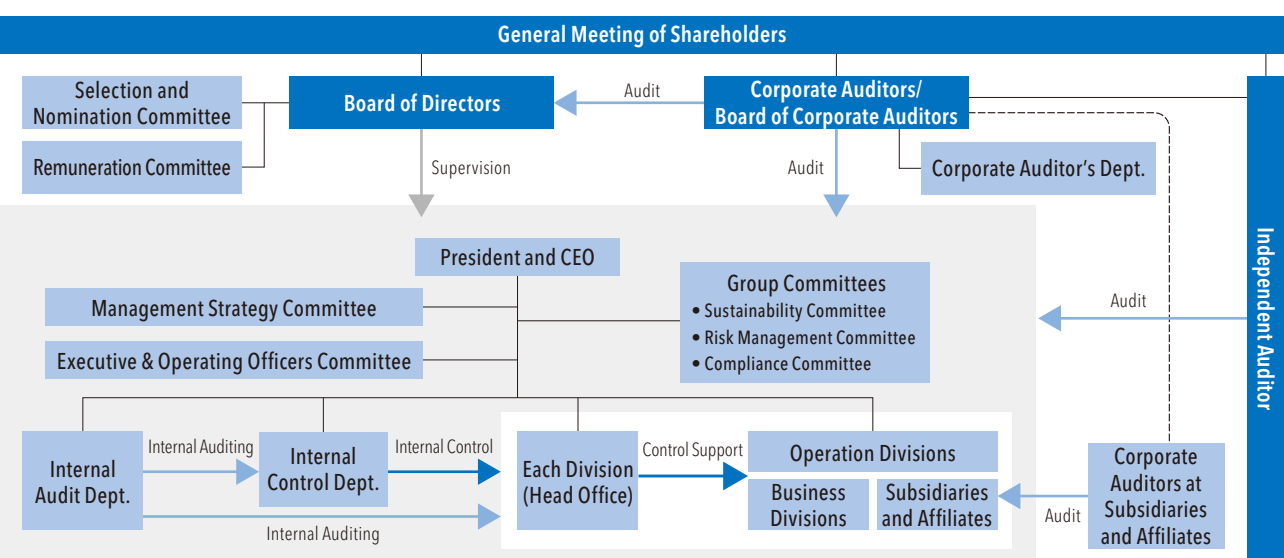


Corporate Governance System

Sumitomo Heavy Industries (SHI) has adopted a governance system of a company with a board of corporate auditors. The system is supported by a dual checking function based on management supervision via the Board of Directors' decision-making over business execution and audits by corporate auditors. The supervisory function is further reinforced by appointing more than one-third of our directors as independent external directors, and by establishing the Selection

and Nomination Committee and the Remuneration Committee, both of which are composed of a majority of independent external officers, as part of our efforts to enhance 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.

Corporate Governance System Chart





Corporate Governance

Supervision

Management Strategy Committee

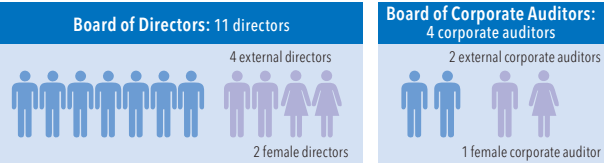
The Board of Directors is comprised of 11 directors (limited to 12 directors). They include the Chairman of the Board, who chairs the Board of Directors, and four external directors, who supervise management from a standpoint independent from the senior management and whose role is to incorporate the 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	Human resources	• Human resource hiring plan • Revision of various human resource systems
Corporate philosophy, etc.	• Establishment of our Purpose		
Settlement of accounts, etc.	• Budgets and financial results		
Medium-term management plans	• Reports on the progress of medium-term management plans from each business division • Formulation of the Medium Term Management Plan 2026	Sustainability	• Progress in promoting sustainability (climate change, human rights, information disclosure, etc.) • Review of material issues and setting indicators
Governance	• 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	Compliance	• Reports on the deliberations of the Compliance Committee
		Technology/Quality	• R&D strategies • Status of product quality improvements
		Risk management	• Reports on the deliberations of the Risk Management Committee
Financials	• Our financial strategy • Acquisition of treasury shares	Group management	• Mergers with subsidiaries
Audits	• Reports on the plans and results of audits conducted by corporate auditors	Other matters	• Capital investments

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 FY2023 Effectiveness Evaluation

Date	December 2023 to March 2024
Targets	All directors (11) 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. Evaluation of the effectiveness of the Board of Directors (evaluation methods, etc.) 6. Other (Board of Directors in general (free comment entry))
Evaluation results	Conclusion: As a result of the fiscal 2023 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 2023.

