Medium-Term Management Plan 2026

Medium-Term Management Plan 2026: Basic Policy

The Medium-Term Management Plan 2026 (“MTMP26”) presents the basic policy of developing a resilient business structure to achieve the ideal state we envision for 2030. By setting clear financial and non-financial targets and implementing our corporate and segment strategies, we aim to enhance our profitability and capital efficiency and to carry out more vigorous new business exploration.

Long-term policy

2024 - 2026	2027 - 2029
Build a business portfolio to solve social issues	
Regarding deepening and exploration, engage in further practice	Perform the final finishing touches to bring our ideal state

Basic policy: Develop a robust entity

Key issues

1. Improve profitability ･･･Strengthen profitability through deepening, and implement a management approach that prioritizes profit (Deepening)
2. Enhance capital efficiency ･･･Thoroughly implement an ROIC-based management approach (Deepening)
3. Strengthen new business exploration ･･･Identify business opportunities through exploration (Exploration)

Basic strategy

Improve profitability, enhance capital efficiency, and strengthen exploration from both corporate and segment perspectives

Corporate strategy	Segment strategy
●Promote business portfolio reformation	●Strengthen profitability through deepening
●Capital policy	●Identify business opportunities through exploration
●Strengthen new business exploration functions	●Pursue synergies
●Strengthen the business base (sustainability, human capital, and DX)	●Streamline segment organizations

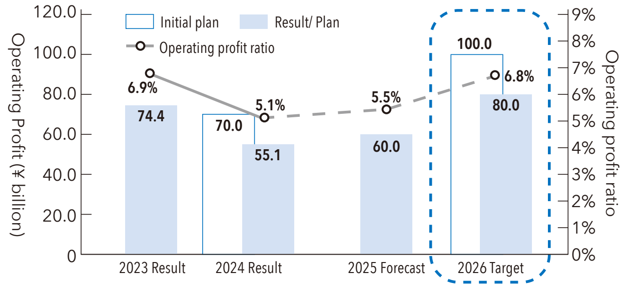
Changing Business Environment

MTMP26 started by listing the uncertain global economy, discontinuous business environment, and changing social style as the premises of the external environment. During FY2024, however, our businesses in Europe, and semiconductor and excavator businesses saw their environments growing more unfavorable than initially expected and their profitability fail to improve as planned. In the initial plan, we aimed to improve the profitability through reformation while securing the volumes of orders received and net sales. Yet we revisited our targets because we could no longer assume that these volumes of order and net sales would increase.

Deviations from the initial premises of the business environment	
Businesses in Europe	●The automobile industry's slump because of slowing demand for EVs; deteriorated market conditions across Europe due to rising costs of energy ●Delays in customers' capital investments in the motor control technology and plastics machinery businesses; falling demand for the boiler business due to the trend toward decarbonization and tighter environmental regulations
Semiconductor business	●Slow recovery of demand in the markets for the SHI Group's products; a slowdown in customers' capital investments
Excavator business	●Reduced demand due to interest rates remaining high in North America; excess inventory because of a decrease in orders

Numerical Targets Set in the Medium-Term Management Plan 2026

We revisited targets set in MTMP26 and changed the operating profit and ROIC targets to ¥80.0 billion (initially ¥100.0 billion) and 7.0% (initially 8.0%), respectively, for FY2026, taking account of the increasingly unfavorable external environment and our financial conditions. We aim to achieve the operating profit of ¥130.0 billion and ROIC of 10%, the targets for FY2030 by taking additional measures at a faster pace.



Change

Operating profit target: Initially ¥100.0 billion → After review **¥80.0** billion

We decided that it would be difficult to reach the target by FY2026 in the current business environment.

***Our ideal state and target for 2030 remains unchanged.**

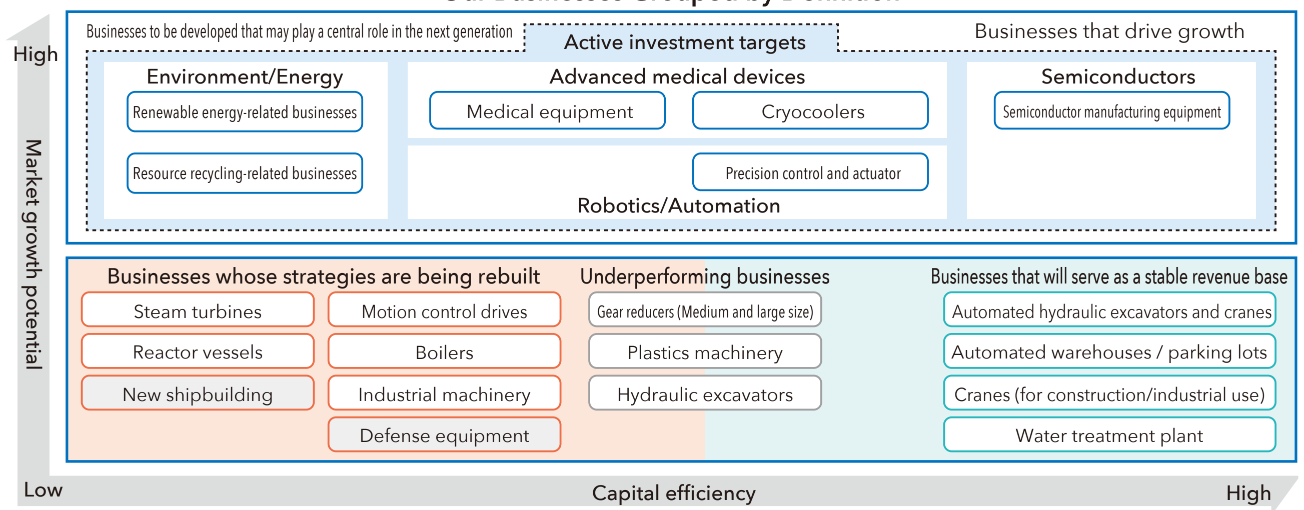
To reach the state and target, we will revisit a certain part of our strategies to add measures and implement them at a faster pace, so that we will return to the target line as soon as possible.

	FY2024 Result	FY2026 Target (as of Feb. 2024)	FY2026 Target **After Review** (as of Feb. 2025)	Change from Previously Announced Target
Orders	¥936.1 billion	¥1,280.0 billion	**¥1,200.0 billion**	(¥80.0 billion)
Net sales	¥1,071.1 billion	¥1,250.0 billion	**¥1,173.0 billion**	(¥77.0 billion)
Operating profit	¥55.1 billion	¥100.0 billion	**¥80.0 billion**	(¥20.0 billion)
Operating profit ratio	5.1%	8.0%	**6.8%**	(1.2pt)
ROIC	4.8%	8.0%	**7.0%**	(1.0pt)
(Ref.) ROE	1.2%	10.0%	**7.8%**	(2.2pt)
Capital investment (target 3-year total)	¥48.0 billion	¥190.0 billion	**¥190.0 billion**	-
Research and development (target 3-year total)	¥33.7 billion	¥90.0 billion	**¥90.0 billion**	-
Exchange rate (USD-JPY)	¥147	¥135	**¥135**	-

Business Portfolio Reformation

For business portfolio reformation, we have grouped our businesses and products into four categories. We defined the businesses in Category 1 that "drive growth" and those in Category 2 that are "to be developed to potentially play a central role in the next generation" as the key investment areas. Our management resources will be invested mostly in these areas in order to expand our businesses. We will plan and implement restructuring of the businesses in Category 3, which "need to have their strategies rebuilt". We will also implement measures to boost the profitability of the businesses experiencing a profit slump in Category 4.

Our Businesses Grouped by Definition



Progress towards Targets Set in the Medium-Term Management Plan 2026

The world's economic environment remained uncertain during FY2024, the first year of MTMP26. Our businesses in Europe, semiconductor business, and excavator business had lower revenues than initially expected. Hence, we have reviewed the targets set in the medium-term plan. We will also add new measures to address issues that require our attention in order to achieve the targets for 2030.

Targets by Segment

Given that sluggish demand, mostly in Europe and the United States, led to a decrease in orders and delay in improving profitability, we revisited the targets by segment.

	FY2026 Target (as of Feb. 2024)				FY2026 Target After Review (as of Feb. 2025)				Change		
Unit: ¥ billion	Orders	Net sales	Operating profit	ROIC	Orders	Net sales	Operating profit	ROIC	Orders	Net sales	Operating profit
Mechatronics	330.0	323.0	30.0	9.0%	295.0	295.0	24.0	8.0%	(35.0)	(28.0)	(6.0)
(Plastics machinery)	110.0	110.0			105.0	105.0			(5.0)	(5.0)	
Industrial Machinery	280.0	277.0	27.0	10.0%	275.0	275.0	22.0	8.5%	(5.0)	(2.0)	(5.0)
(Hydraulic excavators)	290.0	290.0			260.0	260.0			(30.0)	(30.0)	
Logistics & Construction	460.0	460.0	33.0	10.0%	435.0	433.0	27.0	8.0%	(25.0)	(27.0)	(6.0)
Energy & Lifelines	210.0	190.0	10.0	6.0%	195.0	170.0	7.0	4.0%	(15.0)	(20.0)	(3.0)
Total	1,280.0	1,250.0	100.0	8.0%	1,200.0	1,173.0	80.0	7.0%	(80.0)	(77.0)	(20.0)

Note: Please see "the re-segmentation of our businesses" on page 25 for segment changes.

Challenges from the First Year of the Medium-Term Management Plan 2006 and How We Plan to meet These Challenges

To close the gap between our current state and ideal state for 2030, we have identified challenges and framed clear policies to meet them, which led us to revisit some of our strategies. We will also take measures at a faster pace to revive our profitability in order to achieve a revenue that goes above capital cost as soon as possible.

	Challenges to meet	Policies for meeting the challenges
1	● **Improving the profitability of the revenue base businesses** •Strengthening the ability to cope with changing market conditions •Enhancing production efficiency and improving profitability	● **Restructuring the revenue base businesses** •Reduce/integrate/abolish production capacity; sort out unprofitable models (in the motor control technology and plastic machinery businesses) •Improve the accuracy of demand forecasts; improve productivity by developing a more solid structure for division of work at our main plants (excavators)
2	● **Speeding up the promotion of business portfolio reformation** •Streamlining segment organizations •Accelerating portfolio management (carrying out selection and concentration)	● **Implementing business portfolio reformation** •Advance a stronger segment structure and full transition to it •Plan and advance the restructuring of the businesses with strategies that need rebuilding
3	● **Thoroughly implementing an ROIC-based management approach** •Revisiting the structure of fixed costs •Expanding service businesses •Contributing to prompt revenue from acquired businesses	● **Managing return on investment more rigorously; improving return on capital** •Streamline indirect operations; sort out unnecessary assets •Expand high value-added service businesses making effective use of DX •Develop more robust functions to manage matters related to investments and loans (improve investment decisions and PMI)

Additional Measures and Policies to Achieve the Numerical Targets Set in the Medium-Term Management Plan

To meet the challenges and adapt to the changing business environment, we aim to achieve the Numerical targets set in the Medium-Term Management Plan by implementing Measures (1) to (4) with speed and a sense of urgency.

Key Measures and Policies

(1) Restructuring of the businesses in Europe, which includes downsizing
(2) Use of the effect produced by the integration of semiconductor manufacturing equipment businesses and expansion of sales in Europe and the United States
(3) Review of the hydraulic excavators business's production system and improvement in operational quality
(4) Identification of businesses for portfolio reformation and implementation of the reformation

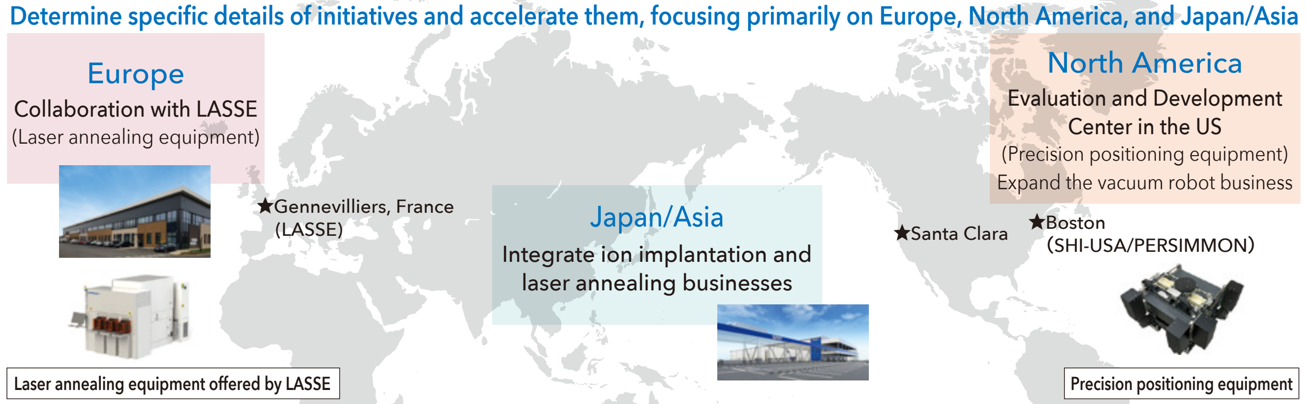
(1) Structural Reorganization and Roadmap for the European Business