Issues to Continue Handling and Our Future Response

1. Deepening discussions on the role of the Board of Directors			
Issue and future response	Our Board of Directors has traditionally identified itself as a hybrid model, primarily focusing on management functions related to individual business execution decisions, while also incorporating mechanisms to enhance supervisory functions. However, recent evaluations of the effectiveness of the Board of Directors have shown a growing consensus that there is a need to further strengthen its supervisory role. Although individual board members actively express their opinions during these evaluations, these often remain at the individual level. It is essential to consolidate these individual perspectives into a coherent stance for the entire board. By defining the ideal role of the Board of Directors and striving to achieve it, we aim to enhance corporate value.		
Specific items for consideration	(1) <b>Deliberation on medium to long-term management policies and business portfolios</b> Examine methods and approaches for effectively deliberating on medium to long-term management policies and business portfolios within the Board of Directors.	(2) <b>Matters for resolution and reporting to the Board of Directors</b> Given the concerns regarding insufficient deliberation within the Board of Directors, it is necessary to reduce the number of agenda items to ensure ample time for thorough discussion of important issues. At the same time, effective oversight of execution requires the timely reporting of necessary information. Therefore, it is essential to review the content and timing of agenda items.	(3) <b>Composition and organizational design of the Board of Directors</b> In light of the Board of Directors' functions, consider the optimal personnel composition (skill matrix, ratio of external directors, diversity) and organizational design, including the possibility of changes to the organizational design.
Main opinions in the questionnaire surveys and interviews	• The Board of Directors should prioritize discussions on overall strategy and the oversight functions on execution. • There should be more in-depth discussions on the selection and concentration of business activities.	• It is necessary to narrow down the agenda items submitted to the Board of Directors to ensure sufficient time for deliberation. • Reports should focus on challenges rather than merely providing business explanations.	• The Board of Directors should include individuals with corporate management experience and global expertise. • The market trend is moving toward requiring a majority of independent external directors. • The necessity of changing the organizational design to strengthen supervisory functions should be discussed.
2. Deepening and enhancing deliberations in the Board of Directors			
Issue and future response	The Board of Directors needs to deepen and enhance discussions, particularly on the following items.		
Specific items for consideration	(1) <b>Deliberation on medium to long-term management policies and business portfolios</b> It is necessary to further discussions on the optimal composition of medium to long-term management policies and business portfolios for the entire company as well as for each segment.	(2) <b>Supervision of management resource allocation, including human capital and intellectual property</b> In line with the key investment areas outlined in the Medium Term Management Plan 2026, there is a need to deepen discussions on investments in human capital and intellectual property.	
Main opinions in the questionnaire surveys and interviews	• Discussions should be enhanced on action plans aimed at achieving the desired state by 2030. • There is a need for discussions focused on nurturing core competencies.	• It is necessary to discuss ways to develop talent and technologies in essential fields.	

Corporate Governance

External Directors and External Corporate Auditors

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

\* The indicators related to performance-based compensation for divisions have been revised from the three indicators of net sales, amount of operating profit, and operating profit ratio to the three indicators of the amount of operating profit, operating profit ratio, and ROIC, effective January 1, 2024. The revised indicators will be reflected in compensation starting April 1, 2025.

Classification	Amount of Compensation (¥ million)	Amount by Type of Compensation (¥ million) and Number of Recipients					
		Monetary Remuneration				Non-Monetary Remuneration	
		Basic Remuneration		Performance-Linked Remuneration		Stock-Based Remuneration	
		Total Amount	Recipients	Total Amount	Recipients	Total Amount	Recipients
Directors (including external directors)	402 (45)	253 (45)	11 (4)	116 (-)	7 (-)	32 (-)	7 (-)
Corporate auditors (including external corporate auditors)	96 (24)	96 (24)	5 (2)	- (-)	- (-)	- (-)	- (-)

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 FY2023, the committee met four times, during which it reviewed the progress of the top executive succession plans and deliberated on the revision of the skills matrix.

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 FY2023, the committee met twice to report on the revision of executive compensation for FY2023 and deliberated on the revision of performance-based compensation indicators (division performance-based compensation).

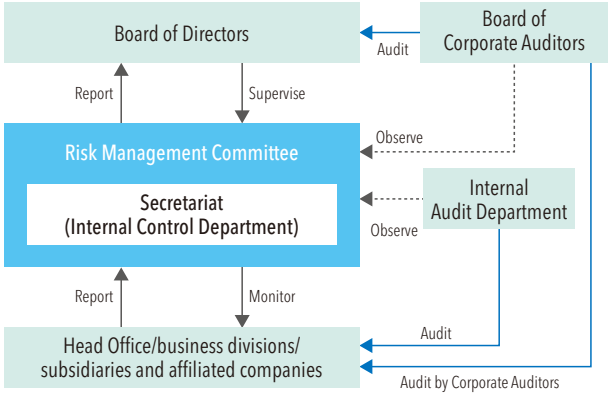
Risk Management

Basic Concept

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

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 2024:**

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 quality-related misconduct, data tampering, and legal/regulatory violations, information security risks, risks associated with violating antitrust laws, and risks associated with human rights compliance.

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



Compliance

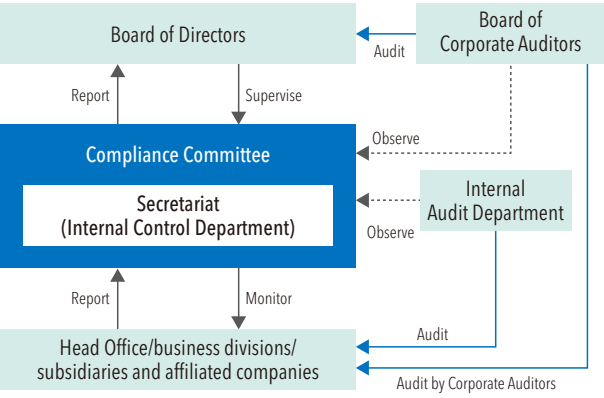
Basic Concept

In order for the SHI Group to continue growing sustainably as a global business enterprise in the future, it is essential for the Group to comply with the laws and regulations of each country, as well as its internal regulations and corporate ethics. To this end, we have 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 Manual

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

We conduct a compliance awareness survey to gauge our employees' understanding of and commitment to compliance standards, as well as to pinpoint potential compliance risks in the workplace. In fiscal 2023, we collected responses from 13,301 employees across the Group. The results showed an improvement in compliance awareness and more widespread use of the Compliance Manual compared to the previous year.

Obtaining a Pledge of Compliance

As part of our efforts to enforce strict compliance, we require our board members and managerial staff to sign a pledge of compliance once a year. In fiscal 2023, we successfully obtained pledges from 99.8% of these employees, totaling 3,392 individuals.

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.

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

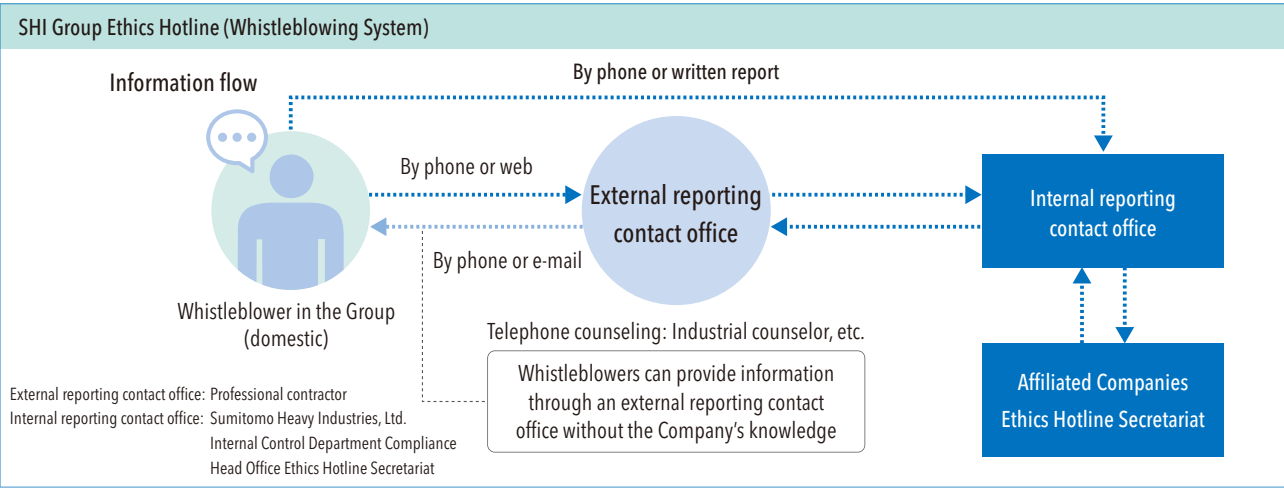
Establishment of Systems for Reporting and Consulting

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.

In fiscal 2023, 349 reports were made, and we implemented corrective measures for 114 cases. Approximately 40% of the reported issues were related to harassment, and we are focusing our efforts on addressing this as a priority issue moving forward.



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	Actual results for 2023
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	722 people attended
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	Continued implementation in all workplaces
		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	Conducted at each workplace
E-learning	Group companies' employees	Deepen knowledge of compliance through test-based education and training on compliance, safety, harassment, and sustainability	15,977 people attended
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	twice

# Directors, Corporate Auditors, and Executive Officers

## Board of Directors

(As of March 28, 2024)



**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, Executive Vice President and CFO  
1986 Joined the Company  
2024 Director, Executive Vice President



**Tatsuro Araki**  
Director, Executive Vice President  
1986 Joined the Company  
2024 Director and Executive Vice President

### Necessary Attributes of the Board of Directors (Primary Areas of Experience and Expertise)

	Name	Current position	Gender	Areas of expected expertise and contributions						
				Corporate management	Legal affairs/ compliance/ risk management	ESG/ sustainability	Business strategy/ marketing	Global	Technology/ IT/ production	Finance/ accounting
Board of Directors	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	○	○	○		○		
	Akio Hamaji	External Director	Male	○	○	○		○	○	○
	Sumie Morita	External Director	Female			○		○	○	
Corporate Auditors	Yaeko Hodaka	External Director	Female		○	○		○		
	Hideo Suzuki	Standing Corporate Auditor	Male		○	○				○
	Shoji Uchida	Standing Corporate Auditor	Male		○		○	○		
	Masaichi Nakamura	External Corporate Auditor	Male		○	○				○
	Mio Minaki	External Corporate Auditor	Female		○	○				

Male Female



**Susumu Takahashi**  
External Director  
2014 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



**Yaeko Hodaka**  
External Director  
2024 External Director of the Company

## Corporate Auditors

(As of March 28, 2024)



**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



**Mio Minaki**  
External Corporate Auditor  
2024 Auditor of the Company

### 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
Legal affairs/compliance/ risk management	For the Company Group's sustainable development and continued improvement of corporate value, based on Sumitomo's business philosophy, it will be required to promote risk management, taking into account compliance based on business principles, the ethics code and the laws
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



Directors, Corporate Auditors, and Executive Officers

Composition of each committee in 2024

Name	Current position	Tenure (Years) <small>(Note)</small>	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 <small>(Actual results for FY2023)</small>
Tetsuya Okamura	Representative Director, Chairman of the Board	5 years and 9 months	○	○	○	○				Meetings of the Board of Directors: 17/17 (100%)
Shinji Shimomura	Representative Director, President and CEO	7 years and 9 months	○	○	◎	◎	◎	◎	◎	Meetings of the Board of Directors: 17/17 (100%)
Eiji Kojima	Representative Director	6 years and 9 months			○	○	○	○	○	Meetings of the Board of Directors: 17/17 (100%)
Kazuo Hiraoka	Director	3 years and 9 months				○	○			Meetings of the Board of Directors: 17/17 (100%)
Toshihiko Chijiwa	Director	1 year and 9 months			○	○	○	○	○	Meetings of the Board of Directors: 17/17 (100%)
Toshiro Watanabe	Director	1 year and 9 months			○	○	○	○	○	Meetings of the Board of Directors: 17/17 (100%)
Tatsuro Araki	Director	1 year				○				Meetings of the Board of Directors: 13/13 (100%) * Appointed in March, 2023
Susumu Takahashi	External Director	9 years and 9 months	○	○		○				Meetings of the Board of Directors: 17/17 (100%)
Akio Hamaji	External Director	3 years and 9 months	◎	◎		○				Meetings of the Board of Directors: 17/17 (100%)
Sumie Morita	External Director	1 year	○	○		○				Meetings of the Board of Directors: 13/13 (100%) * Appointed in March, 2023
Yaeko Hodaka	External Director	New Candidate	○	○		○				Meetings of the Board of Directors: 17/17 (100%) Meetings of the Board of Corporate Auditors: 18/18 (100%) * Attended as Corporate Auditor in FY2023
Hideo Suzuki	Standing Corporate Auditor				○	○				Meetings of the Board of Directors: 17/17 (100%) Meetings of the Board of Corporate Auditors: 18/18 (100%)
Shoji Uchida	Standing Corporate Auditor				○	○				Meetings of the Board of Directors: 13/13 (100%) Meetings of the Board of Corporate Auditors: 14/14 (100%) * Appointed in March, 2023
Masaichi Nakamura	External Corporate Auditor		○	○		○				Meetings of the Board of Directors: 17/17 (100%) Meetings of the Board of Corporate Auditors: 18/18 (100%)
Mio Minaki	External Corporate Auditor		○	○		○				* Appointed in March, 2024