	Reform measure	2025	2026
LSPA	1. Reduce costs by closing and integrating certain plants and downsizing the workforce	✓Closing certain plants ✓Integrating plants ✓Consolidating parts and improving in-house production ✓Optimizing production in coordination with plants in other areas	Secure the profitability of the electric control business and reach a positive financial outcome quickly
SDG	1. Reduce production capacity in line with market shrinkage 2. Downsize the workforce 3. Achieve high profitability by shifting to the production of high-end all-electric injection molding machines in response to the increasing demand for all-electric injection molding machines	✓Reducing capacity and downsizing the workforce ✓Discontinuing the production of hydraulic machines and shifting to the production of high-end all-electric injection molding machines	Transition to a slimmer and leaner business
SFW	1. Downsize the workforce in line with market shrinkage 2. Reassign personnel to strengthen the service system 3. Optimize assets and reduce fixed costs by streamlining unprofitable sites 4. Concentrate production functions in plants in Poland and maintain operations by increasing external sales	✓Streamlining unprofitable sites ✓Downsizing the workforce and transitioning to service personnel ✓Selling off manufacturing plants and consolidating production functions	Develop a production capacity framework and strengthen after-sales service in response to market shrinkage

LSPA: Lafert S.p.A. SDG: Sumitomo (SHI) Demag Plastics Machinery GmbH SFW: Sumitomo SHI FW Energie GmbH

(2) Integration of semiconductor manufacturing equipment businesses and expansion of sales in Europe and the United States

Determine specific details of initiatives and accelerate them, focusing primarily on Europe, North America, and Japan/Asia



Europe	Promoting collaboration with LASSE	• Establish sales channels for major power semiconductor manufacturing customers in Europe • Stand against competitors and secure markets by acquiring high-productivity laser annealing equipment • Collaborate to develop next-generation processes involving laser annealing equipment and ion implanters
North America	Establish an evaluation and development center (Santa Clara, 2025)	• Strengthen relationships with customers in North America through evaluation and development • A platform for acquiring new customers for precision positioning equipment in North America
Japan	Integrate ion implantation and laser annealing businesses	• Synergies derived from integrating ion implantation and laser annealing businesses • Enhance the power semiconductor segment by establishing the high-temperature ion implantation process

(3) Review of the hydraulic excavator business's production system

Logistics & Construction segment's production sites across the globe

- The Logistics & Construction segment restructured to have 7 production sites (4 in Japan and 3 overseas) in stead of 6
- Each of the sites operating as a plant exclusively for the model (optimum production system)
- To the overseas sites, the principle of local production for local consumption applied, with mutual cooperation enlisted as necessary

(Nagoya) HSC
[Mass production plant for crawler cranes]

(Niihama) SHI-MH
[Plant for large cranes and logistics PS machines]

(Chiba) Sumitomo Construction Machinery
[Mass production plant for excavators and AF]

(Yokosuka) Sumitomo Construction Machinery
[New plant for large excavators and specialized machinery]

Excavators: From 1 plant to 2 plants for production in Japan
Chiba Works: Transition from mixed production of small- and large-sized excavators and specialized machinery to mass production of small- and medium-sized excavators only
Newly established 2027
Yokosuka Works: Plant for large-sized excavators and specialized machinery only

(Lexington, the USA) LBC
[Mass production plant for crawler and truck cranes]

(Tangshan, China) Sumitomo Construction Machinery
[Mass production plant for excavators and AF]

(Karawang, Indonesia) Sumitomo Construction Machinery
[Mass production plant for excavators]

AF: Asphalt finishers; PS: Parking system; HSC: Sumitomo Heavy Industries Construction Cranes Co., Ltd.
SHI-MH: Sumitomo Heavy Industries Material Handling Systems Co., Ltd.; LBC: Link-Belt Cranes

(4) Identification of businesses for portfolio reformation and implementation of the reformation

• Reconfiguration of our businesses

We reconfigured our businesses in order to manage the segments more efficiently and pursue synergy.

[Before reconfiguration]

Segment name	Business (Product)
Mechatronics	Gear reducers, motors, inverters, laser systems, precision positioning equipment
Industrial Machinery	Plastics machinery, cryogenic equipment, precision parts, semiconductor production equipment, quantum equipment, accelerators, forging presses, industrial/environmental equipment, machining tools, defense equipment

[After reconfiguration]

Segment name	Business (Product)
Mechatronics	Gear reducers, motors, inverters, cryogenic equipment, precision positioning equipment
Industrial Machinery	Plastics machinery, precision parts, semiconductor production equipment, laser systems, quantum equipment, accelerators, forging presses, industrial/environmental equipment, machining tools, defense equipment

LASSE: Laser Systems & Solutions of Europe SASU (France)

• Progress in promoting business portfolio reformation

We made steady investments in the key investment areas. We also implemented additional measures for the businesses experiencing a profit slump and the businesses with strategies that need rebuilding.

Status of investment in key areas

Area	Status
Semiconductors	Acquiring France-based LASSE, establishing an evaluation/development center in the US, and developing a high-temperature injection system for SiC semiconductors
Robotics/automation	Developing a safety system for the functions of next-generation hydraulic excavators
Advanced medical devices	Developing an internal therapy system
Environment/energy	Developing LAES-based products

Underperforming businesses

For medium and large-sized gear reducers, plastics machinery and hydraulic excavators whose revenues are underperforming and are included in businesses that will serve as a stable revenue base, implement measures to enhance their earning capacity

Businesses whose strategies are being rebuilt

- Ceasing new orders and withdrawing from the shipbuilding business (implemented in FY2024)
  A container crane is being built at Yokosuka Works. Concentrate management resources on key areas such as base structures for offshore wind power generation
- For the defense equipment business: merging Sumiju Tokki Service Co., Ltd. (implemented in January 2025)
- For steam turbines, reactor vessels, boilers, industrial machinery, and motion control drives, formulate and implement structural reorganization plans successively

Financial Capital

Message from the CFO

To reach our ideal state in 2030 and the PBR of 1, MTMP26 focuses on reviving profitability and achieving business portfolio reformation.

Director, Executive Vice President and CFO
Toshiro Watanabe

〈Key Points〉

- Vulnerability to economic fluctuations and revenue structure issues brought to light by the FY2024 financial results
- Strategic shift in MTMP26 and profitability revival considering revenue structure issues
- Revisiting business portfolio reformation considering ROIC and market growth potential
- Future policy on efforts toward the PBR of 1 and PER improvement

The Sumitomo Heavy Industries Group's Basic Financial Policy and the Role of the CFO

The Sumitomo Heavy Industries Group's financial divisions follow the basic policy of enhancing corporate value by achieving financial soundness and greater profitability. MTMP26 sets clear financial goals as key performance indicators (KPIs) and defines the critical mission as the achievement of these goals using the backcasting method. Financial divisions play a crucial role by accurately allocating capital and making investment decisions.

As a CFO, I particularly focus on what I call "dialogues with capital markets." We used to believe that good performance and proper internal efforts would lead us to earn a positive valuation in capital markets. However, with the Tokyo Stock Exchange demanding that businesses practice management that is conscious of the cost of capital and stock prices, we are expected to put more effort than ever into enhancing corporate value, including the price book-value ratio (PBR). For this reason, we intend to have dialogues with shareholders and investors and keep them engaged so that how we are viewed in capital markets will be suitably reflected in our business management, thereby enhancing our corporate value, as we work toward the goals.

FY2024 Financial Results in Review

Although the FY2024 financial results fell short of expectations, we achieved certain progress from a financial strategy perspective. We revisited our capital policy based on MTMP26 and conducted our first share repurchase worth ¥10.0 billion. We maintained the planned dividends, even though the earnings results were below the planned figures at the beginning of the fiscal year. Operating cash flow also decreased because of the slow improvement in working capital caused by lower orders and net sales than expected at the beginning of the fiscal year; however, we successfully managed the decrease through flexible financing. The biggest issue was a dip in operating profit. The causes were miscalculated demand forecasts in Europe and the semiconductor market, coupled with a delay in adjustments to the inventory of hydraulic excavators in North America.

Additionally, the impairment loss of ¥23.2 billion incurred by Lafert in Italy put us in a situation where we had to make a prompt management decision. For our M&A strategy going forward, we are considering greater involvement of the Japan side, especially in the management of overseas subsidiaries. The profitability of our businesses in Europe decreased because a prolonged economic slowdown caused changes in the market structure that were different from initial expectations. The slow recovery of orders unrelated to AI in the semiconductor field affected the Company.

Downward movements in the economic cycle greatly affected the businesses of gear reducers, plastics machinery, and hydraulic excavators, revealing the vulnerability of the revenue base. The FY2024 financial results raised a keen awareness shared across the Company that we would need to review not only changes in the external environment but also our own revenue structure and the nature of our businesses. We depend on a turnaround in the economy to improve profitability, which is our fundamental problem. We plan to review the revenue base and rebuild our businesses from an ROIC-based management perspective as we continue to work on the selection and concentration of business activities.

Financial Management Centered on the Enhancement of Corporate Value and ROIC

The SHI Group is putting great effort into improving ROIC to enhance its corporate value. It is also working to establish business management centered on the Company's efforts, along with a solid framework for management execution. ROIC is a key indicator used to measure whether a business generates a higher return than the weighted average cost of capital (WACC; 6%-8% envisaged). ROIC is effective in that it can be used for the quantitative assessment of corporate value in light of both capital efficiency and profitability. Because WACC is difficult to control, we aim to increase our corporate value by increasing returns on invested capital. To facilitate the ROIC-based management approach across the Company as a CFO, I review how we are assessed in capital markets to improve effectiveness while regularly putting in order the basic policy on our financial strategy, incorporating viewpoints offered by the Board of Directors reports and outside directors.

We used to play our budget mostly based on the income statement. Today, ROIC is central to the budget, and as we identify issues and discuss improvement measures, we determine if each division invests more than returns it receives. On the basis of the Company's overall WACC, we ascertain the ROIC standard across the Group to set goals for each segment. As for business divisions, we visualize room for improvement in each component, such as profitability (operating profit ratio) and asset efficiency (invested capital turnover), through component parts analysis using an ROIC tree so that the divisions can autonomously acknowledge and manage their issues. Because there have been drops especially in revenues from the medium and large gear reducer, plastics machinery, and hydraulic excavator businesses, which constitute our stable revenue base, we plan improvements for each of these businesses according to its characteristics.

We began using ROIC as a KPI in FY1999. Previously, we made decisions on downsizing or expansion for each business, yet we currently work on improvements that regard businesses in one segment as an integrated whole. The key point in MTMP26 lies in strengthening ties for collaborative work between businesses within a larger framework than before to improve ROIC, rather than the conventional vertical management of each division. With this approach, we plan to create synergy between our businesses and move ahead with the visualization of capital efficiency to conduct an assessment from a company-wide perspective, in addition to managing each business division.

■ ROIC by Segment

	Actual FY2024	Forecast FY2025	Targets for FY2026	Issues to be addressed	Future response strategies
Mechatronics (After reconfiguration)	4.5%	5.2%	8.0%	◆ Improving the revenue of the electric control business (in Europe) ◆ Improving the revenue of gearmotor models ◆ Reducing inventories and fixed assets	◆ Mass-produce new products, implement price pass-through measures, and improve the in-house production rate ◆ Consolidate models and optimize unprofitable models ◆ Review the supply chain and carry out consolidations and closures of production equipment
Industrial Machinery (After reconfiguration)	5.2%	4.4%	8.5%	◆ Improving the revenue of the plastics machinery business ◆ Improving the productivity ◆ Strengthening the product lineup in preparation for semiconductor market recovery	◆ Carry out consolidations into highly profitable models (such as all-electric injection molding machines) ◆ Reduce excess production capacity and enhance global responsiveness to supply and demand fluctuations ◆ Expand sales by developing differentiated products (such as high-temperature ion implanters)
Logistics & Construction	7.6%	7.0%	8.0%	◆ Securing orders and sales ◆ Improving the revenue of the construction machinery business ◆ Reducing inventories	◆ Make a shift to provide products and services of higher value ◆ Increase the construction machinery market share in North America ◆ Build an optimum production system
Energy & Lifeline	2.6%	3.4%	4.0%	◆ Finishing the structural reorganization of the boiler business ◆ Securing orders and improving individual profits and losses	◆ Implement strict financial discipline ◆ Enhance after-sales services ◆ Make growth investments in the new business area

Key Points in the Revised MTMP26

Given the results for FY2024, the first year of the MTMP26 period, we revisited our plans, considering each segment's orders and changes in the business environment. Specifically, the plan sets out the following goals for FY2026: orders of ¥1,200.0 billion (initial plan: ¥1,280.0 billion), net sales of ¥1,173.0 billion (initial plan: ¥1,250.0 billion), operating profit of ¥80.0 billion (initial plan: ¥100.0 billion), and ROIC of 7.0% (initial plan: 8.0%).

This time, the correction made was not only to update the target figures but also to recreate strategic measures and add new measures intended to speed up the plan, such as restructuring the revenue base businesses, implementing business portfolio reformation, strengthening the management of return on investment, and improving return on capital. With the focus on reviving profitability, we are transitioning to a more realistic and workable plan.

MTMP26 initially set out a strategy to secure revenue in developed countries, namely, Japan, the US, and European states. However, China's economic slowdown and the souring US-China relationship have caused changes, most notably an adverse business environment for the automotive industry, especially in Germany, and a decelerated transition to electric vehicles. Given this climate, we have decided to set renewed goals and strategies with greater attention to structural changes to work on fundamental restructuring, rather than allowing our businesses to be at the mercy of economic fluctuations. Had the economic cycle been the major source of influence on us, there was hope that our performance would improve in FY2026. However, we have become keenly aware of the changes in market structures, which require actions different from those needed to handle an economic cycle. Considering the vulnerability of our flagship businesses, we will need to steadily achieve positive outcomes of the measures we are currently taking.

We did not make changes to the target financial KPIs based on the ideal state that we aim to reach in 2030 (i.e., ROIC and operating profit). With value creation and corporate value enhancement as the starting point, the plan sets out a policy of continuing to secure profit at a certain level and capital efficiency. This direction remains unchanged. These targets are also highly attainable when the measures that have been added to the plan are steadily implemented.