◎: Chairperson   ○: Committee member  
Note: At the end of the General Meeting of Shareholders in March 2024

Executive Officers

	Title	Name	Appointments
○	President	Shinji Shimomura	CEO
	Executive Vice President	Toshiharu Tanaka	General Manager of Corporate Economic Security Department, General Manager of Globalization Dept.
○	Executive Vice President	Kazuo Hiraoka	General Manager, Industrial Machinery Segment
	Executive Vice President	Tatsuya Endo	General Manager of Ehime Works; General Manager, Logistics & Construction Segment; Chairman of Sumitomo Construction Machinery Co.,Ltd.
	Executive Vice President	Taiji Tsuchiya	General Manager, Mechatronics Segment
○	Executive Vice President	Eiji Kojima	General Manager of Export Administration Dept.; General Manager, Energy & Lifeline Segment
○	Executive Vice President	Toshihiko Chijiwa	General Manager of Corporate Technology Management Group
○	Executive Vice President	Tatsuro Araki	General Manager of Power Transmission & Controls Group
○	Executive Vice President	Toshiro Watanabe	CFO
	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	Shaun Dean	Sumitomo Heavy Industries (Europe) B.V. Managing Director
	Senior Vice President	Shigeru Tajima	General Manager of Process Machinery Center; Representative Director & President of Sumitomo Heavy Industries Process Equipment Co., Ltd.
	Senior Vice President	Kazutoshi Shiraishi	General Manager of Human Resources Group
	Senior 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. Chairman, Director, President CEO
	Vice President	Yoichi Kato	General Manager of Energy & Environment Group
	Vice President	Isamu Mitsuhashi	Representative Director, President & CEO of Sumitomo Construction Machinery Co.,Ltd.; Representative Director, President & CEO of Sumitomo Construction Machinery Sales Co.,Ltd.
	Vice President	Hiroyuki Tominaga	General Manager of Industrial Equipment Division
	Vice President	Masaki Arai	General Manager of Corporate Planning Group

○ 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	2013	2014	2015	2016		2017	2018	2019	2020	2021	2022*8	2022 (Jan. to Dec.) Reference values*9	2023
<b>Summary of Income (for the financial year):</b>													
Net sales	¥ 615,271	¥ 667,099	¥ 700,838	¥ 674,328		¥ 791,025	¥ 903,051	¥ 864,490	¥ 849,065	¥ 943,979	¥ 854,093	¥ 1,018,261	¥ 1,081,533
R&D expenses	10,718	11,415	12,299	11,276		14,805	16,836	18,753	19,434	20,181	17,431	—	24,800
Operating profit	34,329	45,998	50,568	48,431		69,921	75,244	56,806	51,342	65,678	44,803	59,950	74,367
EBITDA*1	52,946	62,279	70,289	68,742		92,925	101,219	84,758	81,089	96,609	74,437	—	110,741
Ordinary profit	33,000	45,113	49,131	48,274		67,466	72,623	52,642	49,544	64,847	43,253	58,837	70,250
Profit attributable to owners of parent	17,891	24,348	33,133	33,613		34,660	45,650	32,807	26,764	44,053	5,782	16,259	32,742
<b>Cash Flows (for the financial year):</b>													
Cash flows from operating activities	¥ 63,661	¥ 62,170	¥ 18,315	¥ 38,158		¥ 71,111	¥ 55,173	¥ 36,263	¥ 64,131	¥ 61,679	¥ 21,366	¥ —	¥ 65,370
Cash flows from investing activities	(27,622)	(14,112)	(15,350)	(25,852)		(37,810)	(54,973)	(57,752)	(43,729)	(49,678)	(37,279)	—	(43,271)
Free cash flows*2	36,039	48,058	2,965	12,306		33,301	199	(21,489)	20,402	12,000	(15,913)	—	22,099
Cash flows from financing activities	(9,498)	(36,889)	(23,789)	(17,809)		(10,146)	(13,314)	35,964	(7,959)	(28,106)	21,677	—	(17,207)
Cash and cash equivalents at the end of the period	76,418	90,324	68,625	61,017		85,503	69,776	83,630	96,242	84,992	93,727	—	100,235
<b>Financial Position (at financial year-end):</b>													
Total assets	¥ 724,182	¥ 786,027	¥ 782,859	¥ 796,484		¥ 894,835	¥ 954,051	¥ 996,111	¥ 1,030,684	¥ 1,094,930	¥1,148,870	¥ —	¥ 1,200,857
Interest-bearing debt	107,433	83,644	68,232	60,460		64,181	73,311	124,669	124,439	111,251	160,765	—	162,230
Net interest-bearing debt*3	29,607	(8,779)	(2,572)	(3,360)		(24,052)	(278)	37,602	24,921	22,468	63,289	—	57,772
Total net assets	331,059	365,101	382,817	409,171		444,964	465,001	477,648	504,928	566,843	576,922	—	627,464
<b>Amounts per Share of Common Stock: (unit: yen) *4</b>													
Earnings*5	¥ 29.17	¥ 39.71	¥ 54.06	¥ 54.85		¥ 282.83	¥ 372.56	¥ 267.77	¥ 218.46	¥ 359.61	¥ 47.20	¥ —	¥ 267.30
Net assets	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	—	5,059.88
Cash dividends	7.00	12.00	16.00	16.00		85.00	112.00	91.00	65.00	115.00	90.00	—	120.00
<b>Financial Indexes: (unit: %)</b>													
Operating profit ratio	5.6	6.9	7.2	7.2		8.8	8.3	6.6	6.0	7.0	5.2	5.9	6.9
EBITDA ratio	8.6	9.3	10.0	10.2		11.7	11.2	9.8	9.6	10.2	8.7	—	10.2
R&D expenses ratio to net sales	1.7	1.7	1.8	1.7		1.9	1.9	2.2	2.3	2.1	2.0	—	2.3
Return on assets (ROA)	2.5	3.1	4.2	4.2		3.9	4.8	3.3	2.6	4.0	0.5	1.4	2.7
Return on equity (ROE)	5.8	7.1	9.0	8.7		8.4	10.3	7.1	5.6	8.5	1.0	3.0	5.5
Stockholders' equity ratio	45.1	45.8	48.1	50.0		48.2	47.5	46.6	47.6	50.4	49.5	—	51.6
Interest-bearing debt ratio	14.8	10.6	8.7	7.6		7.2	7.7	12.5	12.1	10.2	14.0	—	13.5
D/E ratio (times)	0.3	0.2	0.2	0.2		0.1	0.2	0.3	0.3	0.2	0.3	—	0.3
ROIC*6	4.8	6.5	7.6	7.3		10.3	10.5	7.3	6.1	7.3	4.6	6.2	7.0
<b>Investment in Plant and Equipment and Others:</b>													
Capital expenditures*7	¥ 20,329	¥ 20,670	¥ 23,721	¥ 27,539		¥ 30,432	¥ 33,713	¥ 39,435	¥ 39,885	¥ 46,729	¥ 44,629	¥ —	¥ 42,502
Depreciation	18,617	16,281	19,720	20,311		23,003	25,975	27,953	29,746	30,930	29,634	—	36,374