Conversely, we aim to achieve timely product launches and establish a revenue base that leverages our technological and service capabilities in the growth sectors that we have determined as the key investment areas (robotics/automation, semiconductors, advanced medical devices, and environment/energy). We will also put more effort into after-sales service that draws on our delivery records to develop the ability to stably generate cash. We will continue to evolve our management strategies and ensure the consistency of our financial management to reach our ideal state in 2030 while facing changes in the external environment.

Progress of Business Portfolio Reformation and Future Direction

When MTMP26 was published, we started rebuilding our businesses in certain fields, such as new vessels and defense equipment, which is the focus of the business portfolio reformation. The effort has been progressing as planned. Although some of the growth sectors, such as semiconductors and cryocoolers, have been affected by market conditions, we will advance new product development, the establishment of overseas bases, and linkage between models, among others. In doing so, we will maintain a solid growth path.

Overall, the reformation has been progressing as initially planned. Now, we can more clearly present what has not been disclosed so far.

The group of businesses undergoing strategic restructuring accounts for approximately 10% of our total revenue. This group includes both large-scale operations, such as boilers and steam turbines, as well as smaller businesses, which cannot be evaluated based solely on the scale of their earnings. We will need to make judgments from all angles, considering the effects on business management. When exploring options that include withdrawal or sale, the use of an alliance can be a realistic option. We are currently in the stage of developing execution plans, and decisions are being made on when to start and other details. Here, speed is required as we act and make decisions.

We also plan to focus on revisiting businesses experiencing a profit slump because the sales they generate are massive and the effect of the slump on overall MTMP26 is enormous. For example, we are working to consolidate or discontinue our gear reducer models and negotiate prices for unprofitable projects. As for plastics machinery, a plan to cut approximately 40% of the models is in progress. We are also working on our businesses in Europe in accordance with the policies that were established beforehand. Moreover, we intend to leverage our automation and remote control technologies to add greater value to the businesses that comprise our stable revenue base, such as cranes and water/wastewater treatment, thereby improving profitability.

These efforts toward business portfolio reformation will continue to be interlocked with an ROIC-based management approach. We plan to strategically pursue reformation with capital efficiency and market growth potential in mind. We will move ahead with improvement measures that are planned according to the characteristics of each business, which include declining profitability currently experienced by the hydraulic excavator business due to the fierce competitive environment and the gear reducer and plastics machinery businesses facing lower-than-average ROIC.
(▶ P22, "Business Portfolio Reformation")

Effectiveness of Cash Allocation and Future Policies for the Balance Sheet

The Company is working to boost its ability to generate cash by linking its income statement and balance sheet forecasts to operating cash flow. However, we deliberately raised inventory levels during and after the COVID-19 pandemic to reduce lead time. This led to cash outflows from working capital of ¥45.4 billion in FY2023 and of ¥53.7 billion in FY2024. Currently, business divisions set specific targets for capital efficiency, and the Head Office actively supports their efforts, thereby establishing an integrated company-wide framework for improvement. The immediate challenge we must meet for our capital policy is improving our ability to generate cash by cutting surplus inventories and trade receivables. We are also reviewing manufacturing costs, as we aim to develop an efficient production system capable of flexibly adapting to change in demand. Operating cash flow for FY2024 (before R&D expenses deduction) was ¥46.5 billion, and we aim to achieve a total of ¥280.0 billion by adding ¥233.5 billion over the 2 years from FY2025 and FY2026.

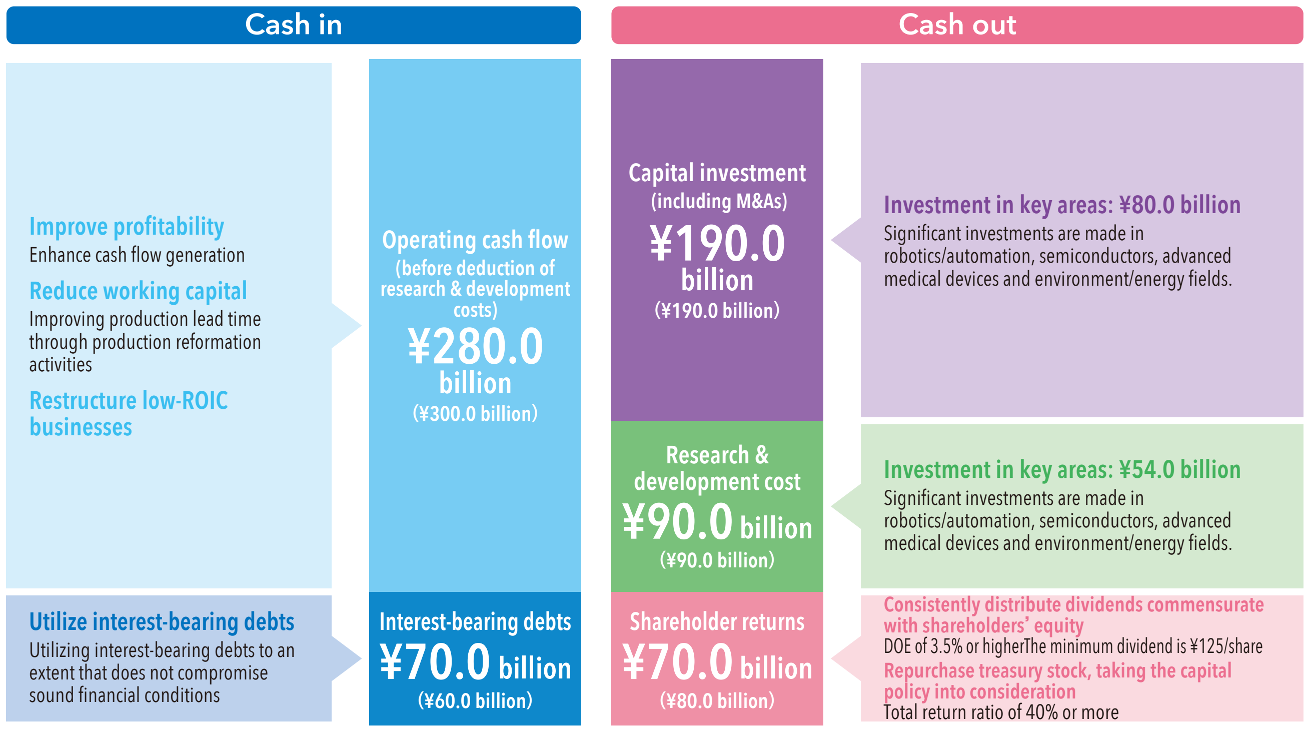
MTMP26 sets out a capital investment plan (including M&A) totaling ¥190.0 billion as part of cash outflow. Approximately ¥80.0 billion of the amount is to be allocated to key investment areas, namely, robotics/automation, semiconductors, advanced medical devices, and environment/energy fields. We have also been investing in R&D facilities and overseas bases, prioritizing strengthening development and production capabilities in regions close to our customers. Given that the semiconductor market has been recovering at a slower pace than expected, among other actions, we try to be flexible by reconsidering when to make some of investments. We also regard our corporate strategies for material issues of sustainability as part of our efforts toward the ideal state in 2030.

When making these investment decisions, we pay attention to ROIC and the internal rate of return to assess our investments in terms of capital efficiency and return. We do not have a hurdle rate to apply to all our investments; however, we maintain that the minimum rate must be above the WACC and each decision must be made according to the characteristics of the individual business. When we make a decision on a fixed asset investment, we examine whether the assets are worth owning or not, balancing the increase in fixed costs against benefits. Although payback periods vary among investments, we generally expect approximately 7 years.

Net assets have increased since the yen weakened at the beginning of MTMP23 (FY2021). The current equity ratio is 51%; however, considering the effect of currency fluctuations, we estimate it to be approximately 43% in real terms. This is also a reasonable level in light of maintaining sound financial conditions. Therefore, we have decided that dramatically reducing net assets would not be the right move. That being said, we believe that it is acceptable to slightly lower the equity ratio (2–3 points) while considering the need to maintain our credit. As for returns to shareholders, we have established a dividend on equity (DOE) ratio of ≥ 3.5%, a minimum dividend of ¥125 per share, and a total return ratio of ≥ 40%. We work to ensure consistent payments of dividends commensurate with shareholders' equity and repurchase of treasury stock, considering the capital policy.

As for interest-bearing debt, there is more room for its effective use. However, given that the current revenue base is not stable enough, I am careful about its active use as a CFO. We plan to optimize our financial balance by turning to leverage when we have a strong enough revenue base that will enable us to reliably earn good profit in the future. At present, I am convinced that it is not time for that.

■ Cash Allocation



*Figures in parentheses represent those under the initial plan (as of Feb. 2024)

Efforts to Improve PBR

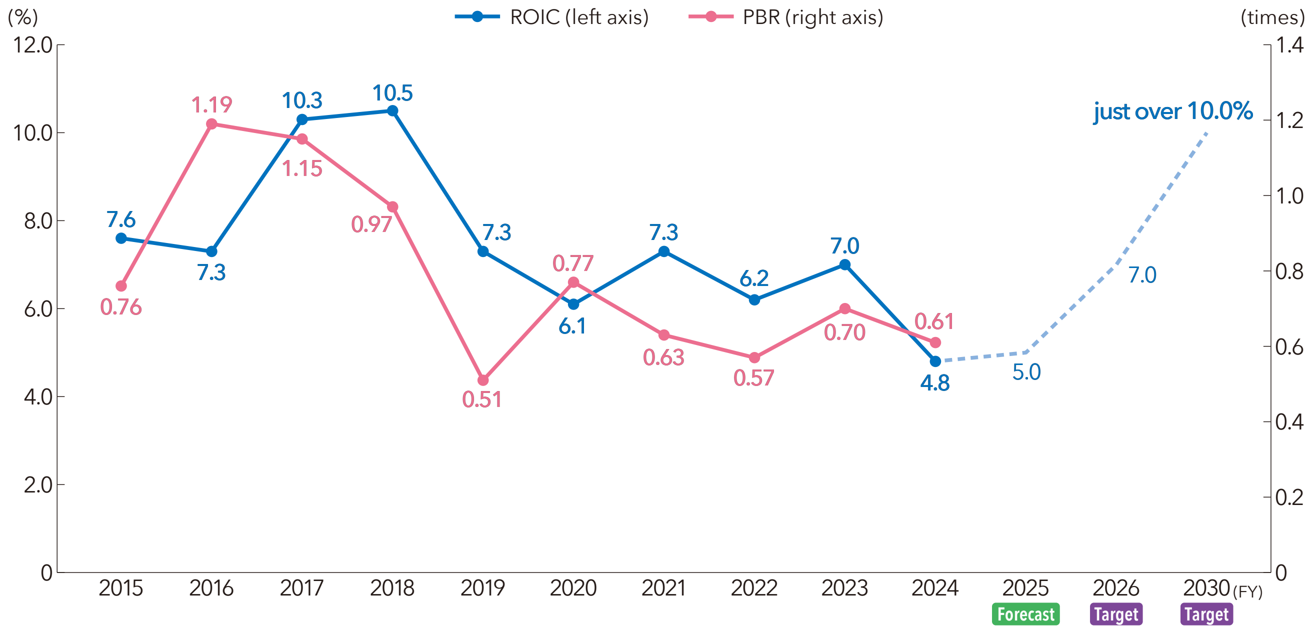
One of the Company's primary goals is to achieve a PBR of 1 as soon as possible. To this end, we must steadily improve earnings per share, that is, our earnings results. At this point, our priority target is an operating profit of approximately ¥130.0 billion (at least 10% ROIC), which is a goal for FY2030, as the prerequisite to attain the PBR of 1.

Additionally, we should not only watch net assets that constitute the denominator to calculate the PBR but also improve the evaluation of the numerator, that is, the price-earnings ratio (PER). We have made growth investments and clearly presented our growth scenario to capital markets as our traditional means of raising the PER. However, with the current profitability hovering low, improving PER is not an easy task. We first aim to recover the revenue level from the current state and accurately convey our medium- to long-term growth strategies to raise our PER, thereby achieving the PBR of 1 as soon as possible. Increasing our return on equity and publishing information that corroborates our growth potential are vital.

In nonfinancial areas, we also need to devise a method for correctly conveying the value of our intangible assets, including human capital and intellectual property. We believe that the key to raising investors' hopes for our growth is to clearly present our competitive advantage in the intellectual property field, as well as technological strengths in the focus areas, including decarbonization and automation, in connection with our product and business capabilities. As an approach to improving our PER, we plan to make these intangible assets more visible to garner greater reputations from the markets.

Total shareholder return reflects the stock price and returns to shareholders, and we regard it as a key indicator. We will continue our financial and nonfinancial efforts to enhance our corporate value. We are committed to steadily advancing the public's understanding of the SHI Group and earning a higher valuation through dialogues with capital markets.

■ Our ROIC and PBR Over the Years



Intellectual Capital

Message from the General Manager of Corporate Technology Management Group

By leveraging my experience in developing a wide range of products, I will lead the Group to achieve 350 billion yen in net sales through Long-term strategic products that are both profitable and socially impactful.

Director and Executive Vice President
General Manager of Corporate Technology Management Group
Toshihiko Chijiiwa

〈Key Points〉

- We aim to achieve 350 billion yen in net sales through Long-term strategic products.
- We develop solutions that address our material sustainability issues.

Professional Background, Role, and Mission

When I joined Sumitomo Heavy Industries, I was first assigned to the System Research Center, the earlier incarnation of the Technology Research Center today. I was advised by the General Manager at the time to broaden my perspective beyond research, in order to become a top-level engineer recognized across all business divisions. I worked closely with members of the development team to convert a conventional hydraulic-driven injection molding machine to an electric model, resulting in a successful product commercialization. Prior to becoming General Manager of the Technology Research Center, I engaged in research and development with various business divisions, primarily focusing on products related to power control, including sensorless inverters, laser annealing equipment for liquid crystal, and hybrid construction machinery and cranes.

This period coincided with the emergence of the so-called VUCA era—marked by volatility, uncertainty, complexity, and ambiguity. While development themes based on conventional technologies were still common, we made a strategic decision to pursue new products suited to the new era. Accordingly, we launched the development project titled "vision for Long-term strategic products".

Anticipating the social environment of 2030, we used a backcasting approach to identify development themes based on future customer needs and the technologies required to meet them. We have since begun working on these themes.

We initially identified two priority technological fields for focused development: "environment/energy" and "robotics/automation" With the addition of "semiconductors" and "advanced medical equipment" we currently have four key areas of investment.

My mission is to achieve 350 billion yen in net sales by 2035 through "products for the next decade," developed in collaboration with our segments, business divisions, and external partners.

Introduction to the Technology Research Center and Human Resource Development

The Technology Research Center is home to several hundred researchers across a wide range of fields. They collaborate to develop market-ready products and conduct research that contributes to the company's profitability. Serving as our central hub for research and development, the Technology Research Center established "Cs'-Lab+" in Yokohama in April 2025 and also operates branch offices at several of our production sites to facilitate collaboration with business divisions.

Based on the concept of a "Innovative space," "Cs'-Lab+" is equipped with various environments designed to foster active communication among employees.

At the entrance, a gallery presents our core technologies, aiming to inspire emergence and co-creation with internal and external stakeholders.

As part of its human resource development efforts, the Technology Research Center provides opportunities to learn advanced technologies. These include proprietary technical training, joint technology presentations with business divisions, and overseas research programs that send engineers to universities in Japan, the United States, Germany, and other countries.

Inside Cs'-Lab+

Anticipated New Products

We have developed a roadmap aligned with market trends and technological advancements. We have also been steadily creating new products.We invested 64 billion yen in research and development over the three-year period covered by the Medium-Term Management Plan 2023.Given our increased focus on key investment areas, we plan to invest 90 billion yen over the three-year period of the Medium-Term Management Plan 2026, of which 54 billion yen will be allocated to those key areas.

In the field of "environment/energy," we have established a demonstration plant for Liquid Air Energy Storage (LAES) on the premises of Hiroshima Gas Co., Ltd.. At this plant, electricity generated from renewable energy is stored for use when needed. The facility comes operational in FY2025. At The Chugoku Electric Power Co., Inc.'s Hofu Biomass Power Station, the BECCS (bioenergy with carbon dioxide capture and storage) project is in progress. Furthermore, we are actively pursuing the development of a range of green technologies, including SAF(sustainable aviation fuel) and methanation.

In the field of "robotics/automation," we are developing wall-climbing robots equipped with magnetic wheels. These robots can adhere to and move across steel walls. They are expected to be used for inspections of large-scale structures such as steelworks, chemical plants, and vessels.

In the field of "advanced medical equipment," we are conducting research on cancer treatment using a proton therapy system equipped with superconducting cyclotron, which delivers the world's most powerful beam.

Moreover, for the first time in the world, BNCT (boron neutron capture therapy) — a treatment that destroys cancer cells through nuclear reactions between boron and neutrons — has been covered by Japan's national health insurance. We are conducting research on utilizing this equipment for the treatment of intractable pancreatic cancer.

We envision that our products developed from our "vision for Long-term strategic products." will be put into practical use throughout society.

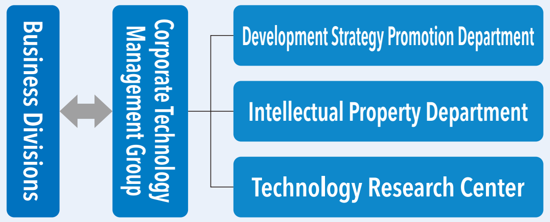
Relation to the Material Issues of Sustainability

Among the seven material sustainability issues that SHI Group focuses on, reducing environmental burdens and creating better ways to live and work are linked to the key investment areas "environment/energy" and "robotics/automation." We plan to conduct quantitative evaluations of our efforts to reduce environmental burdens—through improved product life cycles, lower CO_2 emissions, and the development of environmentally friendly products, services, and manufacturing practices. For example, we quantify the CO_2 reductions achieved in the production of our hydraulic excavators and various actuators to visualize the impact of our initiatives.

Collaborative Framework for Intellectual Capital

The Corporate Technology Management Group and business divisions work together on integrated activities to develop profitable new products. The Corporate Technology Management Group consists of three entities: the Development Strategy Promotion Department, Intellectual Property Department, and the Technology Research Center. The Technology Research Center collaborates with business divisions on product development for commercialization and business launches, while also taking the lead in elemental and fundamental technology development. The Corporate Technology Management Group collaborates closely with the business divisions through functionally differentiated organizational units.

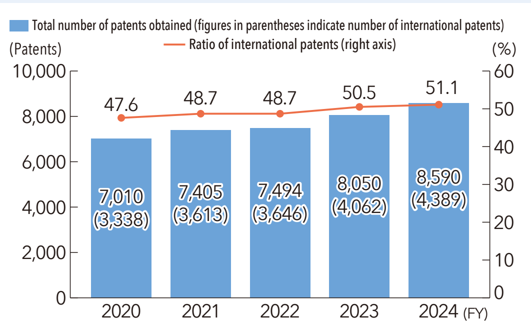
■ Collaborative Framework for Corporate Technology Management Group and Business Divisions



Intellectual Property Strategy and Number of Patents Obtained

The SHI Group appoints a Chief Intellectual Property Officer (CIPO) in each business division to drive intellectual property activities aligned with business strategies. The Intellectual Property Management organizes Review Board and CIPO meetings to share expertise and insights across business divisions, promoting closer collaboration within the Group. The department actively protects our key differentiating technologies and prior art—areas in which we have strong capabilities—through intellectual property rights. It also conducts IP landscaping* to identify opportunities for new businesses and strategic partnerships, among other activities. We are also working to increase the proportion of our international patents in key markets to secure competitive advantages in our global operations.

■ Numbers of Patents Obtained



*An approach that leverages both intellectual and non-intellectual property data to inform strategic business and management decisions.

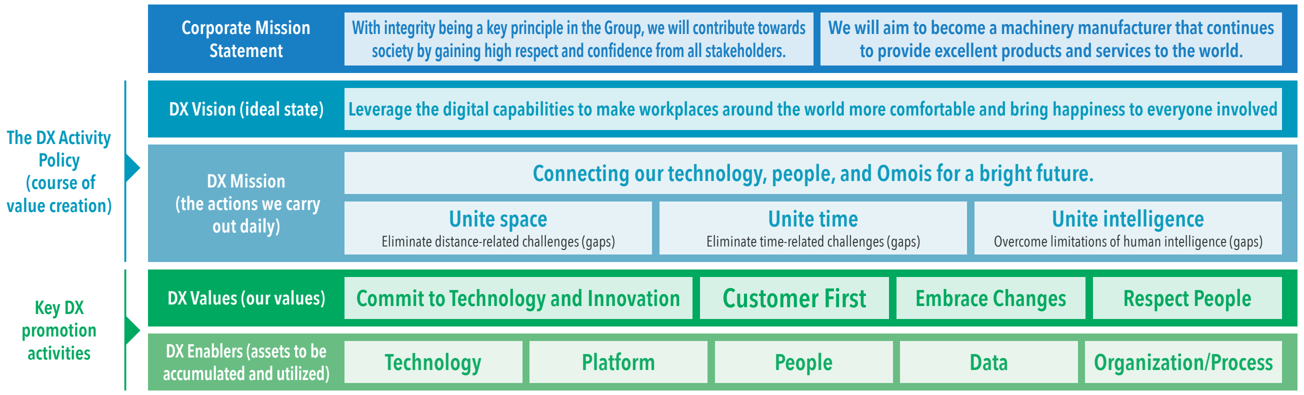
DX Strategy

DX Grand Design

Utilization of digital technologies and promotion of digital transformation (DX) are key strategic priorities of the Sumitomo Heavy Industries (SHI) Group. As a long-term initiative to advance DX, we formulated the SHI Group's DX Grand Design, which was announced in January 2023. (https://www.shi.co.jp/info/2023/6kgpsq000000lsn6.html; in Japanese only)

Our DX Vision (ideal state) is to "leverage the digital capabilities to make workplaces around the world more comfortable and bring happiness to everyone involved." Our DX Mission (the actions we carry out daily) is expressed as "Connecting our technology, people, and Omois for a bright future," a symbolic phrase that represents our desire and effort to bridge "gaps" such as the "division" of time and space or the "limits" of intelligence. This is achieved by "connecting" products, processes, and people "through data and information" using various digital technologies. We also view DX as an evolving effort across the Group, supported by the formation and accumulation of various forms of capital and assets, which we refer to as DX Values and DX Enablers.

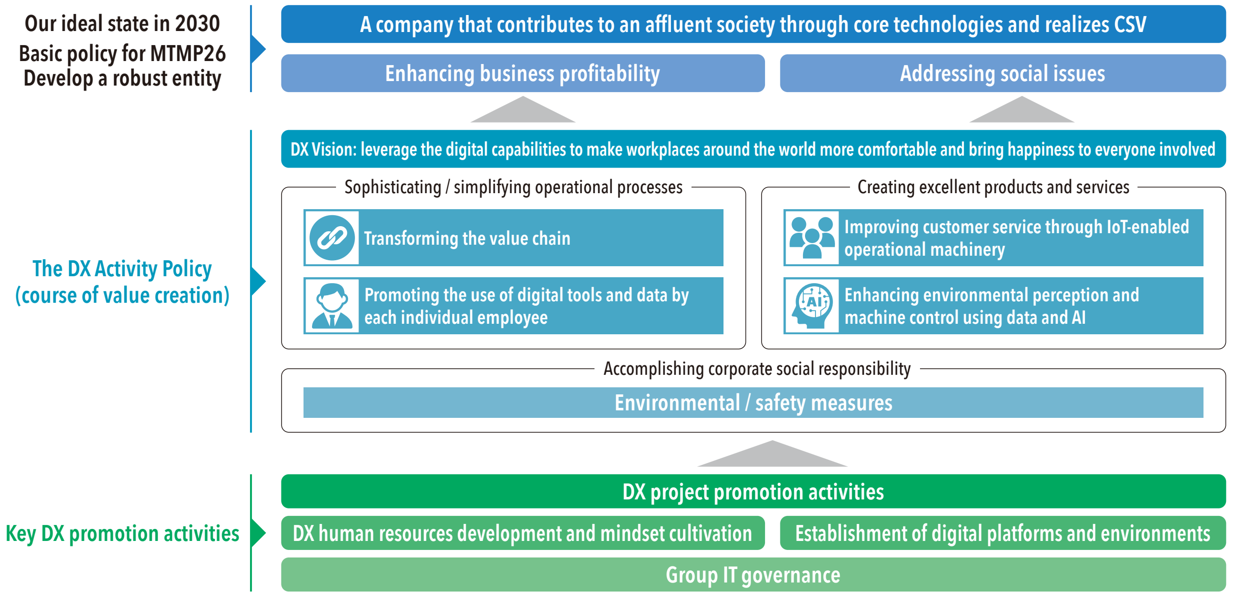
SHI Group's DX Grand Design



DX Strategy

To realize the "building a robust business structure," our ideal state in 2030 and the basic policy of the Medium-Term Management Plan 2026 (MTMP26), we have formulated a DX strategy aligned with the DX Grand Design. The DX Activity Policy within this strategy reflect to the DX Vision and DX Mission outlined in the DX Grand Design, while key DX promotion activities drive the formation and accumulation of the DX values and DX enablers.

SHI Group's DX Strategy



Overview of the Initiatives for the DX Strategy

To achieve the three focus areas outlined in the DX Activity Policy (Sophisticating/simplifying operational processes, creating excellent products and services, and accomplishing corporate social responsibility) and the four key DX promotion activities (Group IT governance, DX human resources development and mindset cultivation, establishment of digital platforms and environments, and DX project promotion activities), we have established concrete project themes and KPIs to strengthen related initiatives.

Overview of the Initiatives for the DX Strategy

Category	Item	Particulars of the DX Guidelines	Descriptions	Examples, supplementary explanations, etc.
The DX Activity Policy	Sophisticating / simplifying operational processes	• Transforming the value chain • Promoting the use of digital tools and data by each individual employee	Digital initiatives to deliver quality products and services promptly and at reasonable prices	• Transforming the engineering chain • Making the most of Microsoft 365, utilizing BI tools
	Creating excellent products and services	• Improving customer service through IoT-enabled operational machinery • Enhancing environmental perception and machine control using data and AI	Digital initiatives to deliver excellent products and services through data collection, accumulation, analysis, and utilization	• Developing products and services utilizing big data, IoT, and AI
	Accomplishing corporate social responsibility	• Environmental/ safety measures	Digital initiatives required of manufacturing businesses for environmental and safety measures	• Reducing carbon footprints, strengthening security measures
Key DX promotion activities	Group IT governance	—	Structured initiatives to promote IT / DX-oriented management across the corporate group	• Building and implementing IT / DX governance and management systems through collaboration among management, business and IT divisions
	DX human resources development and mindset cultivation	—	Encouraging employees to take ownership in utilizing digital technology and DX, develop skills, and act proactively	• Enhancing training programs (Group-wide DX literacy training, SHI Open College, specialized technical education, etc.) • Mutual learning through the company portal and Group community
	Establishment of digital platforms and environments	—	Initiatives to develop digital platforms and usage environments	• SHICuTe (IoT promotion platform)* • SHI Datalink (data platform) • Microsoft 365 (information sharing platform)
	DX project promotion activities	—	Initiative to advance business DX projects through cross-departmental collaboration	• DX project support activities • IoT promotion activities

* SHICuTe is a registered trademark of Sumitomo Heavy Industries, Ltd.