\*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

Supplementary explanation regarding the period covered:  
Although the accounting period for FY2022 is the nine-month period from April to December, the 12-month period from January to December is included for the purpose of ensuring comparability.

Supplemental explanation of coverage:  
The consolidated coverage rate for “non-consolidated” in the social data is approximately 15.8%, while that for “domestic consolidated” is approximately 50.9% (both calculated based on FY2023 results and number of employees).

Environment

Addressing Climate Change

		Unit	2019	2020	2021	2022	2023
GHG Emissions (Scope 1)	Total	t-CO <sub>2</sub>	39,765	36,572	37,418	38,419	36,272
	Consolidated Coverage	%	85.9	85.9	92.6	91.1	92.3
GHG Emissions (Scope 2)	Total*1	t-CO <sub>2</sub>	149,374	144,092	156,518	151,681	120,631
	Consolidated Coverage	%	85.9	85.9	92.6	91.1	92.3
GHG Emissions (Scope 1, 2 total)	Total*1	t-CO <sub>2</sub>	189,140	180,664	193,936	190,100	156,903
	Consolidated Coverage	%	85.9	85.9	92.6	91.1	92.3
GHG Emissions (Scope 3)	Cat-01 Raw Materials*2	t-CO <sub>2</sub>	313,670	356,805	351,365	406,638	1,095,515
	Cat-02 Capital Goods	t-CO <sub>2</sub>	165,751	128,805	154,343	147,464	140,793
	Cat-03 Energy Usage	t-CO <sub>2</sub>	20,162	20,280	21,349	26,955	26,712
	Cat-04 Logistics (upstream)	t-CO <sub>2</sub>	11,562	11,046	11,082	11,045	10,160
	Cat-05 Waste Treatment	t-CO <sub>2</sub>	6,958	5,767	5,578	5,355	5,405
	Cat-06 Business Trips	t-CO <sub>2</sub>	2,120	2,171	3,761	3,277	3,289
	Cat-07 Employee Commuting	t-CO <sub>2</sub>	6,006	6,179	11,138	11,322	12,264
	Cat-08 Lease Asset (upstream)	t-CO <sub>2</sub>	0	0	0	0	0
	Cat-09 Logistics (downstream)	t-CO <sub>2</sub>	0	0	0	—	—
	Cat-10 Processing of Products to Be Sold	t-CO <sub>2</sub>	0	0	0	—	—
	Cat-11 Use of Sold Products	t-CO <sub>2</sub>	225,549,245	123,029,056	136,614,107	79,946,933	75,463,187
	Cat-12 Disposal of Unsold Products	t-CO <sub>2</sub>	0	0	0	—	—
	Cat-13 Lease asset (downstream)	t-CO <sub>2</sub>	0	0	0	—	—
	Cat-14 Franchise	t-CO <sub>2</sub>	—	—	—	—	—
	Cat-15 Investment	t-CO <sub>2</sub>	2,060	2,060	2,422	2,873	3,780
	Total	t-CO <sub>2</sub>	226,077,535	123,562,169	137,175,145	80,561,862	76,761,104
	Consolidated Coverage	%	97.9	96.8	96.5	94.6	94.6
CO <sub>2</sub> Emission Intensity	Results	t-CO <sub>2</sub> /¥ million	0.22	0.21	0.21	0.22	0.15
	Consolidated Coverage	%	85.9	85.9	92.6	91.1	92.3
Energy Consumption	Fuel Consumption	MWh	202,668	187,335	192,766	196,579	174,657
	Electricity Usage	MWh	291,974	286,913	303,676	307,192	309,077
	Water Chilling/Heating	MWh	6,582	9,307	10,249	9,306	10,686
	Total	MWh	501,223	483,555	506,691	513,077	494,421
	Consolidated Coverage	%	85.9	85.9	92.6	91.1	92.3
Renewable Energy Consumption	Total	MWh	323	1,230	1,298	14,203	72,617
	Consolidated Coverage	%	85.9	85.9	92.6	91.1	92.3

\*1 Emissions data for Japan included in Scope 2 is calculated on a market basis  
\*2 The scope of calculation will be expanded from FY2023

Environmental Management

		Unit	2019	2020	2021	2022	2023
ISO 14001 Certification Status	Number of Certifications Acquired	Instances	56	58	58	57	61
	Acquisition Rate	%	80.1	80.6	79.4	75.2	79.8
Serious Violations of Environmental Laws and Regulations*3	Number of Cases	Instances	0	0	0	0	0
	Consolidated Coverage	%	80.1	80.6	79.4	75.2	79.8

\*3 Cases with fines and penalties of US\$10,000 or higher

Water Resources Preservation

			Unit	2019	2020	2021	2022	2023
Water Consumption	Municipal Water Supply	Tap Water	thousand m <sup>3</sup>	760	725	737	736	698
		Industrial Water	thousand m <sup>3</sup>	622	610	618	613	604
	Fresh Water		thousand m <sup>3</sup>	0	0	0	0	0
	Ground Water		thousand m <sup>3</sup>	183	163	185	161	135
	Total		thousand m <sup>3</sup>	1,565	1,498	1,541	1,510	1,436
	Consolidated Coverage		%	80.6	77.1	76.5	80.2	82.0
Wastewater Discharge	Total		thousand m <sup>3</sup>	454	478	460	434	934
	Consolidated Coverage		%	51.3	51.6	47.5	43.6	49.3

Pollution Prevention and Waste Management

			Unit	2019	2020	2021	2022	2023
Volume of Waste Disposed	Waste Generation		t	64,165	60,866	62,591	58,403	56,615
	Recycled Volume (Total Amount of Recovered and Reused Waste, etc.)		t	24,860	29,686	25,843	24,431	26,389
	Amount of Waste Incinerated Followed by Energy Recovery		t	4,048	2,497	2,702	2,506	2,335
	Amount of Waste Incinerated Not Followed by Energy Recovery		t	1,904	290	224	386	343
	Final Disposal Volume		t	8,234	1,235	1,294	1,004	1,106
	Consolidated Coverage		%	85.6	85.5	84.2	84.5	85.9
Volume of Harmful Waste Disposed	Waste Generation		t	303	818	708	693	650
	Amount of Waste Incinerated Followed by Energy Recovery		t	—	235	222	209	145
	Amount of Waste Incinerated Not Followed by Energy Recovery		t	—	168	118	46	30
	Target			SHI Group (Japan)				SHI Group (Japan)
Volume of Volatile Organic Compounds (VOC)	Total		t	717	640	623	636	544
	Consolidated Coverage		%	87.8	88.6	86.0	87.2	86.6
	Breakdown of domestic	Toluene	t	122	99	100	91	69
		Xylene	t	301	262	258	280	211
	Ethylbenzene		t	155	158	149	154	163
Volume of NOx Emissions	Total		t	3.7	4.1	3.3	3.9	2.5
	Consolidated Coverage		%	49.1	46.9	45.3	43.8	49.3
Volume of SOx Emissions	Total		t	0.64	0.50	0.18	0.15	0.15
	Consolidated Coverage		%	49.1	46.9	45.3	43.8	49.3
Discharge into Water	COD		t	1.8	1.6	1.5	1.5	1.4
	T-N		t	6.8	6.6	6.2	5.6	4.9
	T-P		t	0.5	0.5	0.5	0.5	0.4
	Total		t	9.0	8.7	8.1	7.6	6.6
	Consolidated Coverage		%	51.3	51.6	47.5	43.6	49.3

Social

Employee Data

		Unit	2019	2020	2021	2022	2023
Employees (consolidated)	Male	Number of employees	—	—	—	20,138	21,256
	Female	Number of employees	—	—	—	4,120	4,228
	Ratio of women	%	—	—	—	17.0	16.6
	Total	Number of employees	23,635	24,050	24,584	24,258	25,484
Employees (SHI)	Male	Number of employees	2,719	2,960	2,965	3,350	3,497
	Female	Number of employees	349	396	405	499	536
	Ratio of women	%	11.4	11.8	12.0	13.0	13.3
	Total	Number of employees	3,068	3,356	3,370	3,849	4,033
Managers	Male	Number of employees	835	904	916	3,290	3,355
	Female	Number of employees	14	17	22	220	247
	Ratio of women	%	1.6	1.8	2.3	6.3	6.9
	Total	Number of employees	849	921	938	3,510	3,602
		Target	Non-consolidated			Consolidated	Consolidated
Assistant Managers	Male	Number of employees	—	—	—	1,786	1,850
	Female	Number of employees	—	—	—	174	183
	Ratio of women	%	—	—	—	8.9	9.0
	Total	Number of employees	—	—	—	1,960	2,033
		Target	—			Consolidated	Consolidated
Employees by Age Group	Under 30	Number of employees	523	551	529	4,452	4,622
	30–39	Number of employees	777	889	869	6,868	7,136
	40–49	Number of employees	778	831	839	5,835	6,144
	50–59	Number of employees	777	852	872	5,049	5,414
	Above 60	Number of employees	213	233	261	2,054	2,168
	Total	Number of employees	3,068	3,356	3,370	24,258	25,484
		Target	Non-consolidated			Consolidated	Consolidated
Average Length of Service by Gender	Male	Years	16.8	16.6	16.6	14.4	14.5
	Female	Years	11.9	11.9	12.1	10.5	11.2
	Total	Years	16.2	16.1	16.1	14.2	14.1
		Target	Non-consolidated			Japanese consolidated	Japanese consolidated
Employment Ratio of Disabled People	Total	%	2.39	2.32	2.36	2.39	2.52
	Target		Non-consolidated				Non-consolidated