Concrete Outcomes and Future Challenges

We have achieved tangible results in "Creating excellent products and services," a core focus of the DX Activity Policy. Steady progress has also been made in DX values and DX enablers through "Key DX promotion activities." Still, outcomes that truly embody "X (Transformation)" have yet to be realized, highlighting the need for stronger efforts in DX project promotion. Looking ahead, the SHI Group will move forward as one under the DX Grand Design to drive corporate transformation through digital technology.

Example Outcomes of Product / Service DX

SHI DX https://www.shi.co.jp/company/DX/index.html (in Japanese only)

Category	The DX Activity Policy	Segment	Mechatronics	Industrial Machinery	Logistics & Construction			Energy & Lifelines	
Services	Improving customer service through IoT-enabled operational machinery	Supported products	Gear reducers	Injection molding machines	Materials handling systems	Hydraulic excavators	Forklifts	CFB boilers	Ships
		Product name	Condition monitoring system solutions	i-Connect*	SIRMS*	G@Nav*	SNLink	IZANA*	AVEDAS*
Products	Enhancing environmental perception and machine control using data and AI	Supported products	Drive control systems	Laser annealing	Rubber tired gantry cranes (RTGs)	Crawler cranes	Hydraulic excavators	—	—
		Product name	High speed data logger unit GW 011	Real Time Process Monitoring System	Remotely controlled and automated RTG (ARTG)	Standing Appearance Inspection C-SAI* Surround view monitoring system ARGUS*	Surrounding monitoring device with notification function FVM2* FVM with collision impact reduction system FVM2+* and FVM3*	—	—

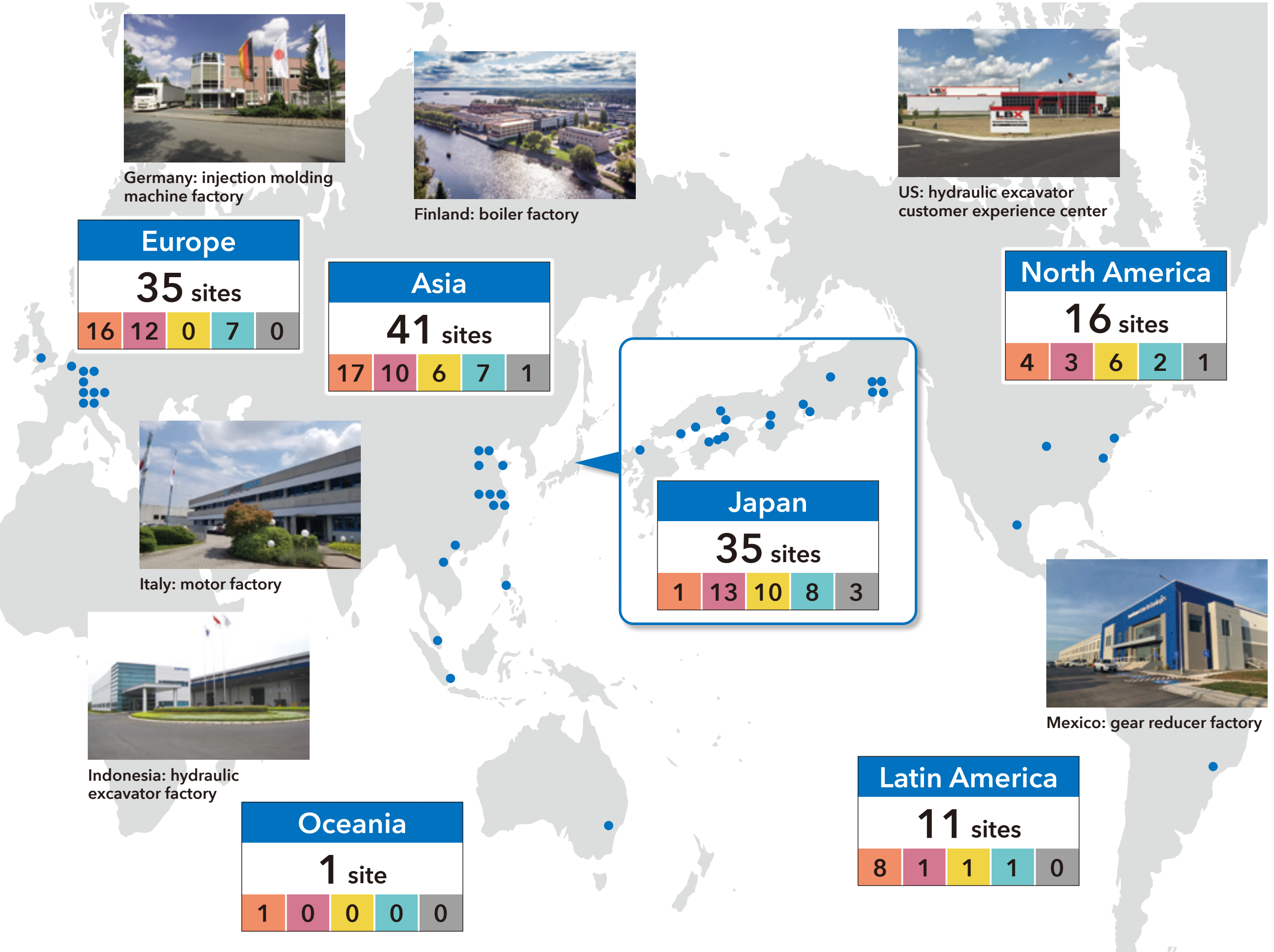
* i-Connect is a registered trademark of Sumitomo Heavy Industries, Ltd. SIRMS is a registered trademark of Sumitomo Heavy Industries Material Handling Systems Co., Ltd. C-SAI is a registered trademark of Sumitomo Heavy Industries Construction Cranes Co., Ltd. ARGUS is a registered trademark of Sumitomo Heavy Industries Construction Cranes Co., Ltd. G@Nav is a registered trademark of Sumitomo Construction Machinery Co., Ltd. FVM is a registered trademark of Sumitomo Heavy Industries, Ltd. IZANA is a registered trademark of Sumitomo Heavy Industries, Ltd. AVEDAS is a registered trademark of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Manufacturing Capital

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

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 sites 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.

Global Networks of Production and Sales Bases



Total 139 bases worldwide | Key manufacturing subsidiaries in Japan: 18 | Key manufacturing subsidiaries overseas: 27

[Legend] ··· Mechatronics ··· Industrial Machinery ··· Logistics & Construction ··· Energy & Lifelines ··· Other

Focused Investment in Businesses We Seek to Expand

Under the MTMP26, which began in fiscal 2024, we plan to invest a total of ¥190.0 billion. This plan will focus on key investment areas such as "robotics and automation," "semiconductor," "advanced medical devices," and "environmental and energy." We will commit ¥80.0 billion over three years to these priority fields.

* Actual figures are based on cash flow, while forecasts are based on budgeted figures.

Cs'-Lab+, our new technology research and emergence center that opened in April 2025

Ensuring Product Safety and Product Quality

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 of sustainability in order to "Ensure high product quality" across the SHI Group. We are making every effort to ensure "Product safety" 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 to obtain ISO 9001 and other quality management system* (QMS) certifications. (As of the end of 2024, approximately 96% of our Group's major manufacturing divisions have acquired these certifications.) The Corporate Quality Group, which oversees quality across the Group, conducts annual QMS audits of each operating division. These are carried out as internal audits alongside those conducted independently by each division. 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.

Manufacturing site inspection by the President

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

Setting Up an Employee Training System

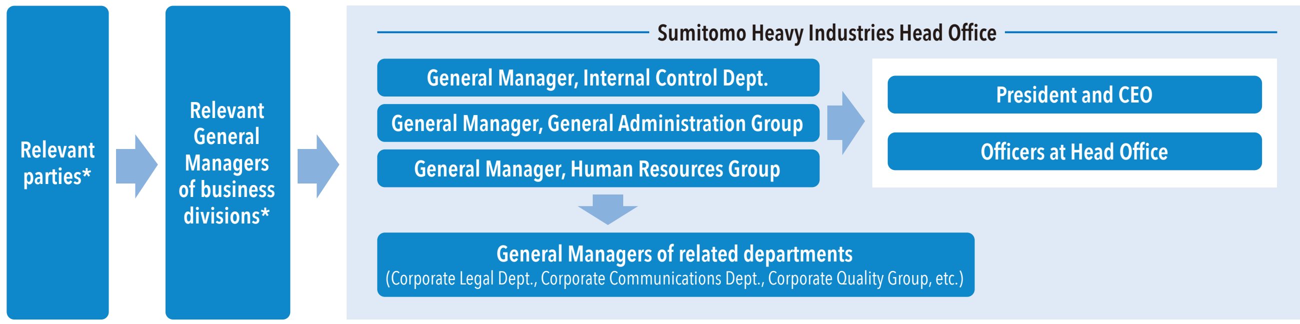
The SHI Group considers the assurance of product safety and quality to be a key priority that all employees should be deeply conscious of. In general, quality control training will be conducted for all new employees (including new graduates and career hires) when they join the company. We have also introduced the Six Sigma, an internationally recognized process improvement approach, as our shared quality reform framework, and we conduct practical training every year to raise awareness of this concept throughout our Group. In fiscal 2024, 79 employees have completed the Six Sigma training 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 training 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), and subsidiaries and affiliates (including Japanese and overseas subsidiaries and affiliates) over which the Head Office has jurisdiction.

Highlights of Our Segments

The Sumitomo Heavy Industries Group has four flagship segments. To reach our ideal state in 2030, and to achieve the goals set in MTMP26, we are working to boost the profitability of these segments through business portfolio reformation, among other actions.

Other

Net sales ¥6.2 billion / Operating profit ¥2.0 billion (operating profit ratio -%)

Key Businesses
- Real estate, Software, etc.

Mechatronics

Key Businesses
- Power transmission & controls
- Cryocoolers
- Precision machinery & control equipment
- Industrial control systems

Main Products
- Gear reducers
- Motors
- Inverters
- Cryocoolers
- Precision positioning equipment

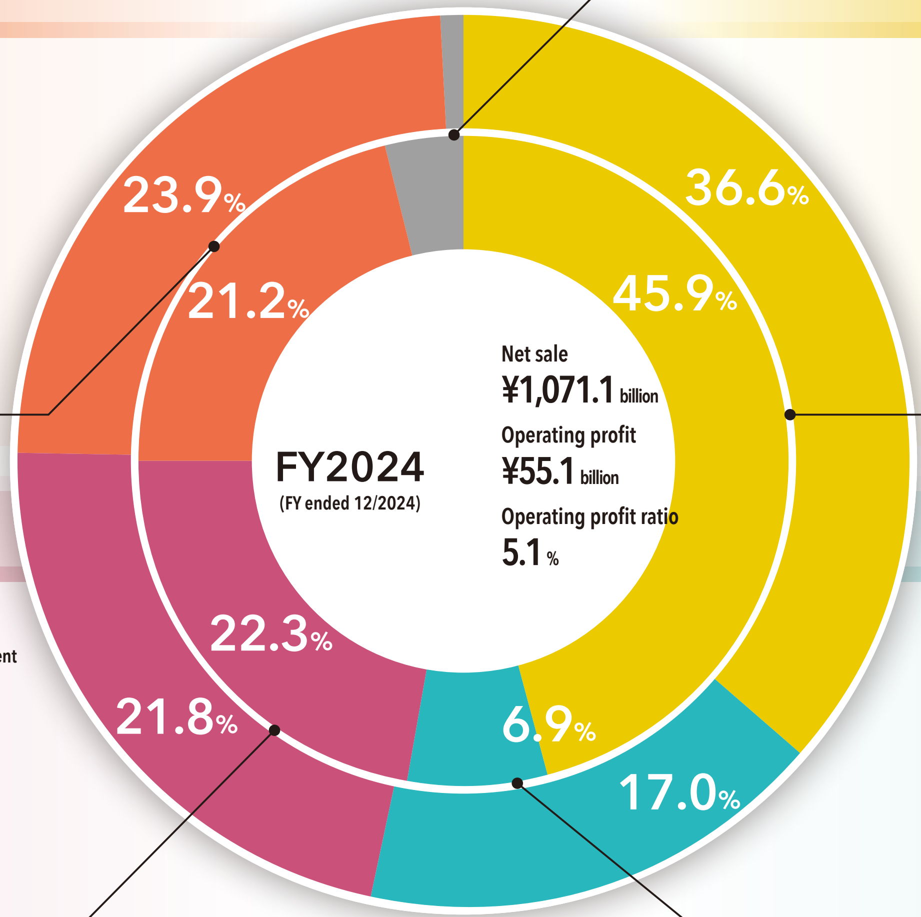
Net sales ¥256.4 billion / Operating profit ¥11.7 billion (operating profit ratio 4.6%)

Logistics & Construction

Key Businesses
- Construction machinery
- Material handling systems

Main Products
- Hydraulic excavators
- Road machinery
- Mobile cranes
- Industrial crane
- Logistics system
- Forklifts

Net sales ¥392.5 billion / Operating profit ¥25.3 billion (operating profit ratio 6.4%)



The outer circle shows net sales ratios
The inner circle shows operating profit ratios

Industrial Machinery

Key Businesses
- Plastics machinery
- Semiconductor Production Equipment
- Laser annealing equipment
- Medical equipment
- Industrial equipment & forging presses
- Industrial machinery / Dust collectors / Precision air conditioning
- Precision grinders & coolant equipment

Main Products
- Plastics machinery
- Precision parts
- Semiconductor production equipment
- Laser annealing equipment
- Medical / Advanced / Cyclotron equipment
- Forging presses
- Industrial equipment
- Environmental equipment
- Machine tools
- Defense equipment

Net sales ¥234.0 billion / Operating profit ¥12.3 billion (operating profit ratio 5.2%)