Non-Financial Key Data

Employee Data

		Unit	2019	2020	2021	2022	2023
Percentage of Employees Covered by Collective Bargaining Agreements	Total	%	63.4	64.2	60.4	63.4	63.9
	Target		Non-consolidated				Non-consolidated
Rounds of Collective Bargaining (Labor-Management Consultations) with Labor Unions	Total	Rounds	—	—	106	74	103
	Target		Non-consolidated				Non-consolidated
	Male	Number of employees	129	139	119	236	262
	Female	Number of employees	30	22	31	35	46
New Graduate Hires	Ratio of women	%	18.9	13.7	20.7	12.9	14.9
	Total	Number of employees	159	161	150	271	308
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Career Hires	Male	Number of employees	97	59	90	299	386
	Female	Number of employees	11	7	8	40	52
	Ratio of women	%	10.2	10.6	8.2	11.8	11.9
	Total	Number of employees	108	66	98	339	438
	Ratio of Mid-career Hires to Full-time Workers	%	40.4	29.1	39.5	55.6	58.7
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Wage Difference Between Men and Women*4	Full-Time Employees	%	—	—	—	70.6	72.8
	Non-Full-Time Employees	%	—	—	—	66.3	69.8
	All Workers	%	—	—	—	68.6	70.2
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Total Turnover Rate	Male	%	—	—	2.4	2.7	3.7
	Female	%	—	—	4.2	3.1	3.3
	Total	%	2.5	2.4	2.6	2.7	3.7
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Turnover Rate for Personal Reasons	Male	%	—	—	2.1	2.0	3.0
	Female	%	—	—	3.0	2.3	2.7
	Total	%	2.2	1.6	2.2	2.0	3.0
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Working Hours Per Year	Total	Hours	1,989	1,975	1,987	1,972	1,972
	Target		Non-consolidated (general employees)			Japanese consolidated (general employees)	Japanese consolidated (general employees)
Employee Awareness Survey Results	Percentage of Highly Engaged Employees	%	—	49	—	48	—
	Target		—	SHI and 30 consolidated subsidiaries	—	SHI and 30 consolidated subsidiaries*5	—
Percentage of Employees Taking Paid Vacations	Total	%	75.9	73.6	68.6	75.3	79.0
	Target		Non-consolidated (general employees)			Japanese consolidated (general employees)	Japanese consolidated (general employees)
Childcare Leave Utilization Ratio	Male	%	85.8	71.4	68.9	69.2	85.5
	Female	%	100	100	100	100	97.7
	Total	%	86.8	75.4	72.0	71.9	87.1
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Average Number of Days of Childcare Leave Taken by Male Employees	Total	Days	11.4	11.0	33.3	23.1	30.8
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Employees Utilizing Shortened Working Hours for Employees with Childcare Needs	Male	Number of employees	—	—	—	7	7
	Female	Number of employees	—	—	—	82	89
	Total	Number of employees	—	—	—	89	96
	Target		Non-consolidated			Japanese consolidated	Japanese consolidated
Annual Training Hours Per Employee*6	Total	Hours	—	—	4.2	11.1	10.9
	Target		—	—	Japanese consolidated		Japanese consolidated
Annual Training Expenses Per Employee	Total	Yen	—	49,230	79,228	53,222	69,305
	Target		—	Non-consolidated		Japanese consolidated	Japanese consolidated

\*4 Female wages as a % of male wages  
\*5 Consolidated coverage is approximately 46.1% (based on headcount)  
\*6 Calculated based on key training programs organized by the Human Resources Group (Head Office)

Occupational Health and Safety/Health Management

		Unit	2019	2020	2021	2022	2023
Fatalities	Total	Number of employees	0	0	0	0	0
	Target		Non-consolidated			Consolidated	Consolidated
Occupational Accident Frequency Rate (employees)	Frequency rate	%	0.0	0.0	0.3	0.4	0.7
	Target		Non-consolidated			Non-consolidated	
Occupational Accident Frequency Rate (employees and contract workers)	Frequency rate	%	0.2	0.2	0.6	0.5	0.7
	Target		Non-consolidated			Non-consolidated	
Percentage of Companies with ISO 45001 Certification	Total	%	—	33.3	50.0	66.6	66.6
	Target		—	Domestic Main Works		Domestic Main Works	
Percentage of Smokers	Total	%	27.9	27.7	26.6	23.1	23.4
	Target		Non-consolidated			Non-consolidated	

CSR Activities

		Unit	2019	2020	2021	2022	2023
Social Contribution Expenditures	Total	¥ million	35	301	33	26	15.6
	Target		Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated	Non-consolidated

Supply Chain Management

		Unit	2019	2020	2021	2022	2023
Supplier Status by Region (procurement amount ratio)	Japan	%	69.7	72.7	68.9	62.2	67.3
	China		10.7	10.9	12.1	12.0	9.3
	South Korea		2.8	2.5	2.4	2.4	2.7
	Taiwan		0.2	0.2	0.3	0.3	0.4
	Asia, etc.		5.1	4.7	6.3	8.3	7.1
	North America and Latin America		6.0	3.5	3.4	6.9	5.4
	Europe		5.5	5.5	6.6	7.7	7.7
	Other Areas		0.0	0.0	0.0	0.0	0.1
Suppliers	Number of Tier 1 Suppliers	Companies	7,559	7,537	7,481	6,230	5,658
Supplier Survey	Number of Surveys	Companies	288	288	409	409	409
	Implementation Rate	%	3.8	3.8	5.5	6.6	7.2
% of Purchasing Division Employees Who Received Sustainable Procurement Training		%	—	—	—	9.5	89.8
	Target		—	—	—	SHI and 9 consolidated subsidiaries	SHI and 16 consolidated subsidiaries

Product Safety and Product Quality

	Unit	2019	2020	2021	2022	2023
ISO 9001 Certification Acquisition Rate of Major Production and Business Divisions	%	—	—	—	93	94
Number of Serious Legal Violations Related to Product Safety	Instances	0	0	0	0	0

Governance

Corporate Governance

		Unit	2019	2020	2021	2022	2023	2024
Composition of Directors*7	Total Number	Number of directors	9	10	9	9	11	11
	Executive Directors	Number of directors	7	7	6	6	7	7
	Non-executive Directors	Number of directors	2	3	3	3	4	4
	External Directors	Number of directors	2	3	3	3	4	4
	Female Directors	Number of directors	0	0	0	0	1	2
	Non-Japanese Directors	Number of directors	0	0	0	0	0	0
Average Attendance Rate at Board of Directors Meetings	Average	%	100	99.2	98.5	96.6	100	—
Average Tenure of Directors*7	Average	Years	4.3	4.0	4.7	3.8	3.7	3.9
Composition of Corporate Auditors*7	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	1	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	100	100	—