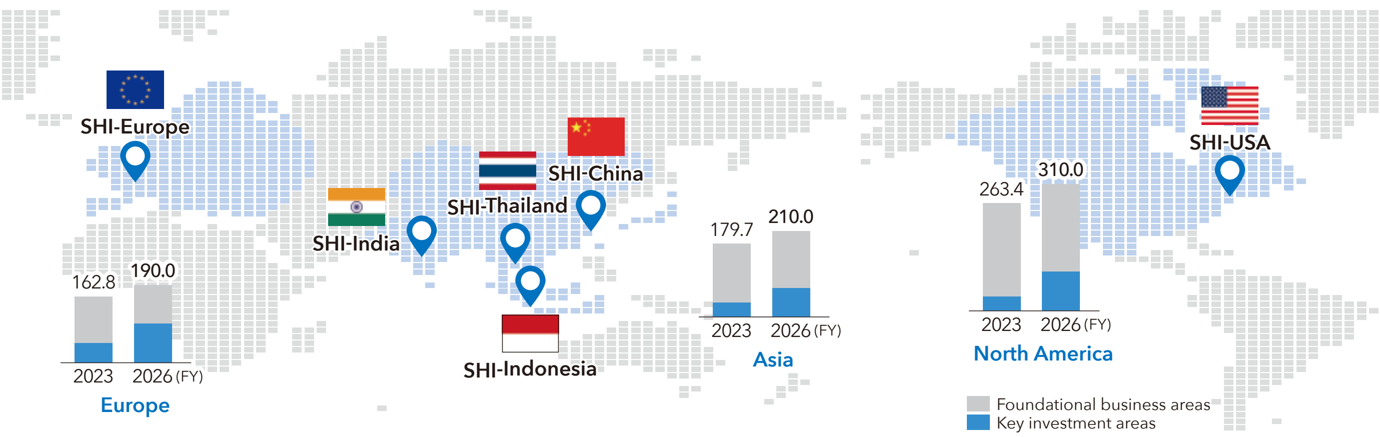
Energy & Lifeline

Key Businesses
- Energy plants
- Water treatment plants
- Turbines & pumps
- Marine engineering

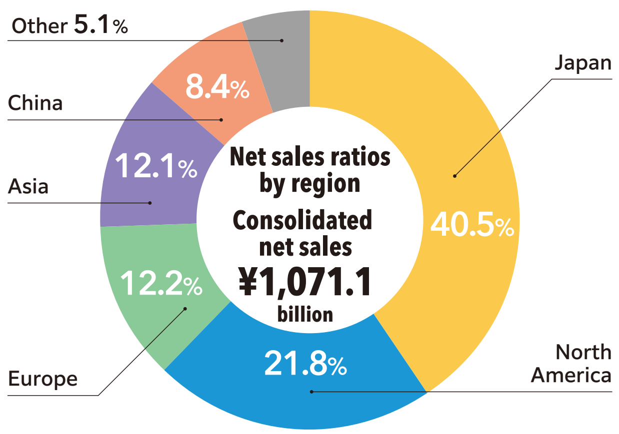
Main Products
- Energy and environment equipment
- Water treatment systems
- Turbines & Pumps
- Pressure vessels & Chemical instruments
- Food processing machinery
- Marine engineering
- Foundational structures for offshore wind power generation, etc.

Net sales ¥182.0 billion / Operating profit ¥3.8 billion (operating profit ratio 2.1%)

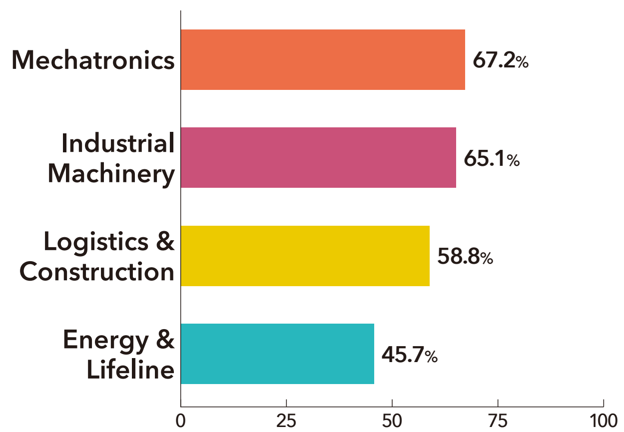
Global Operations (Regional management company and net sales by region (unit: billions of yen))



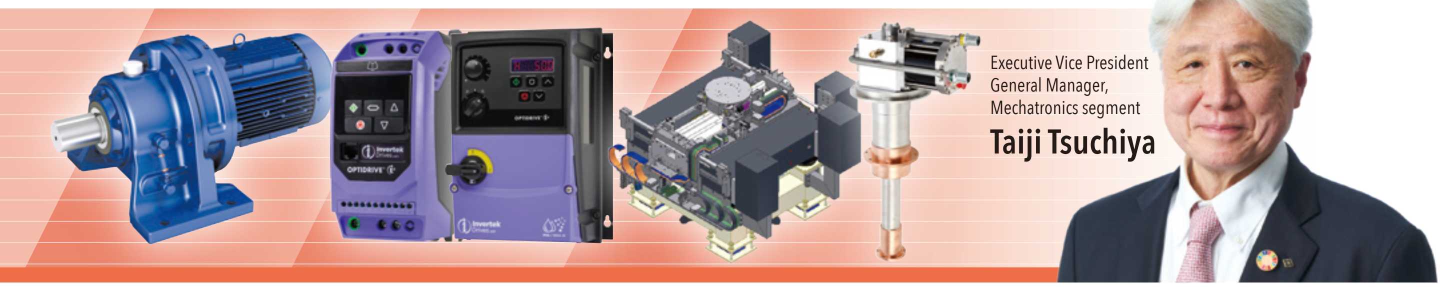
Net Sales Ratios by Region (FY2024)



Overseas Sales Ratios by Segment



Mechatronics Segment



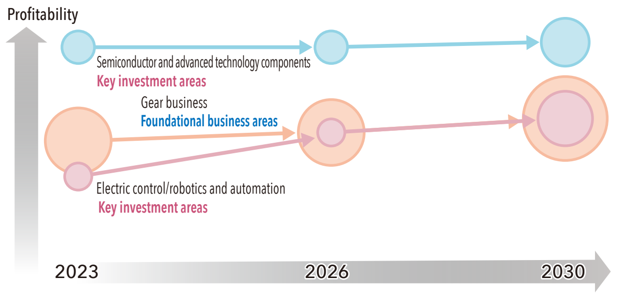
Executive Vice President
General Manager,
Mechatronics segment
Taiji Tsuchiya

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 motor control, robotics, and semiconductors, while also strengthening the profitability of our traditional gear business.

Business Portfolio Image



Key investment areas

✓ Electronic control/robotics and automation
- Expansion of existing businesses and improvement of profitability by acquiring Lafert and Invertek
- Expansion of the solution business through collaboration with the gear business in target markets, including transportation/logistics and HVAC+R (heating, ventilation, air-conditioning, and refrigeration)

✓ Semiconductor and advanced technology components
- Strengthening competitiveness in expanding markets / ● Global expansion of precision positioning equipment

Foundational business areas

✓ Gear business
- Expanding the installed base business
- Price revisions and consolidation of models to improve profitability

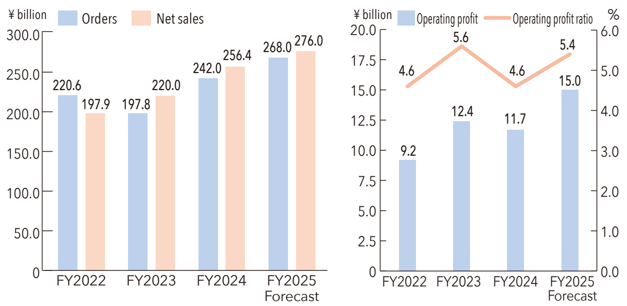
FY2024 Results and FY2025 Outlook

In FY2024, demand for small- and medium-sized gear reducers remained strong in Japan, but demand for gear reducers and motors remained sluggish in Europe and China. In addition, demand for semiconductor-related products decreased. As a result, orders and net sales came to ¥242.0 billion and ¥256.4 billion, respectively. Operating profit fell to ¥11.7 billion as sales declined, and the operating profit ratio was 4.6%.

In fiscal 2025, we expect orders will increase year on year to ¥268.0 billion, driven by a market recovery in Japan and Europe, as well as a recovery in demand for semiconductor-related product. We expect net sales of ¥276.0 billion and operating profit of ¥15.0 billion.

Historical Orders, Net Sales, and Operating Profit

Note: Figures for FY2022 and FY2023 are before the reconfiguration of our businesses.
(▶P25, "Reconfiguration of our businesses")



Basic Strategies for MTMP26

Basic Strategies for the Medium-Term Management Plan 2026

- Key investment areas: Expanding scale in growth and high-profit areas; strengthening sales expansion in target markets
- Foundational business area: Strengthening profitability and expanding services of gearmotor business

We aim to aggressively make growth investment in the key investment target areas of electronic control/robotics and automation (control systems, motion components, etc.) and semiconductors (cryocoolers/cryopumps, precision positioning equipment, etc.). In addition, we will strive to reform the profit structure and strengthen profitability of our foundational business areas of installed-base gearmotors and gearboxes by consolidating models and creating synergies between businesses, and aim to achieve our numerical targets.

FY2025 Earnings Forecasts and Numerical Targets of the MTMP

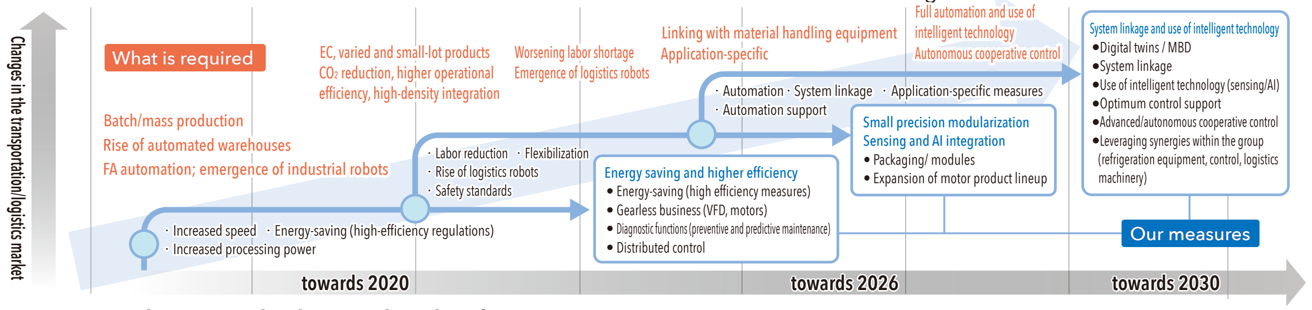
	FY2024	FY2025 Forecast	FY2026 Target
Orders (¥ billion)	242.0	268.0	295.0
Net Sales (¥ billion)	256.4	276.0	295.0
Operating Profit (¥ billion)	11.7	15.0	24.0
Operating Profit Ratio (%)	4.6	5.4	8.1
ROIC (%)	4.5	5.2	8.0

Business Strategies

In the electronic control/robotics and automation area, we will mainly target the transportation and logistics industry in which high demand is expected. In the semiconductor and advanced technology components area, we aim to leverage synergies within the segment to expand our business to major global customers.

● Electric control/robotics and automation

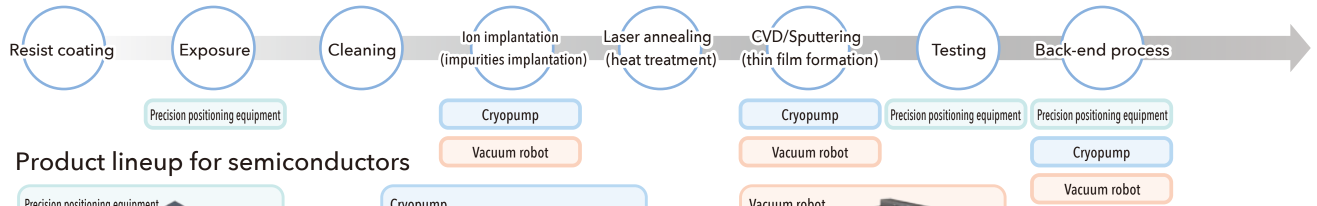
In the transportation and logistics market, which is one of the key markets for our gear reducer business, the required functions are growing more sophisticated as the times change. In response to this change, we aim to leverage our strengths in the area of electronic control/robotics and automation to take the measures as illustrated in the below diagram.



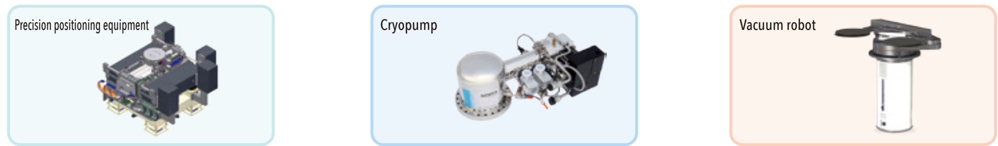
● Semiconductor and advanced technology components

We will globally pursue synergies in sales and services with precision positioning equipment, cryopumps, and vacuum robots. Specifically, we aim to enhance our global competitiveness and expand our business by building close relationships with customers and providing a variety of solutions, as well as by addressing needs in new cutting-edge fields, including generative AI and power semiconductors.

Advanced semiconductor production processes



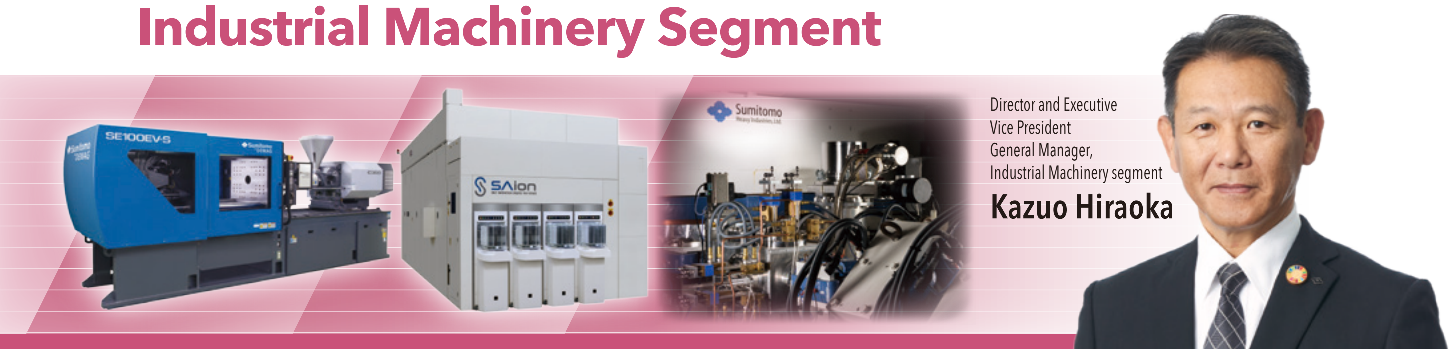
Product lineup for semiconductors



Business Opportunities and Risks in Key Investment and Foundational Business Areas

	Key investment areas		Foundational business areas
	Electronic control/robotics and automation	**Semiconductor and advanced technology components**	**Gear business**
Strengths	● Modular system suggestions leveraging a wide range of products ● Global sales network	● Strong trust from global leaders in semiconductors ● Advanced high-precision technologies ● Deep knowledge about customer applications	● Wide range of product lineups and high quality ● Customer base that spreads across industrial fields ● Global production/sales network
External environment / business opportunities	● Demand increasing for energy conservation and higher efficiency driven by energy prices and environmental regulations ● Increased demand for collaborative and service robots and AMRs, as a result of labor shortages and higher labor costs	● Demand increases in new areas, including generative AI and power semiconductors, and accompanying changes in demand for each device ● Energy conservation	● Shift in market demand from component sales to system provision ● Strong demand for maintenance and repair of aging facilities
	● Applications expanding for servo and high-efficiency motors ● Sales expansion to regions outside Europe	● Demand increasing for precision positioning equipment and vacuum robots, driven by acceleration of semiconductor miniaturization and three-dimensional packaging ● Demand increasing for energy- and helium-saving measures in medical systems	● Demand increasing for package modules and maintenance solutions ● Drop-in demand increasing, driven by increased end users in emerging markets
Risks / issues	● Loss of market entry opportunities due to development delays	● Loss of opportunities due to delays in taking actions to expand or strengthen global services and S/C ● S/C risk resulting from US tariff measures ● Supply constraints due to US-China export restrictions	● S/C risk resulting from US tariff measures ● Declining price competitiveness due to higher material prices
Measures to address key issues	● Acceleration of collaboration within the Group ● Expansion of sales areas ● Sales expansion targeting selected applications	● Strengthen development of next-generation models and utilize US assessment and development center ● Maintain competitive edge by expanding sales of energy-efficient refrigeration systems and accelerated cooling solutions that reduce helium consumption.	● Strengthen profitability by consolidating models and revising pricing ● Strengthen production and supply capacity for each market ● Strengthen the installed base business

Industrial Machinery Segment

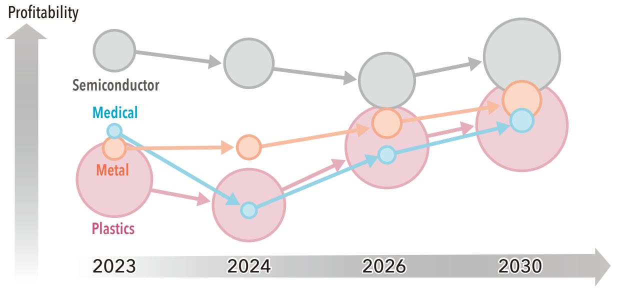


Ideal State in 2030

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 Portfolio Image



Key investment areas

✓Semiconductor-related

- Business expansion through increased production capacity to capture recovering customer demand and new equipment launches

✓Advanced medical devices

- Slow growth driven by stable acquisition of deals for proton therapy systems and BNCT (boron neutron capture therapy) systems, as well as strengthening of maintenance service business.

Foundational business areas

✓Plastics (plastics machinery)

- Strengthening revenue base through implementation of business structural reforms

✓Metals

- Expand profits through business integration and streamlining, and mass production of STAF (Steel Tube Air Forming: new plasticity forming)

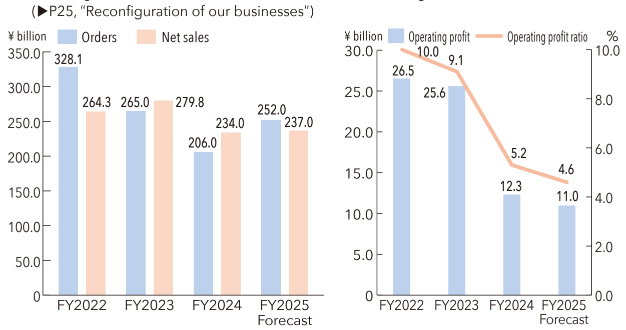
FY2024 Results and FY2025 Outlook

In FY2024, orders fell to ¥206.0 billion, affected by a slowdown in capital investment in Europe and sluggish spending on semiconductor equipment. Net sales resulted in ¥234.0 billion as order backlogs decreased especially in Europe. Operating profit came to ¥12.3 billion, with the decrease led by plastics machinery, and operating profit ratio was 5.2%.

For fiscal 2025, we expect orders to reach ¥252.0 billion, as we see a bottoming out of the European market and a recovery in the domestic market for plastics machinery, as well as a recovery in semiconductor and medical deals. While net sales are expected to increase slightly on year, we see a decrease in operating profit on year, dragged by a decrease in semiconductor-related sales.

Historical Orders, Net Sales, and Operating Profit

Note: Figures for FY2022 and FY2023 are before the reconfiguration of our businesses.
(▶P25, "Reconfiguration of our businesses")



Basic Strategies for MTMP26

Basic Strategies for the Medium-Term Management Plan 2026
● Key investment areas: Come out victorious in areas where we have a competitive advantage ● Foundational business areas: Implement structural reforms of plastics machinery business

We will implement investments to increase production capacity to drive growth and development-related investments to strengthen our competitiveness in semiconductor-related areas (ion implanters, laser annealing equipment, superconducting magnet for MCZ, etc.) and advanced medical devices (cancer treatment equipment, cancer diagnosis equipment, etc.), which we position as key investment areas. In the foundational business areas, we will work to rebuild our earning power by reviewing our product portfolio and addressing unprofitable models.

FY2025 Earnings Forecasts and Numerical Targets of the MTMP

	FY2024	FY2025 Forecast	FY2026 Target
Orders (¥ billion)	206.0	252.0	275.0
of which, Plastics Machinery	89.8	99.0	105.0
Net Sales (¥ billion)	234.0	237.0	275.0
of which, Plastics Machinery	92.5	95.0	105.0
Operating Profit (¥ billion)	12.3	11.0	22.0
Operating Profit Ratio (%)	5.3	4.6	8.0
ROIC (%)	5.2	4.4	8.5

Business Strategies

In the semiconductor business, we will work to expand business by developing new ion implanters, acquiring major European semiconductor customer channels through LASSE, which became part of our Group this fiscal year, and integrating the ion implanter and laser annealing equipment businesses.

In the advanced medical device business, we will work to increase our competitiveness by winning deals for proton therapy systems and BNCT systems, as well as expanding the range of applicable areas. We also aim to strengthen service businesses in each business segment to improve profitability.

● Semiconductors

Ion implanters for power semiconductors (SMIT*)

✓Complete high-temperature implantation technology

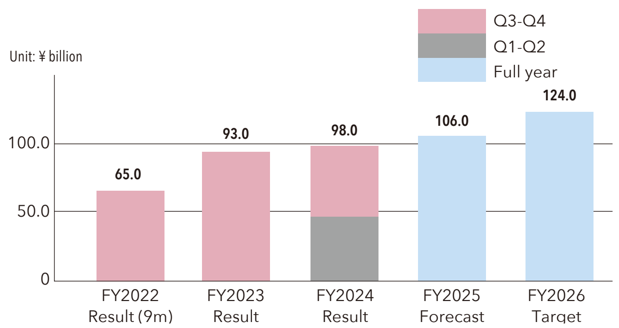
Next-generation ion implanters (SMIT)

✓Complete the development of equipment targeting memory market and carry out customer evaluation

Laser annealing equipment (LASSE)

✓Earn channels that connect us to major customers in the semiconductor business in Europe

● Total sales of semiconductor-related businesses (approximate)



● Advanced medical devices

Proton therapy systems

✓Make sure to win orders for next-generation proton therapy systems

BNCT systems

✓Deep-seated cancer application expansion

✓Expansion in US through collaboration with SHI-USA

● Services

Plastics machinery

✓Management of modification sales deals

✓Promotion of parts sales activities in Vietnam, Indonesia and China

Ion implanters (SMIT)

✓Establish service support structure in Asia

Advanced medical devices

✓Secure profits through overseas main unit sales expansion and maintenance deals

*Sumitomo Heavy Industries Ion Technology Co., Ltd.

Business Opportunities and Risks in Key Investment and Foundational Business Areas

	Key investment areas		Foundational business areas
	Semiconductor-related	Advanced medical devices	Plastics machinery
Strengths	● Applied technology capabilities that enable us to handle cutting-edge processes ● Flexible customer support service response ● Customer channels in which ion implantation and laser annealing businesses mutually reinforce	● Increased presence through the introduction of a next-generation proton therapy system ● Expanded scope of application to deep-seated cancers through higher-current BNCT systems	● Advanced technology that reduces molding defect rates and save energy ● Strong organizational capabilities for helping customers solve problems ● Model lineup that can meet diverse needs
External environment / business opportunities	● Semiconductor demand is driven by generative AI, but recovery remains slow in other markets, and customer capital spending is postponed. ● We expect a return to positive growth in the second half of 2025. ● China remains the largest market, there is a risk of blockage due to tariffs imposed by the US.	● Deal planning is thriving mainly in Japan and Asia, but there is a tendency to postpone projects due to soaring costs. ● BNCT systems continue to command high levels of interest, and standards and guidelines are being established both in Japan and overseas.	● Government stimulus measures led to demand recovery in the Chinese market, but demand remains sluggish in other regions. ● The European market suffers from prolonged slump in demand due to the continued shrinkage of the automotive market, and competition is intensifying with the entry of Asian electric motors.
	● Expansion of applicable models through the development of new materials and processes ● Increased demand for laser annealing driven by process advancement ● Process development with global top users	● Expansion of applicable disease sites in radiation therapy ● Further development of medical infrastructure in emerging countries and advancement of medical care in developed countries	● Increased demand for products that reduces weight of end products or contributes to achieving carbon neutrality ● Expansion of market opportunities due to progress in electrification
Risks / issues	● Continuation and acceleration of development investment in technological innovation in semiconductor processes ● Risk that recovery of the semiconductor market may take longer than expected	● Projects postponed or canceled due to soaring construction costs ● Emergence of rival products that use fixed gantries ● Early expansion of the scope of application (brain tumors, meningiomas, etc.)	● Impact of US reciprocal tariff policy on market conditions ● Intensifying price competition amid sluggish demand ● Shrinking European market and increasing entry by Asian molding machines
Measures to address key issues	● Strengthen competitiveness by developing differentiated products ● Achieve synergy through the integration of the ion implantation and laser annealing businesses ● Strengthen global expansion through channels owned by LASSE	● Implement expansion strategies for proton therapy systems (superconducting type) and BNCT systems (next-generation high-current type) ● Promote development efforts in the field of radiopharmaceutical therapy (internal treatment, etc.)	● Consolidate models and reform business processes ● Improve profitability by carrying out structural reforms of Demag

Logistics & Construction Segment

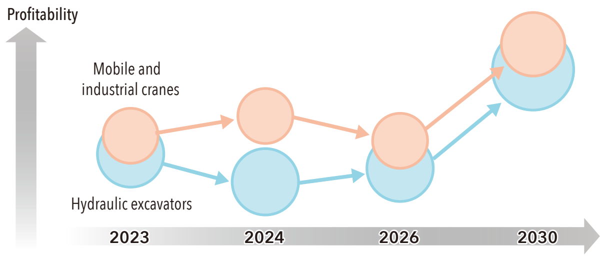
Senior Vice President
General Manager,
Logistics & Construction segment
Haruhiko Tsuzuki

Ideal State in 2030

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

We aim 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. As our strategies to realize our business plans, we focus on (1) development strategies in key investment areas, and (2) on sales and production strategies in our foundational business areas.

Business Portfolio Image



■Foundational business areas

✓Common
- Increase revenue in advanced countries
- Building an optimal global production system

✓Construction machinery (hydraulic excavators and mobile cranes)
- Differentiation and improved profitability through introduction of new models

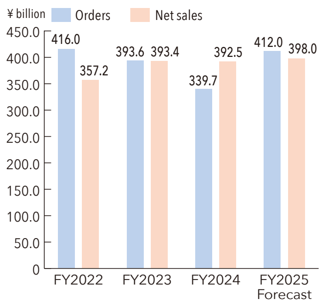
✓Logistics machinery (industrial cranes and logistics systems)
- Increase added value of services through DX

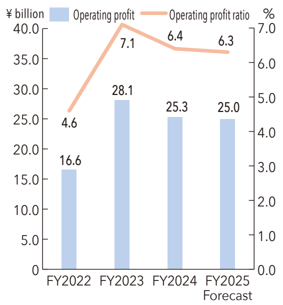
FY2024 Results and FY2025 Outlook

In FY2024, orders fell to ¥339.7 billion, as demand declined for hydraulic excavators especially in the US and Japanese markets. Net sales were down to ¥392.5 billion as orders decreased for hydraulic excavators, despite an increase for cranes due to order backlog. Operating profit resulted in ¥25.3 billion, and the operating profit ratio was 6.4%.