\*7 Information that was current as of the end of the General Meeting of Shareholders for each year is shown

Business Ethics

		Unit	2019	2020	2021	2022	2023
Compliance Education by E-learning*8	Total	Number of employees	12,838	14,599	14,489	—	12,503
	Implementation Rate (% of all employees who have completed the program)	%	54.3	60.7	58.9	—	49.1
Employees Who Submitted the Compliance Pledge*9	Total	Number of employees	2,745	2,852	3,217	3,217	3,392
	Submission Rate (% of all employees who submitted the pledge)	%	11.6	11.9	13.1	13.3	13.3
Number of Cases Reported to Ethics Hotline	Total	Instances	125	143	156	136	349
	Breakdown	Harassment	—	50	71	61	151
		HR and Labor	—	50	38	41	131
	Violations of Company Regulations and Rules	Instances	—	17	13	14	16
		Other matters	—	26	34	20	51
	Cases for Which Corrections Were Made	Instances	—	59	71	41	114
Amount of Political Donations	Total	¥ million	—	1.5	1.5	1.5	1.5
	Target		—	Non-consolidated			Non-consolidated

\*8 Employees in Japan are eligible to take the course  
\*9 Employees in key management positions in Japan are eligible to submit the application



# Corporate Data

(As of December 31, 2023)

Company Name	Sumitomo Heavy Industries, Ltd.
Head Office	1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
Tel	+81-3-6737-2000
URL	<a href="https://www.shi.co.jp/english/index.html">https://www.shi.co.jp/english/index.html</a>
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, Imazaike, Saijo-shi, Ehime 799-1393, Japan	Tel: 81-898-64-4811
Technology Research Center	19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan	Tel: 81-46-869-2300

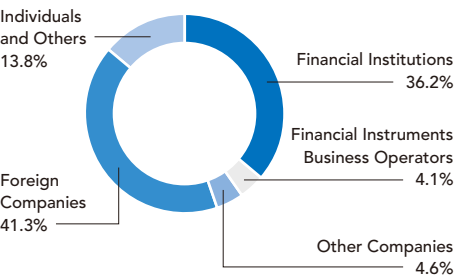
## Stock-Related Information

(As of December 31, 2023)

### Stock Information

Transfer Agent	Sumitomo Mitsui Trust Bank, Limited
Stock Exchange Listing	Tokyo
Shares Outstanding	122,905,481
Number of Shareholders	20,985

### Distribution of Shareholders

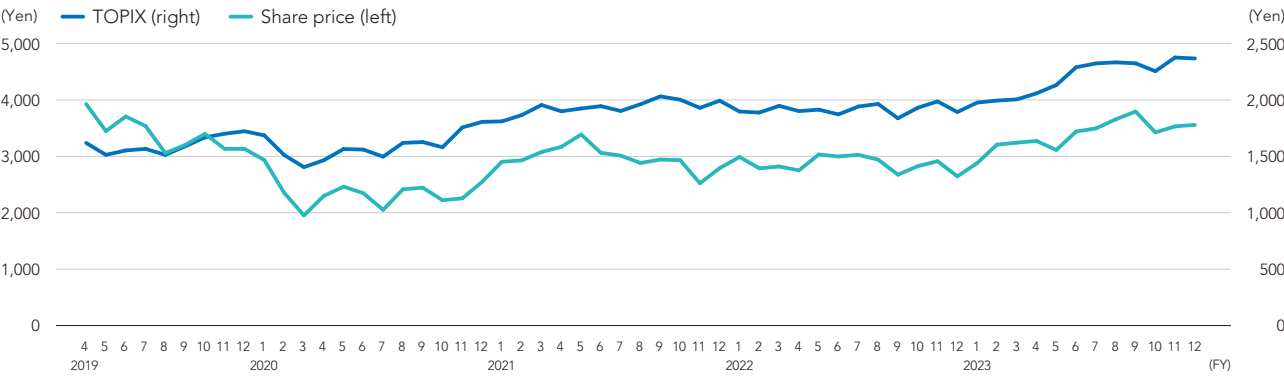


### Major Shareholders

Name of shareholder	Number of shares held (thousands of shares)	Ownership ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	20,309	16.6
Custody Bank of Japan, Ltd. (Trust account)	9,373	7.6
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	8,150	6.6
Sumitomo Life Insurance Company	4,333	3.5
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	3,916	3.2
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,825	3.1
Sumitomo Heavy Industries, Ltd. Kyoeikai	3,310	2.7
NORTHERN TRUST CO. (AVFC) RE NON TREATY CLIENTS ACCOUNT	2,927	2.4
STATE STREET BANK AND TRUST COMPANY 505103	2,195	1.8
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	2,109	1.7

Note: Ownership ratios are calculated less treasury stock (350,874 shares). The Company's name is listed as the shareholder of record for treasury stock, but this figure includes 200 shares that the Company in effect does not own.

### Share Price Chart



### Recognition from Society (as of end of June 2024)



FTSE Blossom  
Japan Index

FTSE Blossom Japan Index



FTSE Blossom  
Japan Sector  
Relative Index

FTSE Blossom Japan  
Sector Relative Index



S&P/JPX  
Carbon Efficient Index



2024  
SOMPO Sustainability Index



EcoVadis



CDP  
(Climate Change: A- Water: A-)



Platinum Kurumin  
Certification awarded  
by MHLW



2024  
Excellent Enterprise of Health  
and Productivity Management



PRIDE Index  
Gold Award



5th NIKKEI SDGs  
Management Survey



7th NIKKEI Smart Work  
Management Survey