For FY2025, we expect orders to reach ¥412.0 billion, as we see a recovery in demand for hydraulic excavators in the US market and stable demand for both mobile and industrial cranes. Net sales are forecast to rise slightly from the previous fiscal year, but operating profit is expected to remain flat due to an impact from a shift in the product mix.

Historical Orders, Net Sales, and Operating Profit





Basic Strategies for MTMP26

Basic Strategies for the Medium-Term Management Plan 2026
- Key investment areas: Promote the development of advanced technologies, including electrification, remote control, automation, and DX, with an aim of helping solve social issues.
- Foundational business areas: Secure profits in developed markets of Japan, the United States, and Europe, and establish a global production system

In the robotics/automation fields, which are positioned as a key investment area, we will step up measures to provide high value-added products and services that take advantage of electrification, remote control/automation (control technology), and DX, which are our strengths in hydraulic excavators and cranes.

In addition, we are working to build an “optimal production system” that can flexibly respond to global demand fluctuations, taking advantage of our seven production bases in Japan and overseas.

FY2025 Earnings Forecasts and Numerical Targets of the MTMP

	FY2024	FY2025 Forecast	FY2026 Target
Orders (¥ billion)	339.7	412.0	435.0
of which, Hydraulic Excavators	163.8	232.0	260.0
Net Sales (¥ billion)	392.5	398.0	433.0
of which, Hydraulic Excavators	221.5	223.0	260.0
Operating Profit (¥ billion)	25.3	25.0	27.0
Operating Profit Ratio (%)	6.4	6.3	6.2
ROIC (%)	7.6	7.0	8.0

Business Strategies

In the robotics/automation fields, we developed a 13.5-ton electric excavator and exhibited a demonstration model at a trade show.

For remote and automated RTGs, we are working on differentiation development projects through automation and carbon neutrality.

For service fields, we aim to strengthen our business by providing high value-added services, including DX tools that use a Group-exclusive cloud to improve the productivity of large cranes.

● Robotics/automation

13.5-ton electric excavator

✓Following the 7.5-ton model that has been developed, we are developing a 13.5-ton model for launch in the near future (demonstration model exhibited at International Construction & Survey Productivity Improvement Expo (June 2025, Makuhari Messe)).

✓Responding to growing customer demand for carbon neutrality

ARTG: Automatic Rubber Tired Gantry crane

✓We are working on a product differentiation development project through automation and carbon neutrality, Automated products are being developed, including manned truck transfer.

13.5-ton electric excavator

Remote-controlled RTG

● Services

Large cranes

✓Large crane productivity improvement support tool using DX (Sumitomo Heavy Industries Group’s exclusive cloud: SHICuTe): Strengthen services by developing high added value using SIRMS

✓Significant increase in demand for modification due to labor shortage in the logistics industry

Business Opportunities and Risks in Key Investment and Foundational Business Areas

	Key investment areas	Foundational business areas	
	Robotics/automation	Construction machinery (hydraulic excavators and mobile cranes)	Logistics machinery (industrial cranes and logistics systems)
Strengths	● Common elemental technologies within the segment can be deployed in other models. ● Elemental technology development through value chains within the Group	● Customers appreciation of attentive service provided through direct service ● High value-added products and brands differentiated by performance and quality	● Advanced engineering capabilities supported by coordination ● Cutting-edge, advanced remote and automation technologies ● Provision of attentive, high value-added services
External environment / business opportunities	● Significant demand for carbon neutrality-related measures ● Increased demand for productivity improvement, safety, and labor saving	● Domestic demand remains resilient. ● North America demand expected to return as early as second half 2025	● Sustained demand for upgrading industrial cranes ● Demand for improving logistics efficiency remains solid
	● Government support for use and purchase of electric and ICT construction machinery ● Advances in AI technology ● Evolution of battery technology	● Demand for enhanced safety, cost reduction and shorter work periods in construction work ● Prolonged labor shortage and aging workers in construction sites ● Acceleration in carbon neutrality efforts by general contractors	● Accelerated carbon neutrality efforts (shift to electric furnaces and renewable energy sources) ● Diversified needs resulting from declining workforce (automation, working environment improvement, etc.) ● Efficiency improvement in and logistics transportation (labor and space saving)
Risks / issues	● Functional safety, security measures ● AI startups’ market entry and collaboration with general contractors ● High quality, high efficiency development enabled by development and use of common platforms ● Establishment of in-house differentiating elemental technologies	● Intensified price competition (low-priced products’ entry into higher-grade markets) ● Global political developments affecting S/C	● Capital expenditures slowed or postponed due to spike in material and equipment prices ● Entry by low-price manufacturers from overseas (logistics systems)
Measures to address key issues	● Establish development center in segment ● Promote development of common technologies (electrification/remote, automation/DX)	● Differentiation and improved profitability through introduction of new models ● Build optimal production system leveraging Yokosuka Works, etc.	● Introduce remote and automation functions in industrial cranes ● Use DX (SIRMS) to increase added value of services

Energy & Lifeline Segment

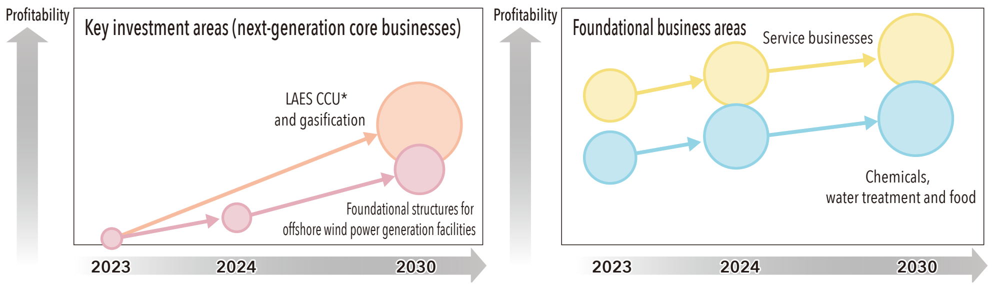
Ideal State in 2030

Solution provider in the decarbonized energy and resource recycling fields, built on the foundations of carbon neutrality and renewable energy businesses

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_2-emitting fields and working to expand our renewable energy initiatives through energy storage systems and offshore wind power generation.

We aim to continuously create customer value as a solution provider in these two areas.

Business Portfolio Image



Key investment areas (next-generation core businesses)

✓ Renewable energy promotion business
- Promotion of commercialization in fields that use new technologies (including liquid air energy storage systems, or LAES)

Foundational business areas
- Building a stable revenue base mainly by strengthening service businesses

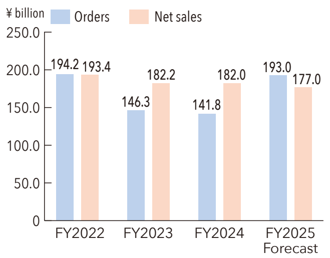
*Carbon Capture and Utilization

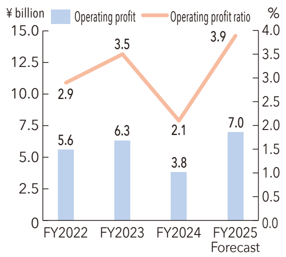
FY2024 Results and FY2025 Outlook

In FY2024, orders totaled ¥141.8 billion, mainly as we won a deal for domestic biomass power facility. Net sales decreased for the energy plant business but increased for other businesses as the number of deals increased, with the total figure reaching ¥182.0 billion. Operating profit totaled ¥3.8 billion due mainly to increased development costs for commercializing LAES, and operating profit ratio was 2.1%.

For FY2025, we expect total orders to increase year on year as we expect to win biomass power generation facility deals in Japan and overseas, as well as orders for large structures. Although we expect net sales to decrease as projects for which sales are accounted for in the current fiscal year will decrease, we see an increase in operating profit due to a decrease in LAES development costs.

Historical Orders, Net Sales, and Operating Profit





Basic Strategies for MTMP26

Basic Strategies for the Medium-Term Management Plan 2026
- Key investment areas: Promote development and commercialization of next-generation core businesses in carbon neutrality and renewable energy promotion businesses
- Foundational business areas: Carry out structural reforms of the boiler business and strengthen service businesses by strengthening functions, expand proposal menus, etc.

We have positioned as key investment areas the carbon neutrality business, which develops technologies for biomass power, CCU, and production of sustainable fuels from biomass through gasification (such as SAF), and the renewable energy promotion business, which includes commercialization of LAES and foundational structures for offshore wind power generation facilities, and will make investments for commercialization. For the foundational business area, we aim to strengthen profitability by enhancing service businesses.

FY2025 Earnings Forecasts and Numerical Targets of the MTMP

	FY2024	FY2025 Forecast	FY2026 Target
Orders (¥ billion)	141.8	193.0	195.0
Net Sales (¥ billion)	182.0	177.0	170.0
Operating Profit (¥ billion)	3.8	7.0	7.0
Operating Profit Ratio (%)	2.1	3.9	4.1
ROIC (%)	2.6	3.4	4.0

Business Strategies

As part of efforts to strengthen service businesses, we will take business expansion measures, including making proposals for decarbonizing boilers through fuel-switching modifications, in addition to our existing service activities for basic maintenance, operation management, etc. In the renewable energy promotion business, we will proceed with the development of a business model by starting commercial demonstration operation of a LAES demonstration machine currently under construction.

We will also work on measures to enhance our production system in preparation for mass production of foundational structures for offshore wind power generation facilities.

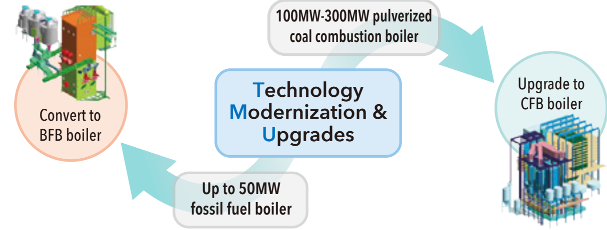
● Energy plants (boilers)

Service (TMU (fuel switching modification proposals) and basic maintenance)

✓ We will seek to expand the scope of our regular inspection service to include boilers by other manufacturers, in addition to strengthening daily inspections and proposals for repairs to existing boilers through base expansion.

✓ Uncover demand for fuel switching modifications and other large-scale modification services, targeting customers who own fossil fuel boilers.

Realize decarbonization of customers using fossil fuel boilers by proposing fuel switching modifications (TMU)



Proposals for fuel-switching to biomass, based on the world's No. 1 track record in CFB boiler delivery and experience of over 30 BFB modification projects

● Renewable energy promotion business (LAES and offshore wind power generation)

Construction and test drive of demonstration facilities in preparation for entry into LAES market

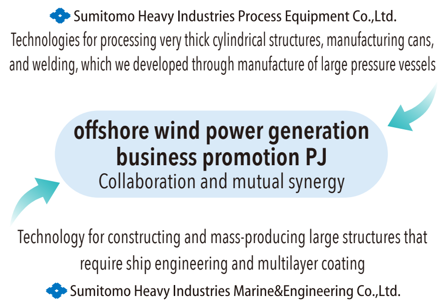
✓ Delivery of key equipment has been completed for the demonstration facility currently under construction at Hiroshima Gas, for which a test drive is scheduled to begin by the end of fiscal 2025

✓ Business models being developed through multiple FS contracts

Laying groundwork for mass production of foundational structures for offshore wind power generation facilities

✓ Create synergies by combining competencies within the segment

✓ Strengthen or develop production systems for the mass production of foundational structures



Ehime Works (Saijo Factory)

Yokosuka Works (Yokosuka Naval Shipyard)

Business Opportunities and Risks in Key Investment and Foundational Business Areas

	Key investment areas		Foundational business areas
	Carbon neutrality business	Renewable energy promotion business	Chemical machine, water treatment, food processing machinery, and power boilers
Strengths	● Highly efficient technologies specialized in each elemental technology ● EPC capabilities supported by abundant engineering experience ● Manufacturing and quality power developed through manufacture of large structures ● O&M know-how accumulated through many years of maintenance, management and operation services		
External environment / business opportunities	● There is a notable trend for stepping up decarbonization policies prompted by climate change risks. ● Development of technology and infrastructure for CO_2 separation, capture and utilization is in progress.	● Policies and public-private funding mobilization plans are being promoted for the promotion of the use of renewable energy and the recycling of resources. ● Associated with this, efforts to consider investment plans are also being stepped up.	● There are signs that market conditions will improve for chemicals and water treatment, although the supply-demand balance remains instable. ● The domestic and international boiler market has slowed, affected by a prolonged inflation in the EU region and soaring biomass fuel prices.
Risks / issues	● Delays in technology development and formation of collaborative framework. ● Stagnation in efforts to develop a carbon business promotion model ● Delays in plans to introduce offshore wind power generation		● Steadily winning orders amid market slumps ● Responding to changes in demand associated with changes in regulations and the external environment
Measures to address key issues	● Completion of CO_2 separation and capture demonstration ● Establishing CCU and gasification technologies ● Carbon-negative technology demonstration ● Participation in the study of regional collaboration carbon management projects	● Starting commercial operation of LAES demonstration facility and promoting efforts to develop business models ● Strengthening sales capabilities to establish S/C early and develop production a system in preparation for commercialization of foundational structures for offshore wind power generation facilities	● Promoting boiler fuel switching modification proposals ● Strengthening service businesses through coordination between business units within the segment and resource expansion